

Business Law Made Easy

--8th Edition--

*Including ICAP Past Papers and Solutions – Topic Wise
(Autumn 2009 – Autumn 2021)
200+ Questions and Solutions & 500+ MCQs*

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PREFACE

The Examinations of ICAP are a demanding test of student's ability to master the wide range of knowledge and skills required of the modern professionals. Subject of "Company Law (CAF-07)" is one of the efforts made by ICAP in this context for enhancing student's knowledge about detailed overview of the auditing standards.

The best and recommended source for this subject is the **official study text of the ICAP**. After the issuance of the said study text, it has been witnessed that ICAP is thoroughly following the text book in preparation of the exam and testing the competence of the students. Although the text book by ICAP covers all aspect of the syllabus in elaborative form; at times students are facing some issues in retaining the concepts given in any chapter, as the book is in the form of text blocks rather than bullets and key points.

For this purpose, there emerged a dire need to have some smart notes on the subject that covers the syllabus in the smartest way, emphasizing on the key points of law rather than explaining the concepts given therein. After some hectic efforts, we have been alhumdoLILLAH able to compile a (very first of its kind) book that shall be serving all the desired purposes i.e.

- Completeness of the Syllabus and the official text book by ICAP
- Smartness and easiness of the notes book
- Availability of ICAP level exam questions for thorough practice

Now these notes contain all the topics of syllabus presented in bullets form making it easy to remember the key points (just like ICAP examiner wants). And these notes are arranged almost in same sequence as followed by "ICAP Text book" so that students may easily shift on the book for their revision without having fear of doing something new.

Students may also find this book useful while **final revision** of the subject, enabling them to revise in the minimum possible time.

***This book is not a substitute of ICAP Official Book !!!
(Rather it is to be used in conjunction with ICAP Official Book)***

Although reasonable efforts have been put to make the book free from majority of the errors, nevertheless absolute assurance is never possible due to inherent limitations in the process of compilations, interpretation and presentations of the book in easily understandable language. So if you find anything missing or some spell, typo or other logical mistakes in these notes please mail us about such errors by referring to the chapter and page number at our mail id syedatifabidi@gmail.com or jz@canotes.net

Primarily this book is designed, considering the needs and the syllabus of CAF-04 paper of ICAP; however the comprehensiveness of this book makes it also relevant for equivalent papers of other qualifications such as ACMA, CCS, CPA(Pak), PIPFA and MBA with a little or no divergence of the contents.

I am especially thankful to Usman Chaudhry and Ali Zar who supported me in the compilation, formatting, finalising and the making of 500+ MCQs.

Hope this book would inshaALLAH be serving you with its easy language, key point style, systematic pattern and an extensive question bank of approximately **200+ questions** from ICAP Past Papers (Chapter wise) along with ICAP recommended solutions as well as **500+ MCQs**.

May ALLAH bless all of you with success in every exam of both lives.

Please also remember us in your prayers

Talib e Dua !!!

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Syllabus Outline of Business Law – CAF 04

Syllabus Grid	Weightage
Grid A - Introduction to the Legal System	5-8
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Chapter 14 - Negotiable Instrument	
Chapter 15 - Cheques	
Chapter 16 - Anti Money Laundering & Electronic Payments	
Chapter 17 - Data Protection and Electronic Crimes	
Chapter 18 - Competition Act and Arbitration Act	

Tutor's Note:

All the contents of the book (notes portion as well as question bank) have been revised to reflect the impact of change in contents of chapters and syllabus (with effect from Nov 2020)

Paper Pattern of Business Law – CAF 04

15 % Objective Types Questions (MCQs)

85% Subjective Type Questions (Written)

Knowledge based (40%); and

Application based (60%) based

having maximum weightage of 08 marks each question

CH # 1**INTRODUCTION TO THE LEGAL SYSTEM****INTRODUCTION TO THE LAW AND ITS TYPES**

Law means a set of rules or a system of rules of conduct designed and enforced by the state to control and regulate the conduct of people.

Mercantile Law is part of civil law which deals with rights and obligations of persons dealing with each other. It includes laws relating to contracts, partnership, negotiable instruments etc.

Sources of law in Pakistan

- Legal system is derived from English common law (Equity)
- It is based on the Constitution of Pakistan 1973 as well as Islamic law (Sharia).

In Pakistan the main sources of law are following:

Legislation	▪ It includes the Act of Parliament, the Ordinance promulgated by President and the delegated legislations by different authorities
Precedent (case law)	▪ Precedents are judgments or decisions of a superior court which are binding on the subordinate courts.
Customs	▪ Certain customs, practices & beliefs are so vital and built-in part of a social and economic system that they are treated just like laws e.g. Sharia laws
Agreement	▪ Parties specify terms for themselves which constitute law for themselves.

Two major branches of the law are civil law and criminal law.

	Civil Law	Criminal Law
Description	<ul style="list-style-type: none"> ▪ Sets out rights and duties of persons as between themselves. ▪ Person whose rights are affected can claim remedy from wrongdoer ▪ A violation of the civil law is a tort (a wrongdoing), but is not a crime. 	<ul style="list-style-type: none"> ▪ Concerned with conduct that is considered so undesirable that State punishes persons disobeying. ▪ Legal action may be brought by the State against those individuals (and not private individuals)
Purpose	▪ Provide means where an injured party can obtain compensation	▪ Regulate the society by threat of punishment.
Harm caused	▪ The claimant sues the defendant for harm caused	▪ State (Government) prosecutes the accused (the defendant) whether or not harm was caused
Burden of proof	▪ If claimant can prove the wrong on balance of probabilities, defendant is held liable	▪ If state can prove offence beyond all reasonable doubt, the accused is found guilty & convicted

Remedy	<ul style="list-style-type: none"> ▪ Civil court may order defendant to pay damages or other remedy like specific performance etc 	<ul style="list-style-type: none"> ▪ Criminal court may sentence the defendant to fine or impose imprisonment or death sentence.
Some Examples	<ul style="list-style-type: none"> ▪ Copyright disputes ▪ Character defamation claim (Tort) ▪ Disputes about an breach of contract (Contract Act) 	<ul style="list-style-type: none"> ▪ Pakistan Penal Code ▪ Anti-Money Laundering Act ▪ Prevention of Electronics Crimes Act

Sometimes civil law and criminal law both are applicable. E.g. Suppose that a train company operates a train service, and there is a major accident involving loss of life and injury to passengers.

- *The State may claim that the train company or its senior managers are guilty of a breach of the criminal law and bring a case in the criminal court.*
- *Individuals who have been injured in the crash and individuals who have lost a relative killed in the crash may bring civil actions against the train company, demanding compensation.*

Basic Structure of Constitution of Islamic Republic of Pakistan

- Constitution was approved by the Parliament on April 10, 1973 and was ratified on August 14, 1973.
- Constitution is the supreme law and sets the governing principles of the country
- Parliament cannot make any laws which is against the Constitution.
- The Constitution contains preamble, 12 parts and 5 schedules as described below

Part	Articles	This Part Includes
Preamble	-	<ul style="list-style-type: none"> ▪ Objectives of the provisions of the Constitution. ▪ Muslims will be enabled to live in accordance with teachings of Quran and Sunnah while provisions for minorities to practice their religion etc. ▪ Guarantee for fundamental rights, safeguarding depressed classes, securing independence of judiciary, safeguarding sovereign rights.
I-Introductory	1-6	<ul style="list-style-type: none"> ▪ Identification of country as Islamic Republic of Pakistan divided into 4 territories and defined the religion of state. ▪ Elimination of all sorts of exploitation, rights of individuals to be dealt in accordance with law, loyalty to the state and abiding by the Constitution
II – Fundamental Rights and Principles of Policy	7-40	<ul style="list-style-type: none"> ▪ Definition of State & laws regarding basic right and principles of policy ▪ Safeguards regarding arrest and detention; prohibition of slavery; child labor & forced labor; right to do lawful profession and education. ▪ Policies like discouraging discrimination, providing free and compulsory education and developing friendly relations among all nations etc.

III – The Federation of Pakistan	41–100	<ul style="list-style-type: none"> ▪ Eligibility of President, term of office, powers, removal of President, job responsibilities and limitations. E.g. to follow advice of Cabinet etc. ▪ Composition, duration & meetings of Parliament, qualifications and disqualifications for membership. Introduction and passing of bills etc.
IV – Provinces	101-140A	<ul style="list-style-type: none"> ▪ Composition and function of the provincial governments and governor. ▪ Financial procedure such as Provincial Consolidated Fund and public account and procedure relating to budget statement and ordinances etc.
V – Relations between Federation and Provinces	141–159	<ul style="list-style-type: none"> ▪ Distribution of legal powers, admin relation between Federation and Provinces (e.g. inter-provincial trade etc) ▪ Special provisions relating to Council of common interests, National Economic Council, broadcasting & telecasting etc.
VI – Finance, Property, Contracts and Suits	160–174	<ul style="list-style-type: none"> ▪ Distribution of revenues between federation and provinces and other financial provisions such as exemption and imposition of certain taxes. ▪ Borrowing by Federal and Provincial government; appointment, powers & functions of Auditor General. ▪ Provisions regarding property, contracts, liabilities & suits
VII – The Judicature	175–212	<ul style="list-style-type: none"> ▪ Establishments, jurisdictions and functions of courts (Supreme Court, High Courts and Federal Shariat Court), appointment of judges & other related general provisions.
VIII – Elections	213–226	<ul style="list-style-type: none"> ▪ Formation and duties of Chief Election Commissioner and Election Commissions along with electoral laws and conduct of elections.
IX – Islamic Provisions	227–231	<ul style="list-style-type: none"> ▪ Provisions relating to Holy Quran and Sunnah along with composition and functions of the Islamic Council.
X – Emergency Provisions	232–237	<ul style="list-style-type: none"> ▪ Declaration of emergency due to war or internal disturbance etc., power to suspend fundamental rights during emergency etc
XI–Amendment of Constitution	238–239	<ul style="list-style-type: none"> ▪ Amendment of Constitution by the Parliament through Constitution Amendment Bill.
XII - Miscellaneous	240–280	<ul style="list-style-type: none"> ▪ Establishment and constitution of Public Service Commission, command and functions of Armed Forces etc. ▪ Definition and administration of tribal areas; protection to President, Governor, Minister; national language etc.
1 st Schedule	-	<ul style="list-style-type: none"> ▪ Laws exempted from operation of Article 8
2 nd Schedule	-	<ul style="list-style-type: none"> ▪ Election of President
3 rd Schedule	-	<ul style="list-style-type: none"> ▪ Oaths of Office
4 th Schedule	-	<ul style="list-style-type: none"> ▪ Legislative Lists
5 th Schedule	-	<ul style="list-style-type: none"> ▪ Remuneration and Terms etc of Service of Judges

LEGISLATION

Governing Structure

- Pakistan has a Federal Parliamentary System of government
 - President as the Head of State; and
 - Elected Prime Minister as Head of Government.
- Federal Legislature is a bicameral Majlis-e-Shoora (Parliament), composed of the President, National Assembly (Lower House) and Senate (Upper House).

President

- President is considered a symbol of unity.
- President must be a Muslim.
- President is elected for 5 year by Senate, National Assembly and members of Provincial Assemblies.
- President is eligible for re-election, but cannot hold office for more than 2 consecutive terms.
- The majority party in the National Assembly usually nominates and elects President.
- President approves the statutes passed by National Assembly and thereafter by the Senate.
- He guides the Prime Minister in the matters of national importance.

Prime Minister

- Nominated and elected by a majority of members in the National Assembly.
- That individual is then appointed as Prime Minister by the President.
- The Prime Minister is assisted by Federal Cabinet.
(A council of ministers appointed by President on advice of Prime Minister)
- Federal Ministers are supported by secretaries and other government officers in each department
(for ensuring that policies formulated by the government are acted upon)

Senate

- Senate is permanent legislative body with equal representation from each of the 4 Provinces
- Representatives are elected by the members of their respective Provincial Assemblies.
- It promote national cohesion and harmony and gives smaller provinces equal representation
- There are also representatives from Islamabad Capital Territory
- Members are elected for a period of six years.
- Half members retire after 3 years and are replaced by equal number of newly elected.
- Election of all members is not held at same time, so Senate continues on a permanent basis.
- Chairman of Senate is next in line to act as President if office becomes vacant.

- The members elect from themselves a chairman and a Deputy Chairman.
- All statutes passed by National Assembly are also approved by Senate except money bills.

National Assembly

- Seats are determined on the basis of population of provinces.
- Members are elected for 5 years on the basis of direct votes by registered voters.
- There are also reserved seats for women and non-Muslims.
- The members elect from themselves Speaker, Deputy Speaker and Prime Minister.
- Most important function of the National Assembly is law making and formulation of policies.

Process of Legislation

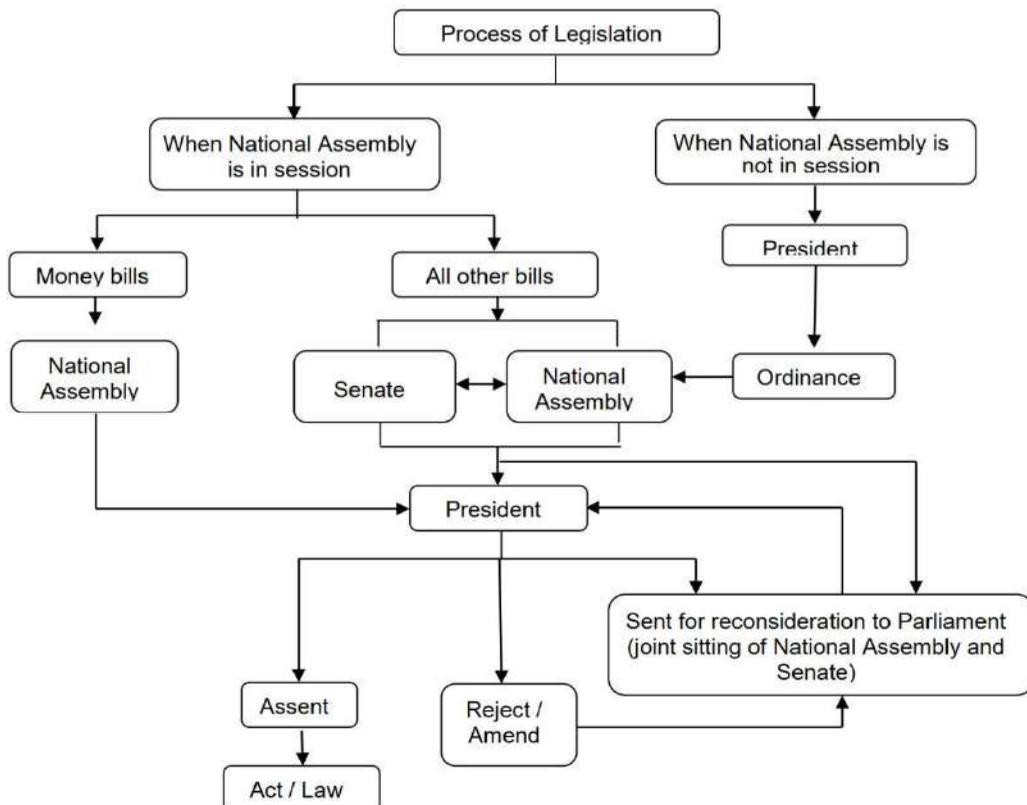
- A bill in respect of any matter may originate in either house.
- If it is passed by the house in which it is originated then it is transmitted to the other house
 - If bill is also passed by other house (without amendment), it is presented to President for assent.
 - If bill is passed with amendments it shall be sent back to the House in which it originated and if that House passes the Bill with those amendments it shall be presented to the President for assent.
- In following cases Bill shall be considered in the joint sitting of both the house (National Assembly and Senate) at the request of the house in which it originated
 - If a bill is rejected by the other house or not passed within 90 days; or
 - If bill sent to a House with amendments is not passed by that House with such amendments
- If that bill is passed by majority votes of members present it shall be presented to President for assent.
- President shall within 10 days approve the bill or return it to Parliament for reconsideration
- If President has returned a Bill to Parliament it shall be reconsidered by Parliament in Joint Sitting
- If it is again passed (with or without amendment) by Parliament by majority votes, It shall be presented to the President for assent.
- If National Assembly is dissolved before approval of a bill:
 - If a bill is pending in National Assembly or passed by it but pending in Senate; Bill shall lapse
 - If bill is pending in Senate not passed by National Assembly; Bill shall not lapse

Money bills

A money bill shall originate in the National Assembly and after it has been passed by the Assembly it shall (without being transmitted to the Senate) be presented to the President for assent.

The Ordinance

- When National Assembly is not in session, President if deems necessary has power to make Ordinance
- Such Ordinance shall have same force and effect as an Act of Parliament.
- The Ordinance shall stand repealed after 120 days if it is not presented or passed
 - By the National Assembly in case of Money Bill and
 - By both houses if it is other than Money Bill.
- National Assembly may extend Ordinance for another 120 days by passing a resolution.
- If National Assembly during those 120 days, passes a resolution disapproving any Ordinance, it shall expire on the day of passing of such resolution.



Delegated Legislation

- Power is given to an Executive (a minister or public body) to make legislation for specified purposes (e.g. SECP given the authority to prepare provisions for Companies Act 2017)
- Parliament has control over delegated legislation by restriction and defining power to make rules
- Such rules may be challenged in the courts on the grounds that it is ultra vires (i.e. it exceeds the prescribed limits) or has been made without due compliance.

Advantages of delegated legislation

- Parliament does not have **time** to examine matters in detail so that authority can give proper time
- Law is better worked out in **consultation** with professional and industrial groups outside Parliament.
- It is **more flexible** than an Act of Parliament. (i.e. simpler to amend than to emend an Act)

Disadvantages of delegated legislation

- It takes law making away from the democratically elected members.
- Law making power given to unelected civil servants etc working under supervision of minister.
- Such law making can become unmanageable (due to volume) and it is impossible to keep up-to-date

QUESTION BANK – ICAP PAST PAPERS

- 1 List down the main topics/areas covered under the following parts of the Constitution of the Islamic Republic of Pakistan 1973: Q.2
S.(21)
 - (a) Part III - The Federation of Pakistan (02)
 - (b) Part VI - Finance, Property, Contracts and Suits (02)
- 2 Briefly describe how an Ordinance is promulgated in Pakistan and what is the effect of such Ordinance. (04) Q.2
A.(20)
- 3 What is a delegated legislation? State **one** disadvantage of a delegated legislation. (02) Q.1(b)
S.(20)
- 4 Specify Pakistan's system of government and identify Senate's role in the legislation process. (05) Q.1
A.(18)
- 5 (a) Briefly describe how delegated legislation takes place and also describe how control is exercised over delegated legislation. (04) Q.1
S.(18)
(b) What is the process of legislation in case of a money bill when National Assembly is in session? (02)
- 6 Briefly describe the process of legislation in case of a money bill when:
(a) National assembly is in session Q.1
A.(16)
(b) National assembly is not in session (5)
- 7 Identify the basis of legal system and explain the main sources of law in Pakistan. (5) Q.1
S.(16)
- 8 What do you understand by delegated legislation? Give two advantages and disadvantages of such legislation. (5) Q.1
S.(15)
- 9 Briefly differentiate between 'Statute' and an 'Ordinance'. List down any four purposes of an 'Act of Parliament'. (6) Q.2
S.(14)
- 10 Distinguish between civil law and criminal law giving two examples of each (6) Q.2(a)
A.(12)
- 11 How is a law promulgated when national assembly is not in session? Is such law in any way different from an act of parliament? What is its tenure? (5) Q.2
A.(11)

CH # 2**OFFER, ACCEPTANCE AND REVOCATION****INTRODUCTION TO CONTRACT****Proposal / Offer**

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.

Promise

When the person to whom the proposal is made signifies his assent to it, the proposal is said to be accepted. A proposal, when accepted becomes a promise.

- *The person making the proposal is called the promisor / offeror*
- *The person accepting the proposal is called the promisee. / offeree*

Agreement

Every promise and every set of promises forming the consideration for each other is an agreement.

Contract

An agreement enforceable by law is a contract.

Proposal	+	Acceptance	=	Promise
Promise	+	Consideration	=	Agreement
Agreement	+	Enforceability (Legal Obligation)	=	Contract

Parties to an agreement must be bound to perform their promises and in case of default by either of them, the parties can go to court for its enforceability (i.e. legal obligation)

Express and Implied Promises

- If proposal or acceptance is made in words, promise is said to be express (oral or written).
- If proposal or acceptance is made otherwise, the promise is said to be implied. (from actions)

OFFER

Proposal / Offer

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.

Essentials of an offer

- **Offeror cannot make offer to himself**
- **Certain and definite**
- **Conditional**
 - An offer may be subject to some condition.
 - If there are special terms in an offer, they must be specifically communicated to offeree.
- **Invitation of an offer¹**
 - An intention of a person to invite others with a view to enter into an agreement.
 - Purpose of such invitation is to circulate information of his readiness to do transaction
 - Such intentions are not considered offers.
- **Communication**
 - Offer must be communicated to offeree.
 - Communication is complete when it comes to the knowledge of offeree
 - If offer is made by post, its communication will complete when letter reaches offeree.
 - Offer can be made by words spoken or written or through conduct of the person.

Lapse of an offer

An offer is lapsed in following ways:

- Revocation of offer before acceptance by the offeree
- Lapse of time
 - Lapse of time specified in the offer
 - Lapse of reasonable time (if no time is specified)
- Death or insanity of the offeror
(if fact of his death or insanity comes to the knowledge of the acceptor before acceptance)
- Non-fulfillment of condition precedent to the offer
- Counter offer is made (i.e. an offer by offeree in response to the original offer)
- Non-acceptance / Expressly Rejection by the offeree

An offer once accepted becomes a contract and cannot be revoked

ACCEPTANCE

Acceptance

When the person to whom the proposal is made signifies his assent to it, the proposal is said to be accepted

Essentials of acceptance

- Acceptance must be Absolute and unconditional
 - If any condition is imposed on acceptance, then it would be called counter offer.
- Acceptance must be communicated Communication
 - Acceptance may be complete when it is communicated to the offeror.
 - An offer can be accepted by words spoken or written or through conduct of the person.
 - In cannot be in the form of negative confirmation (i.e. if not accepted within specific time then it will be presumed to have been accepted)
 - Communication is complete against proposer when it is put in course of transmission.
 - Communication is complete against acceptor when it comes to knowledge of proposer.
- Acceptance should be made in reasonable mode
 - Acceptance should be made in the manner specified
 - Where no mode is specified, acceptance should be made in a usual manner.
 - If acceptance is not made in manner prescribed in proposal, offeror shall insist for that.
 - If he fail to insist within reasonable time it is deemed that he has accepted performance
- Acceptor must be aware of the proposal at the time of acceptance
- Acceptance must be given before lapse of an offer

REVOCATION OF OFFER AND ACCEPTANCE

Timing of revocation

Timing of revocation of an offer - A proposal may be revoked at any time before acceptance or the communication of its acceptance is complete as against the proposer, but not afterwards.

Timing of revocation of an acceptance - An acceptance can be revoked at any time before the communication of the acceptance is complete as against the acceptor, but not afterwards.

Communication of revocation

As against the person who makes it

When it is put in a course of transmission.

As against the person to whom it is made

When it comes to the knowledge of the revokee.

QUESTION BANK – ICAP PAST PAPERS

- 1 (a) Under the provisions of the Contract Act, 1872 list the essentials of a valid acceptance. (04) Q.4
A.(20)
- (b) Sulman's son was missing. Mehmood, one of the bodyguards of Sulman, volunteered to find Sulman's son. Meanwhile, Sulman gave an advertisement in the newspaper announcing an award of Rs. 25,000 to anyone who finds the missing boy. Mehmood found the boy and brought him home. Sulman refused to pay the reward and Mehmood filed a suit against him.
Under the provisions of the Contract Act, 1872 briefly describe whether Mehmood is entitled to the reward. (02)
- 2 Respond to the following independent scenarios, under the provisions of the Contract Act, 1872: Q.3(c)
S.(20)
- (c) Batool offered to sell her flat to Saqib for Rs. 4,200,000. Saqib accepted the offer and sent a cheque of Rs. 1,500,000 with a stipulation to pay the balance in 24 equal monthly instalments of Rs. 112,500 each. Explain whether it is a valid contract. (03)
- 3 Respond to the following scenarios, under the provisions of Contract Act, 1872: Q.1b(ii)
S.(19)
- (ii) Ahmed being interested in purchasing Adil's DHA property sent him this letter on 01 March 2019, "I have heard that you are selling your DHA property. I am very much interested in purchasing it. Will you please consider selling the same to me? What is the highest price you have been offered so far?" Adil replied, "The highest quote for the property till now is Rs. 35 million." Ahmed replied, "I agree to buy your DHA property for Rs. 36 million." Subsequently, Adil received an offer from Hamid quoting Rs. 38 million for the said property. What will be Adil's liability towards Ahmed if he wishes to make the sale to Hamid? (02)
- 4 On 3 September 2018 Saleem offered, by a letter, to sell his laptop to Ghazi for Rs. 50,000. Ghazi received the letter on 5 September 2018. Q.4(b)
A.(18)
- On 6 September 2018 Ghazi posted the letter of acceptance to Saleem. The letter reached Saleem on 8 September 2018.
- Saleem wrote a letter of revocation of his offer and posted it to Ghazi on 5 September 2018. The letter reached Ghazi on 7 September 2018.
- Required:**
Under the provisions of the Contract Act, 1872 briefly describe:
- (i) When the communication of the offer and acceptance and the revocation of the offer was completed as against Saleem and Ghazi under the above circumstances. (2.5)
- (ii) Whether a binding contract was created between Saleem and Ghazi. (2.5)
- 5 Under the provisions of the Contract Act, 1872: Q.3(b)
A.(17)
- (i) list the essentials of a valid acceptance. (04)

- 6 Bader, who is the owner of Mashoor Associates, sent one of his employees Aftab in search of his pet horse which had been missing for 5 days. Bader advertised a reward of Rs. 20,000 in a newspaper for anyone who finds his missing horse. Aftab, unaware of the newspaper advertisement, traced the horse. Subsequently, on knowing about the reward Aftab claimed it from Bader

Q.3(b)
S.(16)

Under the provisions of the Contract Act, 1872 identify the type of offer which was made by Bader. Also state whether Aftab would be able to claim the amount of reward under the circumstances. (4)

- 7 Murad offered his car to Sanum for Rs. 400,000. Sanum accepted the offer and enclosed a pay order of Rs. 150,000 with a promise to pay the balance in monthly installments of Rs. 62,500 each.

Q.3(b)
A.(15)

Under the provisions of the Contract Act, 1872 explain whether it is a valid contract. (3)

- 8 How and on what grounds a proposal stands revoked? (4)

Q.2(a)
S.(12)

- 9 What is the time limit after which a proposal cannot be revoked? (3)

Q.2(b)
S.(12)

- 10 Define acceptance. When is an acceptance considered valid, under the Contract Act, 1872? (7)

Q.7(a)
A.(11)

Tutor's Note:

Some questions pertaining to the contents deleted from the syllabus by the ICAP as per new syllabus of Business Law (Education Scheme 2021) are accordingly removed from the above question bank to avoid any confusion. And some questions and solutions are updated as per revised contents

CH # 3**VALIDITY OF CONTRACTS
AND AGREEMENTS****VALIDITY OF CONTRACTS AND AGREEMENTS****Void agreement [Section 2(g)]**

An agreement not enforceable by law is said to be void.

Notice that a void agreement is void ab initio i.e. void from the beginning.

Valid contract [Section 2(h)]

An agreement enforceable by law is a contract.

Void contract [Section 2(j)]

A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable.

Note: Void contract was valid contract at the time of formation but subsequently it ceases to be enforceable.

Voidable contract [Section 2(i)]

An agreement which is enforceable by law at the option of one or more of the parties thereto, but not at the option of the other or others, is a voidable contract.

(Contract is voidable at the option of aggrieved party and not at the option of defaulting party)

Essentials of a valid contract [Section 10]

An agreement is a contract if it meets the following conditions:

- The agreement is made by the free consent of the parties. (Discussed in later chapters)
- The parties making the agreement are competent to contract.
- The agreement is made for a lawful consideration.
- The agreement is made with a lawful object.
- The agreement is not expressly declared to be void by law. (Discussed in later chapters)

Competent to contract [Section 11]

Every person is competent to contract who is:

- Of the age of majority according to the law to which he is subject; and
- Of sound mind; and
- Not disqualified from contracting by any law to which he is subject.

Age of Majority

As per Majority Act, 1875, age of majority of a person domiciled in Pakistan is

- 18 years (normal case)
- 21 years (where a guardian of a minor is appointed by the court)

Rules for Minor

- An agreement with a minor is void ab initio.
- It is necessary that the minor must be competent to contract at the time of entering in the contract. Agreement with a minor cannot be ratified subsequently after he attains majority. (Ratification is approving or accepting something which has happened already)
- A minor cannot be declared insolvent because he is incompetent to contract.
- If a minor enters into an agreement jointly with a major person then such agreement can be enforced against the major person who has jointly promised to perform.
- If minor represents fraudulently or otherwise that he is of age of majority and induces another to enter into a contract with him, even then, he will not be liable. Rule of estoppel does not apply to minor.
(Tutor's Note: We would be discussing Estoppel in later chapters)

Sound mind [Section 12]

A person is said to be of sound mind for the purpose of making a contract

- if at the time when he makes it,
- he is capable to understand the terms of the contract,
- to form a rational judgment as to its effect upon his interests.

The examples of persons having an unsound mind include:

- Specific persons/idiots (permanent insanity)
- Lunatics (mental strain or disease with possibly some intervals of sanity)
- Drunken persons (excessive use of certain things may cause temporary incapability of mind).

Rules for unsound person

- A person who is usually of unsound mind, but occasionally of sound mind, may make a contract when he is of sound mind.
- A person who is usually of sound mind, but occasionally of unsound mind, may not make a Contract when he is of unsound mind.

Disqualified from contracting by law

Following persons are disqualified by certain legislation in respect of their capacity to contract:

- A citizen of foreign country while Pakistan is at war with that country.
- Foreign sovereigns and ambassadors have immunity. They have a right to enter into a contract but can claim the privilege of not being sued.
(unless they choose to submit themselves to the jurisdictions of our courts).
- A convict while under imprisonment is incapable of contracting
(but this disability comes to an end after the expiry of the sentence or when he is on parole)
- A person declared as insolvent cannot enter into a contract
(his property is dealt with by official assignee or official receiver)

CONSIDERATION AND OBJECT

Consideration²

When at the desire of the promisor, the promisee or any other person who has done or abstained from doing, or does or abstains from doing, or promises to do or to abstain from doing something, such act or abstinence or promise is called a consideration for the promise.

- Consideration may be:
 - An act (i.e. doing something);
 - An abstinence or forbearance; or
 - A promise (for act or abstinence in future).
- Consideration must be at the desire of promisor.
- Consideration may be from promisee or any other person.
- Consideration may be past, present, or future.
- Consideration must be something which the promisor is not already bound to do
- Consideration must be real and not illusory.

Adequacy of Consideration [Section 25]

- If consideration is inadequate but consent of promisor is freely given then its valid.
- However court may suspect that consent was not free because consideration is inadequate

Agreements without consideration is void except following

Natural love and affection³	Agreements made on account of natural love and affection, if it is: <ul style="list-style-type: none"> ▪ Expressed in writing, ▪ Registered under the law, ▪ Made on account of natural love and affection, and ▪ Between parties standing in a near relation to each other.
Promise to compensate past voluntary services⁴	Such promise made is valid if: <ul style="list-style-type: none"> ▪ It is a promise to compensate and ▪ The person who is to be compensated has already done something voluntarily or has done something which the promisor was legally bound to do.
Time barred debt	A promise to pay time barred debt is enforceable if: <ul style="list-style-type: none"> ▪ It is made in writing, ▪ It is signed by the debtor or his agent, and ▪ It relates to a debt which could not be enforced by a creditor because of law of limitation.
Gifts⁵	Gifts which are accepted by the donee are called completed gifts and are valid A gift is executed in writing through a deed duly registered

Circumstances where object or consideration is unlawful [Section 23]

Every agreement of which the object or consideration is unlawful is void.

The consideration or object of an agreement is lawful, unless

- It is forbidden by law; or
- Is of such a nature that, if permitted, it would defeat the provisions of any law; or
- Is fraudulent; or
- Involves or implies injury to the person or property of another; or
- Court regards it as immoral, or opposed to public policy.

Where object or consideration is partly unlawful [Section 24]

The agreement is void:

- if any part of a single consideration for one or more objects, is unlawful; or
- if any one or any part of any one of several considerations for a single object, is unlawful.

QUESTION BANK – ICAP PAST PAPERS**Capacity of parties**

- 1 On 4 March 2021, Aliya agreed to sell her ancestral jewels to Salma at a discounted price. Q.4(a)
However, on the next day when Salma came to take the delivery, Aliya's brother being S.(21)
custodian of the jewels refused to honour the delivery on the premise that Aliya was
admitted to the mental hospital and, therefore, her earlier agreement to sell the jewels was
not valid.

Under the provisions of the Contract Act, 1872 discuss whether Aliya's brother is justified
in refusing to deliver the jewels to Salma. (03)

- 2 Under the provisions of the Contract Act, 1872 'Every person is competent to contract Q.2(a)
who is of the age of majority according to the law to which he is subject and who is of S.(17)
sound mind.'

Describe the circumstances in which a person may not be able to enter into a contract,
despite meeting the above conditions. (04)

Tutor' Note:

The requirements of the above question have been amended to make it compatible with this chapter/
solution

Legality of object & consideration

- 1 What is an agreement? When is an agreement considered to be void? State the Q.2(a)
circumstances under which the object of an agreement under which the object of an S.(10)
agreement will be considered illegal. (5)

Consideration

- 1 Respond to following independent scenarios, under provisions of the Contract Act, 1872: Q.3(b)
(b) Muneer wanted to complete his bachelor's degree from Europe. His paternal uncle S.(20)
Furqan Butt had promised him to pay Rs. 2 million by way of a gift, at the time of his
admission to a college in Europe. After getting admission to one of the renowned colleges
in Europe, Muneer asked Furqan Butt to pay him Rs. 2 million as promised.

However, Furqan Butt refused to pay the amount and Muneer filed a suit against Furqan Butt for the enforcement of his promise. Discuss the circumstances in which Muneer may be able to recover the amount from Furqan Butt. (04)

- 2 Mrs. Ikram was searching for a house for her family in city's posh locality. Her grandfather Nadeem had promised to pay her Rs. 1.0 million by way of a gift for the purchase of the house. After finalizing the deal with one of the estate brokers, Mrs. Ikram asked Nadeem to pay her Rs. 1.0 million as promised. Nadeem, however, refused to pay the amount. Mrs. Ikram filed a suit against her grandfather Nadeem for the enforcement of the promise made by him. Q.3(b)
A.(16)

Under the provisions of the Contract Act, 1872 advise under what circumstances Mrs. Ikram would be able to recover the amount from Nadeem. (4)

- 3 In case of each of the following situations, state the conditions, as specified under the Contract Act, 1872 which must be fulfilled to make a binding contract. Q.3(a)
S.(14)
- (i) In February 2014, Raheel promised to pay Rs. 300,000 to Sameer against a debt of Rs. 500,000 which was due for payment in March 2010. (03)

(ii) Shazia promised to pay Rs. 100,000 to her brother Rauf on account of his University fees for three years. (03)

- 4 Tariq promised to pay Tahir for his services whatever amount Tariq might think reasonable. Tahir is now dissatisfied with the amount paid by Tariq. Explain whether Tahir can sue Tariq. (4) Q.3(b)
A.(12)

- 5 A was badly in need of money and offered to sell his motorcycle worth Rs. 50,000 to B for Rs. 10,000. B accepted the offer but before the motorcycle could be delivered, A received another offer for Rs. 35,000 and sold the motorcycle. A refused to carry out the contract with B on the ground of inadequacy of consideration. Is A liable to B for damages? (3) Q.3(c)
A.(11)

- 6 Describe the circumstances under which an agreement made without consideration is considered valid and binding under the Contract Act, 1872. (7) Q.2
A.(09)

Tutor's Note:

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CH # 4**FREE CONSENT AND VOID AGREEMENTS****Consent**

Two persons are said to consent when they agree upon the same thing in the same sense.

Free consent

The consent is said to be free when it is not caused by:

- Coercion or
 - Undue influence or
 - Fraud or
 - Misrepresentation or
 - Mistake
- Contract becomes **voidable** at the option of the party whose consent was so caused if the consent is obtained by **coercion, undue influence, fraud or misrepresentation**
 - If the consent is obtained by **mistake**, then agreement may be **void-ab-initio** or contract is not voidable depending upon the nature of the mistake.

COERCION**Coercion⁶ is:**

- Committing or threatening to commit any act which is forbidden by Pakistan Penal Code; or
 - Unlawful detaining or threatening to detain any property with an intention of causing any person to enter into an agreement
- Coercion may be exercised from any person, and may be directed against any person, even a stranger⁷
 - It is irrelevant whether the Pakistan Penal Code is in force or not in the place where the coercion is employed.
 - If the suit is filed in Pakistan, the provisions of Pakistan Penal Code shall apply.

Effects of coercion⁸

- Contract becomes voidable at the option of the party whose consent was so caused.
- The burden of proof lies on the party who rescind (cancel) the contract.
- The party rescinding a voidable contract shall restore any benefit i.e. restitution (if he has received any benefit from another party).
- A person to whom money has been paid or anything delivered by coercion must repay or return it.

UNDUE INFLUENCE

Undue influence⁹

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
- uses that position to obtain unfair advantage over the other.

Nature of relationship

A person is in a position to dominate the will of another where he:

- Holds the real or apparent authority over the other;
- Stands in a fiduciary relation to the other; or
- Makes a contract with a person whose mental capacity is temporarily or permanently affected by reason of age, illness or mental or bodily distress



*Tutor
Note*

----- **Examples of Position to dominate will of another**

Real or apparent authority

- Tax officer and taxpayer
- Police officer and accused being investigated
- Employer and employee

Fiduciary relationship

- Parent and child
- Guardian and minor
- Advocate and client
- Fiancé and fiancée

Affected mental capacity

- Doctor and patient
 - Medical attendant and patient
 - Family member and weak old man
-

Effect of undue influence

- The contract becomes voidable at the option of the party whose consent was so caused.
- Burden of proof is on the party who was in a position to dominate the will of other party
- Contract may be set aside either absolutely or, if the party who was entitled to avoid it has received any benefit, upon such terms and conditions as to Court may seem just.

Difference between coercion and undue influence

Factor	Coercion	Undue influence
Consent obtained by	Giving a threat of an offence or committing an offence.	Dominating the will.
Nature of pressure	Physical pressure.	Moral pressure.
Relationship	Parties may or may not be related.	Parties are related to each in some way
Objective	To compel person to do contract	To obtain an unfair advantage.
Criminal liability	Criminal liability is incurred. (therefore it is illegal)	Criminal liability is not incurred.
On whom	May be employed on any person (even stranger)	May only be employed on the party whose consent is desired.
By whom	It can also be exercised by a stranger to the contract.	It can only be exercised by a party to the contract and not by a stranger.
Onus of proof	On the party on whom coercion was exercised	On the party in a position to dominate the will of the other party.
Restoration of benefit	The aggrieved party has to restore the benefit received.	The party avoiding the contract may or may not restore benefit.

FRAUD

"**Fraud**" means and includes any of the following acts committed by a party to a contract, or with his connivance, or by his agents, with intent to deceive another party thereto his agent, or to induce him to enter into the contract;

- 1) the suggestion as a fact, of that which is not true, by one who does not believe it to be true; (**false assertion**)¹⁰
- 2) the **active concealment** of a fact by one having knowledge or belief of the fact;¹¹
- 3) a promise made without any intention of performing it (**empty promise**);¹²
- 4) any other act fitted to deceive;
- 5) any such act or omission as the law specially declares to be fraudulent.

Silence as to fraud

Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud¹³, unless

- the circumstances of the case are such that parties stand in fiduciary relationship¹⁴; or
- where silence itself is equivalent to speech¹⁵.

Effects of fraud

- Contract becomes voidable at the option of the party whose consent was so caused.
- Party whose consent was so caused may insist on performance of the contract.
- Party whose consent was so caused is entitled to claim damages.

Exceptions to voidability

A party cannot rescind the contract where:

- Silence amounts to fraud and the aggrieved party had the means of discovering the truth with ordinary diligence
- The party gave the consent in ignorance of fraud

MISREPRESENTATION

Misrepresentation means and includes-

1) Unwarranted statement

When a person makes a positive statement that a fact is true when his information does not warrant it to be so, though he believes it to be true.

2) Breach of duty

Any breach of duty which, without an intent to deceive, gains an advantage to the person committing it, or anyone claiming under him; by misleading another to his prejudice, or to the prejudice of any one claiming under him;

3) Inducing mistake about subject matter (Innocent misrepresentation)

A party to an agreement induces (however innocently) the other party to make a mistake as to the nature or quality of the subject of the agreement.

Effects of misrepresentation

- Contract becomes voidable at the option of the party whose consent was so caused.
- The party whose consent was so caused may insist on performance of the contract.

Exceptions to voidability

A party cannot rescind the contract where:

- Party whose consent was caused had means of discovering truth with ordinary diligence;
- Party gave the consent in ignorance of misrepresentation

	Fraud	Misrepresentation
Intention	Implies an intention to deceive.	No intention to deceive.
Remedies	Aggrieved party can claim damages in addition to Cancellation.	Aggrieved party can only avoid the contract but damages are only payable at discretion of court.

MISTAKE

Where **both the parties**¹⁶ to an agreement are under a mistake as to matters of facts essential to the agreement, the agreement is **void**.



Tutor

Note

Examples of bilateral (2 sided) Mistake as to subject matter are:

- Existence of subject matter¹⁷
 - Quantity of subject matter¹⁸
 - Quality of subject matter¹⁹
 - Price of subject matter²⁰
 - Identity of subject matter²¹
 - Title of subject matter²²
-

- A mistaken opinion as to the value of the subject matter etc would not be considered a mistake as to a matter of fact.
- If one of the parties to contract is under a mistake as to a matter of fact, contract is not voidable (nor void)
- A contract is not voidable because it was caused by a mistake of any law in force in Pakistan; (Tutor's Note: Ignorance of Law is not an excuse)
- Mistake of Foreign Law has the same effect as a mistake of fact.
- A person to whom money has been paid or anything delivered by mistake must repay or return it.

EXPRESSLY DECLARED VOID AGREEMENTS

An agreement not enforceable by law is said to be **void**.

The agreements which are not enforceable by law right from the time when they are made are called **void-ab-initio**.

When an agreement is void, other agreement which is collateral to it is also void and is not enforceable by law if the other party has knowledge about it

Expressly declared void agreements

- 1) Agreements in restraint of trade
- 2) Wagering agreement
- 3) Agreements in restraint of legal proceedings
- 4) Agreements in restraint of marriage
 - Every agreement in restraint of the marriage of any person other than a minor is void.
 - Law regards marriage and married status as the right of every individual.
- 5) Uncertain agreements
(An agreement the meaning of which is not certain or capable of being made certain)

AGREEMENTS IN RESTRAINT OF TRADE²³

Every agreement by which anyone is restricted from exercising a lawful profession, trade or business of any kind, is to that extent void.

Exceptions of agreements in restraint of trade (Sale of goodwill)

Seller may agree with the buyer to refrain from carrying on a similar business within specified reasonable local limits

Agreements in restraint of legal proceedings

Every agreement by which any party is restricted from enforcing his right under a contract by the usual legal proceedings or which limits the time within which he may enforce his right

The following are not absolute restrictions of legal proceedings

- An agreement whereby parties agree not to file an appeal in upper court of law.
- Parties selecting one court of law between two courts equally competent.

Exceptions of Arbitration

An agreement between persons who agree that any dispute shall be referred to arbitration.

- Parties may agree that any dispute which may arise between them shall be referred to arbitration and only the amount awarded in such arbitration shall be recoverable.
(A suit may still be brought by a party in court for specific performance or recovery of that)
- Two or more persons may agree in writing to refer to arbitration any question between them which has already arisen.

Wagering agreement²⁴

Agreement between two persons (a bet) under which money or other thing is payable, by one person to another on happening or non-happening of a **future uncertain event**.

Rules for wagering agreements

- Such agreements are void
- All connected agreements (knowingly made to support or guarantee the performance) of any void wagering agreement, are void.
- No suit can be filed for the recovery of any:
 - Sum of money paid or payable in respect of any void wagering agreement; or
 - Commission, brokerage, fee or reward in respect of void wagering agreement;
- No suit shall be filed for forcing any person to accept the result of any game or other such uncertain event
- A persons shall not be allowed any adjustment for making any payment relating to any void wagering or any connected agreement if such person is:
 - Guardian of the minor on whose behalf he made payment; or
 - Heir or personal representative of a deceased person on whose behalf he made payment;

Exception to Wagering agreement

Agreement to contribute to a plate or prize of the value of Rs. 500 and above to be awarded to winner of a horse race.

QUESTION BANK – ICAP PAST PAPERS

Free Consent

- 1 Under the provisions of the Contract Act, 1872 list any two circumstances in which a party whose consent was obtained by misrepresentation cannot rescind the contract. (02) Q.3(a)
A.(20)

- 2 (b) Haroon was engaged to be married to Ghazala. Haroon wanted to establish his own business and therefore he entered into a contract with Ghazala for providing him all her jewellery and apartment by way of a gift and in return Haroon agreed to give her a small share in business profit. After some time, Ghazala filed a suit against Haroon, requesting for setting aside the gift deed as it was not made with her free will. Discuss whether Ghazala would succeed in her contention. (04) Q.3
A.(19)

- (c) Sultan bought electronic appliances worth Rs. 700,000 from Zameer on thirty days' credit. At the time of purchase, Sultan knew that he was in insolvent circumstances. Discuss the validity of the contract. (03)

- 3 Mughal and Dawood are trading in rice. Dawood entered into a contract with Mughal for the purchase of 50 tons of rice. Dawood had private information of change in prices which would have affected Mughal's willingness to enter into the contract. When Mughal, through his own resources, came to know about the prices, he accused Dawood of fraud and repudiated the contract. Q.2(a)
A.(18)

- Under the provisions of the Contract Act, 1872 explain whether Mughal is justified in repudiating the contract. (04)

- 4 Ghaffar purchased a piece of land from Sharif who is an engineer by profession. During the discussion prior to the purchase, Sharif had told Ghaffar that in his opinion, the land would be able to support 2,500 mango trees. However, only 2300 trees could eventually be planted on the land. Q.3(a)
A.(17)

- Under the provisions of the Contract Act, 1872 discuss whether Ghaffar can claim damages on the grounds of fraud. (03)

- 5 Jamal threatened Rafia to murder her son Atif if she did not sell her house to Mujahid. Rafia did as she was told. Under the provisions of the Contract Act, 1872 comment on the validity of the above contract. (02) Q.2(b)
S.(17)

- 6 Shafiq bought Abad's motorcycle factory in Faisalabad on Abad's representation that fifty thousand motorcycles are assembled at his factory annually. Shafiq later found that the factory has a capacity to manufacture thirty five thousand motorcycles only per annum. Shafiq now wants to rescind the contract on the ground that his consent was obtained by misrepresentation. Q.2(a)
S.(16)

- Under the provisions of the Contract Act, 1872 list the circumstances under which Shafiq may not be able to rescind the contract. (5)

- 7 Under the provisions of the Contract Act, 1872 describe the following: Q.2
A.(14)

(i) Undue influence	(ii) Fraud	
(6)	(6)	

- | | | |
|----|--|------------------|
| 8 | In the light of Contract Act, 1872, explain the difference between coercion and undue influence. (6) | Q.2
S.(13) |
| 9 | Karim bought a textile mill from Laeeq on his assurance and a certificate from Registrar that the mill and its assets were free from any encumbrance. Later, Karim received a notice for payment of mortgage dues and found that the certificate of Registrar was forged by Laeeq. What rights are available to Karim under the Contract Act, 1872? (4) | Q.3(a)
A.(12) |
| 10 | Distinguish between fraud and misrepresentation. (5) | Q.4(a)
A.(11) |
| 11 | Zaheer, an accountant in Abid's company, embezzled and absconded with Rs. 5 million. Abid obtained a promissory note from his wife, Bint-e-Aslam, for the said amount when he informed her that her husband would be arrested against the charge and his name would appear in the newspapers. Can Bint-e-Aslam avoid the contract? Discuss in the light of the Contract Act, 1872. (3) | Q.3(a)
S.(11) |
| 12 | Explain the following as described under the Contract Act, 1872.
Undue influence (4) | Q.5(a)
A.(10) |
| 13 | What constitutes fraud under the provisions of Contract Act 1872? (4) | Q.3(b)
S.(10) |
| 14 | Identify the situations in which the consent is said to be free. (2) | Q.5(b)
S.(10) |

Void agreements

- | | | |
|---|--|------------------|
| 1 | Salman agreed to supply cotton yarn to Rehan for the entire year, whenever requisitioned, at prevailing wholesale prices. The contract also stipulated that in case of dispute, Salman and Rehan would not seek settlement through the Court.

Under the provisions of the Contract Act, 1872 discuss the validity of the contract and determine any remedy available to Rehan, in case of dispute with Salman. (03) | Q.4(b)
S.(21) |
| 2 | Naeem was a treasury manager in Raheel Associates (RA). Naeem robbed Rs. 100,000 cash from the business. Raheel, the owner of the business, instituted legal proceedings against Naeem. Naeem agreed to return the cash and Raheel agreed to withdraw the proceedings against him. Naeem fulfilled his part of the promise.

Under the provisions of the Contract Act, 1872 explain whether Raheel is bound to withdraw the proceedings against Naeem. (02) | Q.2(b)
S.(20) |
| 3 | Until recently Mansoor and Arif were independently engaged in the business of selling sweets at Multan railway station. Mansoor incurred a loss due to competition. Arif, in view of his friendship with Mansoor, agreed to move his business to the old city area. They reached an agreement that Arif would not engage in any competing business with Mansoor. It was also agreed that in case of a breach, none of them would have recourse to a court of law for the enforcement of their rights. Subsequently, due to economic downturn, Arif in addition to the old city area has also started to sell sweets at Multan railway station. | Q.2(b)
A.(16) |

Mansoor, in order to restrain Arif from selling sweets has filed a suit against him.

Under the provisions of the Contract Act, 1872 analyze the above situation and explain the following:

- (i) whether Arif is justified in starting sweets business at Multan railway station. (02)
 - (ii) what would be your answer in (i) above, if Mansoor had bought the goodwill of Arif's business. (03)
 - (iii) whether Mansoor is justified in filing a suit in the court of law. (02)
 - (iv) what would be your answer in (iii) above, if both Arif and Mansoor had agreed to refer their disputes to arbitration and not to the court of law. (02)
-
- 4 In view of the provisions of Contract Act, 1872 explain the general rule "Agreement in restraint of legal proceedings is void". State the exceptions to the above rule. (8) Q.8(a)
A.(13)
 - 5 Bari, a cashier in a departmental store, embezzled cash from the store. Mohsin, the owner of the store, instituted proceedings against Bari. Bari agreed to return the cash and Mohsin agreed to drop the proceedings against him. Bari fulfilled his part of the promise. Explain whether Mohsin is bound under the provisions of Contract Act, 1872 to withdraw the case against Bari. (2) Q.8(b)
A.(13)
 - 6 "An agreement in restraint of trade is void". State the exception to this rule (2) Q.9(a)
S.(13)

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CH # 5:**CONTINGENT CONTRACTS****Contingent contract²⁵**

A "contingent contract" is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

The following are the characteristics of contingent contracts:

- It depends upon the happening or non-happening of some future event.
- Event must be collateral to the contract
- Event must be uncertain

Difference between contingent contract and wagering agreement

	Contingent contract	Wagering agreement
Validity	It is a valid contract.	It is void and illegal.
Interest of parties	Parties have real interest in the occurrence or non-occurrence of the event	Parties are not interested in occurrence or non-occurrence of the event except for the winning or losing the amount.
Uncertain event	The future uncertain event is merely collateral.	The uncertain event is sole determining factor of the agreement.
Reciprocal promises	It consists of reciprocal promises.	It may or may not consist of reciprocal promises.

Rules regarding contingent contracts

Contingent on	Time fixed	When enforceable	When void
Happening of uncertain future event	No	If the event happens.	If event becomes impossible.
	Yes	If event happens within time fixed.	If time expires or event becomes impossible before time expires.
Non-happening of uncertain future event	No	If the event becomes impossible.	If the event happens.
	Yes	If time expires or event becomes impossible before time expires.	If the event happens within time fixed.
Happening of impossible event	Such agreements are void whether the impossibility of the event is known or not to the parties to the agreement at the time when it is made.		
Future conduct of a person	If the future event is the way in which a person will act at an unspecified time, the event shall be considered to become impossible when such person does anything which renders it impossible that he should so act within any definite time, or otherwise than under further contingencies.		

QUESTION BANK – ICAP PAST PAPERS

- 1 Zubair agrees to construct a bungalow for Ubaid for Rs. 20 million on the condition that payment will only be made after Muneer, an architect, certifies that the bungalow has been constructed in accordance with the layout plan. Q.2(c)
A.(18)

Under the provisions of the Contract Act, 1872 describe the nature and validity of the above contract. (02)

- 2 Vazir said to Saulat, "I will buy speed boats worth Rs. 10,000,000 from you, if you obtain the licence for me to operate the boats at Clifton beach". Saulat agreed and applied for the licence and deposited Rs. 100,000 as processing fee. However, before the issuance of licence, the city government imposed ban on the issuance of new licences. Saulat wants Vazir to buy the speed boats as he had made necessary efforts to arrange for the licence. However, Vazir refuses to buy the speed boats from Saulat. Q.2(c)
S.(17)

Under the Contract Act, 1872 identify the type of contract between Vazir and Saulat. Also state whether Vazir is now bound to purchase the speed boats from Saulat. (04)

- 3 Under the provisions of the Contract Act, 1872 what do you understand by the term 'Contingent Contract'? Briefly describe with the help of an illustration when a contingent agreement is considered to be void ab-initio. (5) Q.10a
S.(14)

- 4 Two wrestlers Goga and Sheeda agreed to play a wrestling match on the condition that if any of them would fail to appear for the match, he would have to pay Rs. 5,000 to the other party. The winner was to receive Rs. 20,000 out of the sale proceeds of the tickets. Goga failed to appear in the match and Sheeda sued him for Rs. 5,000. Goga however, refused to pay claiming that being wagering in nature, the contract is not enforceable by law. Q.3(a)
A.(14)

Under the provisions of the Contract Act, 1872 describe whether Sheeda can recover the amount from Goga. (3)

- 5 Asim agreed to construct a bungalow for Ali at a cost of Rs. 50 million. However, it was agreed that payment would only be made on completion of the project. Is this a contingent contract under the Contract Act, 1872? Give reasons. Also list the requisite characteristics of a contingent contract. Asim agreed to construct a bungalow for Ali at a cost of Rs. 50 million. However, it was agreed that payment would only be made on completion of the project. Is this a contingent contract under the Contract Act, 1872? Give reasons. Also list the requisite characteristics of a contingent contract. (3) Q.5(b)
A.(09)

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CH # 6:**PERFORMANCE OF A CONTRACT - I****PERFORMANCE OF A CONTRACT**

A contract is said to have been performed when the parties to a contract either perform or offer to perform their respective promises.

The parties to a contract must either perform, or offer to perform their respective promises (unless it is dispensed with or excused under the provisions of this Act, or of any other law)

Types of performance**Actual performance²⁶**

When the promisor has made the performance in accordance with the terms of the contract and is accepted by the promisee it is called an actual performance.

Attempted performance²⁷

When promisor has made an offer of performance but the offer of performance of promisor is not accepted by the promisee. Attempted performance is also known as tender.

Essentials of a valid tender

An offer of performance is valid if it fulfils following conditions:

- It must be unconditional; and
- It must be made at a proper time; and
- It must be made at a proper place; and
- The promisee may have a reasonable opportunity of determining that the promisor is able and willing to do the whole of promise; and
- Promisee must have a reasonable opportunity of seeing that the thing offered is the same as was promised.
- An offer to one of several joint promisees has same legal consequences as an offer to all

Other rules of Performance

- If offer of performance has not been accepted by promisee the promisor is not responsible for non-performance, nor does he thereby lose his rights (of compensation and rescission)
- Promises bind the representatives of the promisors in case of the death of such promisors before performance, unless a contrary intention appears (e.g. contract of personal nature)
- When a party to a contract has refused to perform or disabled himself from performing his promise in its entirety, the promisee may put an end to the contract (unless he has signified, by words or conduct, his willingness in its continuance)

APPROPRIATION OF PAYMENT

Appropriation of payment means allocation of payment to a particular debt or debts where a debtor owes several distinct debts to one person.

Rules regarding appropriation of payment

Debt to be discharged is indicated²⁸

The payment, if accepted must be applied accordingly.

Debt to be discharged is not indicated

The creditor has option to apply the payment to any lawful debt due from the debtor (even if it is a time barred debt; but he cannot apply to a disputed debt)

Neither party makes an appropriation

Payment shall be applied in discharge of debts in order of time, whether or not they are time barred. If debts are of equal standing, payment be applied in discharge of each proportionately

If principal and markup both are due, then mark-up is settled first and then principal is settled.

CONTRACTS WHICH NEED NOT BE PERFORMED (DISCHARGE OF CONTRACT)

A contract is said to be discharged either by performance or when contractual relations between the parties to a contract are terminated or comes to an end otherwise.

Discharge by Agreement or Consent

- If the parties to a contract agree to substitute a new contract for it, or to rescind or alter it, the original contract need not be performed (i.e. Novation, Rescission or Alteration)
- A promisee may dispense with or remit, wholly or in part, the performance of the promise made to him, or may extend the time for such performance, or may accept instead of it any satisfaction which he thinks fit (i.e. Waiver and Remission)



*Tutor
Note*

Novation, Rescission, Alteration, Remission and Waiver

Novation ²⁹	Substitution of a new contract for an old one. It can be either between same parties or different parties
Rescission	Cancellation of a contract by mutual agreement of parties
Alteration ³⁰	A variation made in language or terms of a contract with mutual agreement.
Remission	Accepting a less amount than the initial amount agreed
Waiver ³¹	Surrender of a legal right by any party.

Discharge due to Promisee refusal or neglect

If any promisee neglects or refuses to afford the promisor reasonable facilities for performance, the promisor is excused by such neglect or refusal as to any non-performance caused.

Discharge by Impossibility of Performance

- An **agreement** to do an act impossible in itself is void.
- If contract is valid at time of formation and subsequently becomes illegal or impossible to perform (due to some event which the promisor could not prevent), contract becomes void
- If promisor hides the impossibility, he is liable to compensate the promisee for any loss.
- Every person is bound to restore any benefit received or compensated earlier

If an agreement is proved void, or a contract becomes void, anyone having received any advantage under that is bound to restore it, or to make compensation to the person from whom he received.

Acceptable grounds of subsequent impossibility or illegality:

- If **subject matter is destroyed**³² after formation of contract.
- **Death or personal incapacity**³³ in contracts of personal nature
- On **declaration of war**³⁴ contracts with alien enemies are suspended or declared void.
- If that particular state of thing which forms basis of a contract **ceases to exist or occur**.³⁵

Not acceptable excuse from performance on account of supervening impossibility:

- If the **performance of a contract becomes difficult**³⁶, more costly or less beneficial than that agreed at the time of its formation
- When the contract becomes **commercially unviable**³⁷ or non-profitable
- On **default of a third party**³⁸, on whose work the promisor is relying
- **Strikes, lockouts and civil disturbances**.³⁹
- **Partial impossibility** of some of the objects of the contract.

Consequences of rescission of voidable contract

- Rescission of a voidable contract may be communicated in same manner, and with same rules, as apply to the communication or revocation of a proposal.
- When a person rescind a voidable contract, other party need not perform his promise
- Party rescinding a voidable contract shall (if have received any benefit) restore such benefit

QUESTION BANK – ICAP PAST PAPERS

Performance of a contract

- 1 Following is the statement of sums payable by Nisar to Mairaj on 4 March 2017: Q.3(c)
- | Date of invoice | Rupees | Remarks | A.(17) |
|-----------------|----------------|----------------------|--------|
| 01/01/2016 | 200,000 | Guaranteed by Imran. | |
| 08/06/2016 | <u>150,000</u> | | |
| | 350,000 | | |
- Nisar sent a cheque for Rs. 100,000 on 5 March 2017. As there were no instructions from Nisar, Mairaj adjusted the payment against the amount of Rs. 150,000. The guarantor (Imran) objected to such appropriation and claimed that adjustment should be made in the order of the date of invoices.
Under the provisions of the Contract Act, 1872 discuss whether the objection of Imran is justified. (03)
- 2 In accordance with the contract entered into by Masoom and Mubarak, Masoom has offered to deliver 300 Rolex watches to Mubarak on 1 March 2015. Under the provisions of the Contract Act, 1872 advise Masoom about the conditions which must be satisfied for constituting a valid offer of performance. (3) Q.2(b)
S.(15)
- 3 What are the essential requisites of a valid offer of performance? What is the effect of refusal by the promisee to accept tender of goods and money, from the promisor? (7) Q.7(a)
A.(12)
- 4 Discuss how should the above payment of Rs. 70,000 be applied under each of following independent circumstances, according to the provisions of the Contract Act, 1872: Q.3(b)
A.(11)
- (i) The following words were written on the back of the cheque: (20,000 + 50,000 = 70,000) **(02)**
- (ii) No instructions about appropriation of payment were given by Ubaid. Bilal did not make any appropriation either. (02)
- 5 Mujahid agreed to accept Rs. 300,000 from Adnan against a debt of Rs. 400,000 if Adnan pays within a week. Adnan did not tender the required amount within this period. Q.3(c)
S.(11)
- (i) What rights are available to Mujahid under the Contract Act, 1872?
- (ii) If Adnan tenders the said amount on the fifteenth day and Mujahid accepts it, what rights are available to Mujahid under the Contract Act, 1872? (5)
- 6 Mehboob, a promisor and Saulat, a promisee, entered into a valid contract. However, when Mehboob made an offer of performance, Saulat refused to accept the same. Briefly state the rights and responsibility of Mehboob against such refusal. Also state the essentials of a valid offer of performance under the provisions of Contract Act, 1872. (5) Q.5(a)
A.(09)

Discharge of a contract

- 1 Respond to following independent scenarios, under the provisions of the Contract Act, 1872: Q.3(d)
S.(20)
Imran Traders entered into a one-year contract with Minhas Oils Limited for the supply of gravels for their extraction project in Badin at a fixed price of Rs. 30,000 per dumper. Six months after the contract, the diesel prices increased sharply, making it non-profitable for Imran Traders to continue the supply at the agreed price. Therefore, they terminated the contract on the ground of impossibility of performance. Describe whether the contract is discharged in the above situation. (04)
- 2 Under the provisions of the Contract Act, 1872: Q.2b(i)
A.(18)
List any five circumstances in which the parties to the contract are not absolved from the performance of their contractual obligations on ground of supervening impossibility (05)
- 3 What is meant by discharge of a contract? Briefly describe the modes of discharging a contract by mutual agreement under the provisions of the Contract Act, 1872. (8) Q.3(a)
A.(15)
- 4 Lalchi Traders agreed to supply cotton yarn to Farzi Textile Limited at a fixed price for one year. Three months after the formation of the contract the price of yarn increased sharply, making it commercially unviable for Lalchi Traders to continue the supply at agreed price. Therefore, they terminated contract on ground of difficulty/impossibility of performance. Under the provisions of the Contract Act, 1872 briefly describe:
(i) whether the contract would be discharged under the above circumstances. (05)
(ii) what would be your decision if Lalchi Traders were importing yarn and Government has imposed a ban on its import. (02) Q.2(a)
S.(15)
- 5 Imran contracted with Yousuf for taking bricks to the second floor of Yousuf's under construction house. However, stairs to the second floor were blocked as Yousuf had dumped some construction materials on the stairs. Discuss the rights of Imran. (3) Q.4(b)
S.(13)
- 6 Under the provision of Contract Act, 1872, briefly describe the different situations whereby a contract is discharged by mutual agreement. (05) Q.8
S.(13)
- 7 In the light of the contract act, 1872 explain the term "Novation". Also narrate the difference between novation and alteration. (3) Q.5(a)
S.(10)

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CH # 7:**PERFORMANCE OF A CONTRACT - II****BY WHOM CONTRACTS MUST BE PERFORMED**

Promisor ⁴⁰	If a contract is of personal nature or it was agreed that promise will be performed by promisor himself.
Promisor's agent ⁴¹	If intention of parties is that the promise can either be performed by the promisor himself or any person employed by him
Legal representatives ⁴²	On death of promisor (unless contrary intention appears or contract is of personal nature) <i>Liability of legal representatives is limited to amount of estate of deceased</i>
Third party	With consent of promisee a contract can be performed by a 3 rd party. (after acceptance, from 3 rd person, he cannot enforce it against promisor)
Joint promisor (devolution of joint rights) ⁴³	Unless contrary intention appears, in case of several promisors the following persons must perform the promise: <ul style="list-style-type: none"> ▪ All the promisors jointly (if all are alive) ▪ Representatives of deceased promisor jointly with surviving promisor(s) (in case of death of any of the joint promisors) ▪ Representatives of all of them jointly (death of all joint promisors)

Rules regarding the performance of joint promise**Joint and several liability of joint promisors⁴⁴**

Promisee may compel anyone or more of such joint promisors to perform the whole promise.

Right to claim contribution⁴⁵

Each of two or more joint promisors may compel every other joint promisor to contribute equally with himself to the performance of the promise (unless a contrary is agreed)

Sharing of loss in contribution⁴⁶

If anyone of two or more joint promisors makes default in such contribution, the remaining joint promisors must bear the loss arising from such default in equal shares.

Release of one joint promisor by the promisee⁴⁷

- It does not discharge the other joint promisor or joint promisors
- It does not free the joint promisor so released from responsibility to other joint promisors

Devolution of joint rights⁴⁸

If a person has made a promise to joint promisees, then, unless contrary intention appears, devolution of joint rights is also applicable
(all of them can together, with representative of deceased ones, demand performance)

TIME AND PLACE OF PERFORMANCE

Circumstances	Rule of performance
- No time for performance is specified; - No application by the promisee is needed.	Must be performed within a reasonable time.
- Promise is to be performed on certain day; - No application by the promisee is needed.	May perform it at any time during usual hours of business on such day and at place at which promise ought to be performed.
- Promise is to be performed on certain day; - Application by the promisee is needed.	Promisee shall apply for performance at a proper place & within usual hours of business
- No place is fixed for the performance; - No application by the promisee is needed.	Promisor shall apply promisee to appoint a reasonable place for performance
- Manner or time prescribed or sanctioned by the promisee ⁴⁹	Promise should be made in that manner and at that time

Failure to perform at fixed time

When time is essential

The time is essential to a contract if the intention of parties (expressed or implied) was that time should be of essence of the contract⁵⁰.

Effect of failure to perform

Time is essential ⁵¹	Time is not essential
<ul style="list-style-type: none"> ▪ Voidable at the option of promisee ▪ He may rescind the contract and sue for the breach caused by non-performance ▪ He can also accept performance, but then, promisee cannot claim compensation for any loss due to non-performance of the promise at the time agreed (unless, at the time of acceptance he gives notice to promisor of his such intention) 	<ul style="list-style-type: none"> ▪ Not Voidable at the option of promise ▪ But promisee is entitled to compensation from promisor for any loss occasioned to him by such failure

PERFORMANCE OF RECIPROCAL PROMISES

Reciprocal Promises

The Promises which form the consideration or part of the consideration for each other.⁵²

Rules regarding performance of reciprocal promises

Simultaneous performance⁵³

When contract consists of reciprocal promises to be simultaneously performed, promisor need not perform his promise unless promisee is ready and willing to perform his promise

Order of performance⁵⁴

- Where order in which reciprocal promises are to be performed is expressly fixed by the contract, they must be performed in that order
- If not fixed, they must be performed in the order which the nature of transaction requires

Preventing the performance⁵⁵

When one party prevents the other from performing his promise, contract becomes voidable at the option of the party so prevented; and he is entitled to compensation from other party for any loss which he may sustain in consequence of the non-performance of the contract.

Non-performance in dependent reciprocal promises (one is dependent on other)⁵⁶

Where the party who is liable to perform first, fails to perform it, then such party cannot claim the performance from the other party and must make compensation to the other party for any loss which the other party may sustain by the non-performance of the contract.

Promise to do legal and illegal things⁵⁷

Where persons reciprocally promise, firstly, to do certain legal things, and secondly, to do certain illegal things, the first set of promises is a contract, but the second is a void agreement.

Alternative promise, one branch being illegal⁵⁸

In the case of an alternative promise, one branch of which is legal and the other illegal, the legal branch alone can be enforced.

QUESTION BANK – ICAP PAST PAPERS

- 1 Sarya Traders (ST) agreed to supply building materials to Khwaja Contractors (KC) on 10 September 2020 for the construction of a charitable hospital in District Malir. However, on due date, ST failed to fulfil their obligation. Q.3(b)
A.(20)

Under the provisions of the Contract Act, 1872 explain the rights available to KC under the above situation. Assume time was the essence of the contract. (03)

- 2 Mohsin and Jaleel jointly borrowed a sum of Rs. 300,000 from Muslim and Munaf jointly. On due date, Mohsin and Jaleel defaulted in making the payment. Munaf, without Muslim's knowledge, filed a suit against Mohsin and Jaleel for the recovery of the amount due. Q.4(c)
A.(20)

Under the provisions of the Contract Act, 1872 briefly describe whether Munaf would succeed in his case. (02)

- 3 Briefly explain five rules regarding performance of reciprocal promises under the provisions of Contract Act, 1872. (05) Q.1(a)
S.(19)

- 4 (a) Golden Foods (GF) agreed to supply 2,500 cans to Riaz Grocery Stores (RGS). According to the agreement, the date of delivery was 31 August 2017. However, on the due date GF refused to supply the cans. Q.1
A.(17)
Under the provisions of the Contract Act, 1872 discuss the rights of RGS in the above situation assuming that time was the essence of the contract. (03)

(b) What would be your answer to (a) above, if GF supplied the cans on 12 September 2017 and RGS accepted the performance; but suffered a loss on account of delayed supply? (02)

- 5 Faheem, Saleem and Jameel jointly borrowed Rs. 50 million for a business project from a common friend Kamal. They jointly promised to repay the borrowed amount. Under the provisions of the Contract Act, 1872 comment on the following: Q.3
S.(17)

(a) in the absence of express agreement, what would be the rights and liabilities of joint promisors. Also explain their rights and liabilities if Kamal releases Jameel from the joint liability. (06)

(b) how the liability would devolve in case of death of one or more of the joint promisors. (02)

- 6 Baqir and Qurban jointly borrowed a sum of Rs. 600,000 from Atif and Saleem. In the light of the provisions of the Contract Act, 1872 briefly explain the following: Q.10(b)
S.(14)
- (i) On the date of payment, Baqir paid Rs. 600,000 to Atif which he accepted. Are Baqir and Qurban discharged from their liability?
- (ii) On due date, Baqir and Qurban defaulted in making the payment. Saleem, without informing Atif, filed a suit against Baqir and Qurban for the recovery of the amount due. Will Saleem succeed in his case? (05)

- 7 What do you understand by the term "reciprocal promises"? Discuss the rule related to the order of performance of the reciprocal promises in accordance with Contract Act 1872 (03) Q.4(a)
S.(13)
- 8 Saima and Nishat jointly own many exotic sets of bridal jewellery. Nageen borrowed a set from them for her wedding and agreed to return it after the wedding. In the absence of any agreement between them, to whom should Nageen return the jewellery? (3) Q.4(c)
A.(11)
- 9 Binyamin borrowed Rs. 1 million from Hatim and Tahir jointly and promised to repay the amount on March 1, 2011. With reference to the Contract Act, 1872, state who can claim performance in the following situations. Q.3(b)
S.(11)
- (i) Both Hatim and Tahir are alive on due date
(ii) Hatim dies before due date
(iii) Both Hatim and Tahir die before the due date (2)
- 10 Briefly describe the rules specified in the Contract Act, 1872 in respect of the following. Q.5(a)
S.(11)
- (i) Time and place for performance where these have not been specified in the contract; (3)
(ii) Order of performance of reciprocal promises; and (2)
(iii) Effect of release by promisee of one of the joint promisors. (2)
- 11 Maimar promised to manufacture and deliver to Nasir, remote-controlled toy helicopters of agreed specifications in first week of March 2011. Nasir in turn promised to pay for them by second week of March 2011. Maimar did not deliver the toys according to his promise. Should Nasir keep his promise and what remedy, if any, is available to him? (2) Q.5(b)
S.(11)
- 12 Sohail and Afaq lent Rs 2.0 million to Mohsin, Laila and Faizan jointly. On due date Laila became insolvent. Without informing Sohail, Afaq wants Mohsin to repay the full amount to him. Under the provisions of Contract Act 1872 explain: Q.3(a)
S.(10)
- (i) whether Mohsin can be compelled to pay the full amount to Afaq.
(ii) What rights are available to Mohsin, if he repays the full amount. (5)

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CH # 8**CERTAIN RELATIONS RESEMBLING
THOSE CREATED BY CONTRACT****QUASI CONTRACT**

A **Quasi contract** is an obligation imposed by law in absence of any agreement between the parties. A quasi-contract is not an actual contract, but is a legal substitute formed to impose equity between two parties. These are also known as constructive contracts.

Types of Quasi contracts**Supply of necessities⁵⁹**

If a person incapable to enter into contract or his dependent is supplied by another person necessities suited to his conditions in life the person supplying such necessities is entitled to be reimbursed his price from the property of such incompetent person.

Payment by interested person⁶⁰

A person, who is interested in the payment of money which another is bound by law to pay, and who pays it, is entitled to be reimbursed by the other.

Person enjoying benefit of non-gratuitous act / goods⁶¹

Where a person lawfully does anything for another person, or delivers anything to him, not intending to do so gratuitously and such other person enjoys the benefit thereof, the latter is bound to make compensation to former in respect of, or to restore, thing so done or delivered.

Finder of goods⁶²

- A person who finds goods belonging to another, and takes them into his custody, is subject to the same responsibility as a bailee.
- He is bound to take as much reasonable care of the goods as he takes of his own goods.
- He must also take reasonable steps to trace its owner
- If he does not, he will be guilty of wrongful conversion of the property.
- He may sell the goods when the goods are of perishable nature or when the lawful charges for finding the true owner amount to $\frac{2}{3}$ rd or more of the value of the goods

Payment by mistake or under coercion⁶³

A person to whom money has been paid, or anything delivered by mistake or under coercion, must repay or return it.

QUESTION BANK – ICAP PAST PAPERS

- 1 Mohsin acquired a piece of agricultural land in Moro, Sindh from a local landlord, Qasim Soomro, on a lease term of twenty years. The revenue payable by Qasim Soomro on his land to the Provincial Government was in arrears. As a result, the land was advertised for sale by the Provincial Government. Mohsin, in order to prevent the sale of land, paid the sum due by Qasim Soomro to the Provincial Government.
Under the provisions of Contract Act, 1872 explain whether Mohsin can recover such amount from Qasim Soomro. (02) Q.2(a)
S.(20)

- 2 Under the provisions of the Contract Act, 1872:
(ii) briefly describe various types of quasi-contracts. (05) Q.2(b)
S.(18)

- 3 Under certain special conditions, obligations resembling those created by a contract are imposed by law although the parties have never entered into a contract. In view of the provisions of the Contract Act, 1872 describe the conditions which must be fulfilled for claiming the amount in each of the following cases:

 (i) Baqir supplied a jacket to Sultan in order to save him from cold weather. Sultan who was a minor agreed to pay Rs. 2,000 for the jacket although its market price was Rs. 1,500. (03)
 (ii) Rohi, who paid the electricity bill of Saulat without being asked, is now demanding payment from Saulat. (01)
 (iii) Sami, a coolie picked up goods purchased by Nadia from supermarket and took them to her car. Nadia did not object to it. Sami demanded service charges from Nadia. (02)

- 4 Maya paid the electricity bill of her neighbor Wasi to avoid disconnection. Later, she claimed the amount of bill from Wasi. Explain whether Maya is entitled for the claim. (4) Q.3(b)
S.(14)

- 5 Obligations of persons enjoying benefit under the quasi contracts. (5) Q.9(b)
S.(12)

- 6 Omair did not pay rent of his shop for 3 months. Qasim, a mutual friend, with the good intention of mending the relationship between Omair and the landlord, paid the rent. After a year, Omair promised to repay Qasim. With reference to the relevant provisions of the Contract Act, 1872 explain whether Qasim can enforce this promise. (3) Q.7(b)
A.(11)

- 7 Explain the term “Quasi contract”. Briefly describe different types of relationships commonly referred to as quasi contracts under the Contract Act, 1872. (10) Q.2
A.(10)

- 8 Sami rented his house to Qurban for a period of one year at an agreed sum of Rs. 10,000 per month. After the first two months, Qurban defaulted in making payment of the rent. Baqir, a neighbor, being concerned with the strained relationship between Sami and Qurban, paid the rent with good intention. Subsequently, on Qurban’s refusal to reimburse the amount, Baqir filed a suit against him on the grounds that he made the payment to Sami which Qurban was legally bound to make and being a quasi contract Baqir is entitled to the reimbursement. Explain whether Baqir is justified in his suit. (4) Q.4(c)
A.(09)

CH # 9**CONSEQUENCES FOR BREACH OF CONTRACT****COMPENSATION FOR LOSS OR DAMAGE CAUSED BY BREACH**

Breach of contract occurs when a party either refuses or fails to perform his part of contract (other than when such performance is excused under the law).

There are various remedies available to an aggrieved party of which damages are more common

Ordinary Damages⁶⁴

- Which arise naturally in the usual course of things from the breach itself.
- Normally it is the difference between contract price and market price at date of breach.

Special damages⁶⁵

Arising due to special losses which are in reasonable knowledge of the parties at time of formation of contract and are suffered to the aggrieved party due to breach.

Remote and indirect loss⁶⁶

- Some losses clearly result from breach of contract but are considered too remote from the breach that it is unfair to expect the defendant to compensate the claimant for them.
- No compensation is to be given for any such remote and indirect loss or damage.

Other rules for damages

- Person who rightly rescinds a contract is entitled to compensation for loss suffered
- In estimating loss arising from a breach, the means which existed of resolving the inconvenience caused by breach of the contract must be taken into account.
- It is duty of aggrieved party to take all reasonable steps to mitigate the loss caused by breach (and cannot claim compensation for loss which could have been avoided easily)
- Compensation for damages from breach of quasi-contract shall be same as in other contract

COMPENSATION WHERE PENALTY IS STIPULATED (AGREED)

- Parties to a contract may agree at the time of its formation that on the breach of contract by either of them, a certain specified sum will be payable as damages.
- Such amount may or may not be termed as penalty.
- It would be termed penalty if it is exaggerated and disproportionate to damage likely to occur.
- Court will award only reasonable compensation not exceeding that maximum amount.
- One form of penalty can be a condition for increased interest from the date of default

QUESTION BANK – ICAP PAST PAPERS

- 1 Sarya Traders (ST) agreed to supply building materials to Khwaja Contractors (KC) on 10 September 2020 for the construction of a charitable hospital in District Malir. However, on due date, ST failed to fulfil their obligation. Q.3(c)
A.(20)

What would be your answer if KC had to procure building material from another supplier at a price higher than the price agreed with ST and also had to pay a penalty of Rs. 50,000 to the owner of the hospital for construction delay? (03)

- 2 Saleem entered into a contract for the purchase of 5 vehicles from Phony (Pvt.) Limited (PL) which were to be delivered in the month of February. Saleem also entered into another contract for onward sale of these vehicles to Jabbar Limited (JL). However, PL refused to deliver the vehicles as contracted. Saleem had to buy the vehicles from another supplier at an extra cost of Rs. 2 million for supplying these to JL. Saleem also had to pay compensation of Rs. 0.6 million to JL due to delay in supply. Q.2(a)
S.(18)

Under the provisions of Contract Act, 1872 analyse the above situation and comment whether Saleem is entitled to receive any compensation from PL. (04)

- 3 What do you understand by the terms 'Ordinary damages' and 'Special damages'? Briefly describe the rules relating to the award of each of the above types of damages under the Contract Act, 1872 (4) Q.2(b)
S.(16)

- 4 Describe the provisions of Contract Act, 1872 related to the following: Rules of compensation for loss or damage caused by breach of contract. (5) Q.9(a)
S.(12)

- 5 Ramla borrowed Rs. 100,000 from Ovais for a period of three months and kept her jewellery with Ovais as a security. On due date, Ramla defaulted in repayment. In view of the provisions of Contract Act, 1872 describe the remedies available to Ovais under the circumstances. (4) Q.6(a)
A.(10)

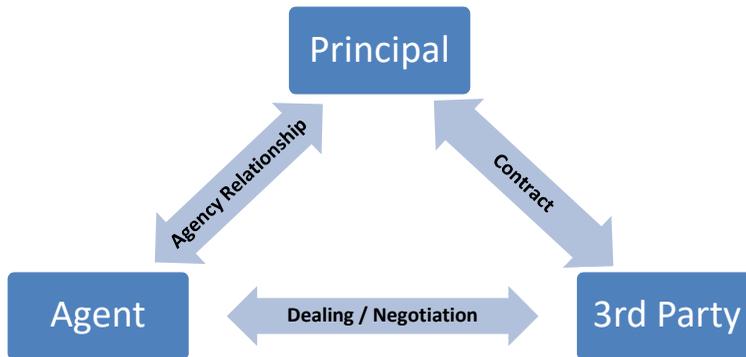
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CH # 10**APPOINTMENT AND AUTHORITY OF AGENTS****APPOINTMENT OF AGENT**

Agent: An agent is a person employed to do any lawful act for another or to represent another (the Principal) in dealing with a third person.

- There is a legal relationship between the agent and the principal.
- The agent acts on behalf of the principal, by negotiating with a third party.
- When the contract is made, it is between the principal and the third party.
- An agent may be for one transaction or more. It is common in business for an agent to act regularly on behalf of a principal, arranging large numbers of different transactions etc

**Other Rules for appointment of agent**

- Any person who is of the age of majority and who is of sound mind may **employ an agent**.
- Any person may **become an agent**
 - Such agent shall be responsible to his principal according to provisions of Contract Act (except when such person is minor or of unsound mind)
- No consideration is necessary to create an agency.

AUTHORITY OF AGENT⁶⁷

Legal problems with agency relationships

- A person might claim to act on behalf of a principal P, and 3rd party might enter into an agreement believing the contract to be with P. However, P might deny the agency relation.
- A person might be agent of P with authority to make agreements on behalf of P. Agent might go beyond limits of authority. P might then refuse to accept the agreement.

Principal is liable to 3rd party when agent has authority, whether that authority is express or implied, or whether that authority is actual or apparent.

Different type of Authorities

Express authority

- A written agency agreement may give the agent express authority.
- Principal should specify what tasks, power and authority the agent can exercise.

Implied authority⁶⁸

- Authority of an agent in excess of his express authority (inferred from the circumstances)
- Things spoken or written, or ordinary course of dealing, may also be accounted for

An agent having an authority to carry on a business has authority to do every lawful thing necessary for the purpose, or usually done in the course of conducting such business.

Apparent (Ostensible) authority

- Principal is liable to 3rd party when 3rd party has reason to believe that agent has authority to act on behalf of principal, even though he is not an actual agent.
- 3rd party can assume that an agent holding a particular position has all the powers that are normally given to such position (Unless 3rd party has knowledge of something against this)

Agent's authority in an 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

QUESTION BANK – ICAP PAST PAPERS

- 1 Shoaib, aged 15, is the son of a billionaire businessman, Ijaz Munsif. Last month Shoaib drove his father's 2018 Model BMW to a vintage car exhibition arranged by Volkswagon Club of Pakistan. At the exhibition he saw a vintage Mercedes-Benz and entered into a contract with the seller for the purchase of the car. Q.3a
A.(19)
- The seller, knowing Ijaz Munsif's status, delivered the car to Shoaib at his house. The seller requested for payment for the car but Shoaib refused to pay. The seller is now requesting for full payment by Ijaz Munsif. Discuss whether the seller would succeed in recovering the payment from Shoaib or Ijaz Munsif. (05)
- 2 Respond to the following scenarios, under the provisions of Contract Act, 1872: Q.1b
S.(19)
- (iv) While attending a seminar, Khizar told a group of people on his table that he is the agent of Lucky. Lucky smiled considering it a joke. Later, Moiz who was sitting on the table sold security cameras and surveillance system to Khizar on credit believing him to be agent of Lucky. Comment on whether a contract of agency is established between Khizar and Lucky. (02)
- 3 Arif was running a meat shop in Islamabad. He wanted to attend the wedding of his sister in Peshawar so he asked his friend, Moiz, to look after his shop during his absence. While managing the shop, Moiz noticed that the deep-freezer in the shop was not working properly. In order to save the meat from being spoilt, he sold it at a discount of 5% and had the freezer repaired the next morning. Looking at customers' positive response, Moiz continued to offer the meat at 5% discount. Upon his return from Peshawar, Arif, being unhappy with the situation, immediately discontinued the discount and now wants to recover the loss from Moiz. Q.3(b)
A.(14)
- In view of the provisions of the Contract Act, 1872, analyze the above situation and explain the rights and liabilities of Arif against Moiz. (10)
- 4 Behram employed Thaseen to sell his car to Asad for Rs. 500,000 and invest the proceeds in Government Bonds. Thaseen invested Rs. 400,000 in Government Bonds and Rs. 100,000 in a blue chip company expecting a high return on such investment. Consequently, Behram lost Rs. 50,000 on the blue chip investment. Q.5(b)
A.(10)
- With reference to the provisions of Contract Act, 1872 describe the rights and obligations, if any, of Thaseen under the circumstances. (4)
- 5 Explain the following as described under Contract Act 1872. Q.4(a)
S.(10)
- Agent's authority in an emergency.

Tutor's Note:

Huge number of questions pertaining to the contents deleted from the syllabus by the ICAP as per new syllabus of Business Law (Education Scheme 2021) are accordingly removed from the above question bank to avoid any confusion. And some questions and solutions are updated as per revised contents

CH # 11**NATURE OF PARTNERSHIP****INTRODUCTION****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”.

Firm and partners

“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 called the “firm name”.

Act of firm

“An act of firm means any act or omission by all the partners, or by any partner or agent of the firm which gives rise to a right enforceable by or against the firm.”

Third party

“Third party used in relation to form or to a partner therein means any person who is not a partner in the firm.”

Those provisions of Contract Act, 1872 shall continue to apply to firms that are not inconsistent with the provisions of Partnership Act, 1932.

TEST OF PARTNERSHIP**1) Association of two or more persons**

- There can be no partnership consisting of a single individual.
- If the number gets reduced to one, for any reason, it ceases to be a partnership.
- Partnership Act does not say anything about the maximum number of partners.
- However, in company law the following maximum numbers are fixed:
 - Partnership firm carrying on banking business; maximum number is 10.
 - Partnership firm carrying on any other business; maximum number is 20.
 - Partnership firm of professional persons; maximum number may exceed 20.
- If total partners exceeds maximum number such partnership becomes illegal association

2) Agreement

- This agreement may be express (written or oral) or implied.
- The written agreement is known as ‘partnership deed’.
- In Pakistan partnership arises from contract and not from status (such as Joint Family Business, operation of law inheritance, or succession)

- A partnership deed usually sets out the following:
 - Firm name
 - Place or principal place of business of the firm
 - Names of any other places where the firm carries on business
 - The date when each partner joined the firm
 - Number of partners
 - Names in full and permanent addresses of partners
 - Purpose and duration of partnership (if any)
 - Rights and duties of the partners.
 - Amount of capital that each partner should put into the business
- If a partnership does not have a written agreement, the rules set out in the Partnership Act 1932 are normally assumed to apply

3) Carrying on business⁶⁹

- The parties must have agreed to carry on a business.
- Where there is no business to be done, there can be no question of partnership.
- If the purpose is to carry on some charitable work it will not be a partnership.

4) Sharing of profits

- Partners may share it equally or in any other proportion.
- It is not necessary that the partners should agree to share losses.

5) Mutual agency⁷⁰

- Mutual Agency relationship means that each partner is both an agent and a principal.
 - Agent in the sense that he has the capacity to bind other partners by his acts done.
 - Principal in the sense that he is bound by the acts of other partners.

Important features of the partnership

- A partnership does not have a legal personality (Unlike a company, it is not a legal person)
- Any party entering into contract with a partnership actually have a contract with all partners.
- Partners in a partnership do not have limited liability, and are personally liable for any liabilities of the partnership business that the partnership cannot pay.

Not a Partnership

Joint or common interest in the property

The sharing of profits or of gross returns arising from property by persons holding a joint or common interest in that property does not of itself make such persons partners⁷¹

	Partnership firm	Co-ownership
Formation	Created by an agreement alone.	Not necessarily a result of an agreement
Business	Carry on business in essential	Does not necessarily involve business.
Number of persons	Minimum 2, Maximum 20 persons (other than banking business)	No limit on maximum number of the co-owners.
Sharing of profit	One of the essential elements.	Does not involve sharing of profit.
Agency	A partner is an agent of the firm	Co-owners are not agents to one another
Transfer of interest	Partner cannot transfer his interest without getting consent from other	Co-owner can transfer his interest without getting consent from other(s)

Sharing of Profits is not a Conclusive Evidence of Partnership

Receipts by a person of a share of profits of a business, or of a payment contingent upon such profits, does not of itself make him a partner with persons carrying on the business, for example:

- Lender of money to persons engaged or about to engage in any business
- Servant or agent as remuneration
- Widow or child of a deceased partner as annuity
- A transferee of a partner's interest
- A minor who is admitted to the benefits of an existing partnership
- Previous owner or part owner as consideration for the sale of goodwill or share of it.

Loan from Banking Company

The Partnership Act, 1932 shall not apply to a relationship where a banking company has provided a loan to any partnership and the partnership shares a share of profit with that bank.

Types of partnership

Partnership-at-will

- Where no provision is made between the partners for the duration of their partnership
- In such partnership there is no provision as to when the partnership will come to an end.
- Any partner is free to dissolve the partnership by giving a notice in writing to all other
- The firm is dissolved as from the date mentioned in the notice (if any) or if no date is mentioned as from the date of the communication of the notice.
- If agreement provides that the partnership can be dissolved by mutual consent of all the partners, it will not constitute a partnership at will.

Particular partnership

- Where a partnership is created for any particular purpose or for a specific time period
- Such partnership comes to an end on the completion of venture or on expiry of the period.
- If partners decide to continue partnership after that, then it becomes partnership at will.

Types of partners

Actual or ostensible partner	<ul style="list-style-type: none"> ▪ A partner who is actively engaged in the conduct of a business ▪ Such partner is an agent of all other partners for the purposes of the business ▪ Can bind himself and others for acts done in ordinary course of business.
Sleeping or dormant partner⁷²	<ul style="list-style-type: none"> ▪ Not known as such as a partner to third parties dealing with the firm. ▪ May or may not take active part in the conduct of the business of the firm. ▪ He, like other partners, invests capital and shares in profits of the business. ▪ He is equally liable along with other partners for all debts of the firm ▪ Not required to give public notice of his retirement (not liable for any act done by the firm after his retirement)
Nominal partner⁷³	<ul style="list-style-type: none"> ▪ Does not contribute any capital or share in profits, but lends his name to firm ▪ He along with other partners is liable to the outsiders for all debts of the firm.
Partner in profits only	<ul style="list-style-type: none"> ▪ A partner may agree that a partner shall get a share of the profits only and that he shall not be liable to contribute towards the losses. ▪ But for third parties he is liable for all the debts of the firm.
Sub-partner⁷⁴	<ul style="list-style-type: none"> ▪ When a partner agrees to share his profits derived from firm with a stranger ▪ Sub-partner is not connected with firm and cannot call himself a partner ▪ He has no rights against the firm nor is he liable for the acts of the firm.
Silent partner⁷⁵	<ul style="list-style-type: none"> ▪ Those who by agreement with other partners have no voice in management ▪ They share profit and losses, are fully liable for the debts of the firm
Partner by estoppel or holding out	<ul style="list-style-type: none"> ▪ Where a person holds himself out as a partner or allows other to do it, they are then stopped from denying the character he has assumed and upon the faith of which creditors may be presumed to have acted. <p><i>(Tutor's Note: This concept is explained later in onward topics of partnership)</i></p>

QUESTION BANK – ICAP PAST PAPERS

- 1 (a) Respond to the following independent scenarios, under the provisions of the Partnership Act, 1932: Q.4
S.(20)
- (i) Moiz, Adeb and Mumtaz were partners in a firm. Adeb died. Moiz and Mumtaz continued the business and agreed to give 10% share of profits of business to the widow of Adeb as annuity. Discuss whether Adeb's widow would be deemed to be a partner in the firm. (02)
- 2 Aftab, Rehan and Bali were partners in a law firm. The partnership deed, among other things, provided that the profits or losses of the firm would be shared equally among the partners. The firm continued its business for many years with Aftab receiving fifty percent share in the net profit and Rehan and Bali each sharing twenty-five percent of the net profit. Rehan and Bali never objected to this arrangement. Q.4c
A.(19)
- Later on, partners developed some differences and Rehan and Bali filed a suit against Aftab for the recovery of their share in profits on the basis of partnership deed. Under the provisions of the Partnership Act, 1932 discuss whether Aftab would succeed in defending the suit filed against him by Rehan and Bali. (03)
- 3 The sharing of profit is a prima facie evidence of partnership. Under the provisions of the Partnership Act, 1932 list any four circumstances in which a non-partner could benefit from the profits of a partnership. (02) Q.5c
A.(18)
- 4 X has been carrying on textile business for the past few years. He has recently met Y who is an expert in textile designing. X and Y have agreed that Y would advise X on various technical issues and use his contacts for the benefit of the business. Y would be entitled to 35% of the profits of the business. However, Y will not be required to bring any capital and will not take part in the day to day affairs of the business. Q.4c
S.(18)
- Under the provisions of the Partnership Act, 1932 analyse the above situation and advise whether partnership exists between X and Y. (05)
- 5 'The sharing of profit is a prima facie evidence but not a conclusive test of partnership'. Under the provisions of the Partnership Act, 1932 list the circumstances in which receipt by a person of a share of profits of a business does not of itself make him a partner with the persons carrying on the business. (03) Q.4a
A.(17)
- 6 Munaf, a sole proprietor, engaged in the business of selling cooking oil to wholesalers agreed to admit Lari in his business on the following terms: That Lari shall not bring any capital and shall not be liable for any losses of the firm. However, he shall be entitled to receive Rs. 150,000 on introducing any new client to the business, share 40% of the profits and have the right to exercise all the powers of a partner in the firm. Q.4(a)
A.(15)
- Analyze the above situation and advise whether a partnership is constituted between Munaf and Lari under the provisions of the Partnership Act, 1932. (5)

-
- 7 Sharing net profits usually creates a very strong inference that the parties have formed a partnership. But in certain situations, the fact that the profits are shared or the parties have agreed to share the profits will not by itself create a presumption that a partnership was intended. List such situations as given in the Partnership Act, 1932. (5) Q.4(b)
A.(14)
 - 8 A, B and C are partners in a firm sharing profits in the ratio of 4:3:2. They admitted D to the partnership on 1 January 2013. In the absence of any agreement, state how they will share future profits. (2) Q.9(b)
S.(13)
 - 9 In view of the Partnership Act, 1932, briefly explain the meaning of 'Partnership at Will' and 'Particular Partnership'. (2) Q.9(c)
S.(13)

Tutor's Note:

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CH # 12 RELATIONS OF PARTNERS TO ONE ANOTHER

DUTIES, RIGHTS AND LIABILITIES OF PARTNERS

General duties of partner

Mandatory duties of a partner that cannot be changed by an agreement.

- **Duty to be just and faithful**
 - An ideal partnership is one where there is mutual trust and confidence
 - He must observe utmost good faith and fairness towards other partners
- **Duty to carry on business to the greatest common advantage of the firm**
- **Duty to render true accounts to co-partners**
 - Each partner must be ready to explain the accounts of firm
 - No partner should think of making a secret profit at the expense of the firm.
- **Duty to provide full information to other partners**
- **Duty to indemnify (compensate) for loss caused by his fraud**

Rights and Duties by Contract

- Other than compulsory rights and duties specified by the Act, mutual rights and duties of the partners firm may be determined by contract between the parties.
- Such contract may be:
 - Express; or
 - Implied (by a course of dealings).
- The partnership contract may be varied by consent of all the partners, and such consent may be express or may be implied by a course of dealings.
- As an exception to rule (Agreement in restraint of trade); Partnership contracts may provide that a partner shall not carry on any business other than that of the firm while he is a partner.

Rights and Duties of Partners after a change in firm

Subject to contract between partners, the mutual rights and duties of partners remain the same as they were immediately before the change in following situations:

- A change in constitution of a firm (e.g. introduction of new partner or retirement of old)
- A firm constituted for a fixed term continues to carry on business after expiry of that term.
- A firm constituted to carry out one or more businesses carries out additional businesses.

Rights and Duties relating to the Conduct of the Business

The qualified duties of a partner can be changed by an agreement amongst the partners.

- **Right to take part in the conduct of the business**
 - Every partner irrespective of his capital has an inherent right to take part in business
- **Duty to attend diligently to his duties**
- **Right to be consulted in matters of the firm**
 - Every partner has the right to be consulted before any matter is decided.
 - Any difference on ordinary matters may be decided by majority of partners in good faith
 - No change may be made in nature of the business without the consent of all partners.
- **Right to have access to the books of firm**

Mutual Rights and Liabilities

- **Right for Remuneration**
 - A partner is not entitled to receive remuneration for taking part in the business.
 - Sometimes a remuneration is allowed to working partners (subject to agreement)
- **Sharing Profits and Losses**
 - Normally every partner has a right to share profits equally (unless agreed different)
 - Agreement to share profits may imply an agreement to share losses also (unless some are exempt from sharing of losses)
- **Right to interest on capital**
 - Interest on capital is allowed only when agreed among the partners.
 - If so entitled, such interest will be payable out of the profits, earned by the firm.
- **Right to interest on advances**
 - If a partner makes for any payment or advance beyond amount of capital he has agreed to subscribe, he is entitled to interest on it at rate of 6% per annum or as agreed upon⁷⁶
- **Right to indemnity**
 - Every partner has a right to claim indemnity from firm in respect of payments made or liabilities incurred by him in ordinary cases as well as in case of emergency
- **Duty to indemnify for wilful neglect**
 - Every partner shall indemnify the firm for any loss caused to it by his wilful neglect (i.e. failure to perform a duty or to do something which the partner should have done)

Personal Profits earned by Partners

- **Duty to account for personal profits derived**⁷⁷
 - If a partner uses partnership property, name or business connections to make a secret profit (a personal profit), other partners can claim those profits for the partnership.
- **Duty not to compete with the business of the firm**⁷⁸
 - Liable to account to firm for all the profits that he earns from competing business

THE PROPERTY OF THE FIRM

Subject to contract between the partners, the property of the firm includes:

- All property originally brought into the common stock of the firm
- All rights or interest in the property originally so brought
- All property acquired, by purchase or otherwise, by or for the firm and all rights and interest in any property so acquired; and
- Goodwill of the business of the firm

*Unless any contrary intention appears any property purchased with partnership money without other partners' consent will be deemed to be partnership property*⁷⁹.

Application of the property of the firm

- It is duty of every partner to use the property of firm exclusively for the purposes of business (subject to contract between the partners).
- No partner should use partnership property for his personal benefit.

What is Goodwill?

- It's an accounting concept
- Meaning the value of an intangible asset which has a quantifiable value in a business.
- An example would be the reputation the firm enjoys with its customers.
- This reputation enables firm to earn more than the normal profits earned by other business.

< < < Goodwill = Value of business as a whole - Total value of identifiable net assets > > >

QUESTION BANK – ICAP PAST PAPERS

- 1 Tahira, Farhana and Sadia are partners in a bridal boutique situated in the local market. Sadia also owns a jewellery shop in the same market. The shop is managed by her brother, Wasi. Tahira and Farhana were not aware of Sadia's interest in the jewellery shop. Most of the clients from the bridal boutique buy jewellery sets from Sadia's shop. During the year, Sadia earned a hefty profit of Rs. 10 million from the jewellery business. Q.5b
S.(21)

Upon knowing the fact of Sadia's interest in the jewellery shop, both Tahira and Farhana demanded Sadia to share her profits equally with them.

Under the provisions of the Partnership Act, 1932 explain whether Tahira and Farhana are justified in their demand. **(04)**

- 2 Under the provisions of the Partnership Act, 1932 what are the general duties of a partner which cannot be altered by an agreement amongst themselves? (03) Q.5a
A.(20)
- 3 Under the provisions of the Partnership Act, 1932 state the mandatory duties of partners which cannot be modified by an agreement amongst them. (03) Q.4a
A.(19)
- 4 (a) Taqi, Saqib and Abrar are partners in a trading firm. By an agreement among themselves they decided that no partner shall have the authority to buy or sell goods beyond the limit of Rs. 20,000 without the consent of other partners. Ignorant of this restriction, Wajid sold goods worth Rs. 45,000 to Saqib who did not consult with the other partners. Q.5
A.(18)

In view of the provisions of the Partnership Act, 1932 explain whether the firm and its partners are liable to Wajid under the above circumstances. **(04)**

- (b) Bader and Yaseen established a distribution agency for supplying low cost medicines to hospitals. Yaseen, by way of a verbal agreement, allowed the agency to use his ancestral land for the business of the agency. Bader purchased a delivery van in his own name with partnership money. Bader wants to repay the amount to the partnership and therefore a receivable has been recorded in the partnership books.

Under the provisions of the Partnership Act, 1932 describe whether the above assets would be considered to be the partnership property. **(04)**

- 5 Gul, Raza and Sami are partners in GRS Garments. Raza discovered that a supplier MP offers reasonable rates for consumables stores and put forth a resolution that MP should be included in the firm's list of suppliers. MP is owned by Gul and managed by his brother but Gul did not disclose this fact. When Raza and Sami became aware of the fact, they asked Gul to share with them the profits earned by MP on transactions with GRS. Q.4a
S.(18)
- Under the provisions of the Partnership Act, 1932 discuss whether Gul is bound to share the profits as demanded by Raza and Sami. (2.5)

- 6 On 1 July 2016 Abid, Rizwan and Salman started a partnership business and contributed Rs. 200,000 each towards the firm's capital. They also agreed to share profits in equal proportion. Abid, in addition to his capital contribution, paid Rs.100,000 to one of the suppliers as a security deposit. All the partners are entitled to interest at the rate of 8% on their capital. However, during the year, the firm incurred a loss of Rs. 80,000. Q.4b
A.(17)

Under the provisions of the Partnership Act, 1932 state the amount of interest, if any, payable to each partner. (04)

- 7 Raheel, Samina and Umair have agreed to constitute a partnership for carrying on a business of printing study text for CA students in Peshawar. Raheel wants to specify the rights and duties of partners in the partnership agreement so that these can be changed with mutual consent of all the partners whereas Samina and Umair do not consider it necessary and believe that the implied authority may be extended to bind the firm whenever required. Q.4(a)
A.(16)

Under the provisions of the Partnership Act, 1932 list:

- (i) the general duties of partners which cannot be modified by an agreement amongst them. (03)

- 8 In the above partnership business, Rofi intends to acquire a plot of land for the firm with his own money. However, he is not certain whether the plot would be considered as partnership property. Under the provisions of Partnership Act, 1932 advise Rofi as what is considered to be included in the partnership property and how it is to be applied. (4) Q.4(b)
S.(16)

- 9 Nomi, Sultan and Behram have decided to establish a partnership business to run a departmental store. Under the provisions of the Partnership Act, 1932 advise them about their mutual rights and liabilities towards each other. (5) Q.4(a)
S.(15)

- 10 The above partnership business was started in January 2015. In March 2015 Behram received an overdraft of Rs. 100,000 from the partnership's bank. He informed the bank that the money would be used to construct a new cash counter in the departmental store. However, he used the money to pay for his wife's Dubai trip. Q.4(b)
S.(15)

Advise Nomi, Sultan and Behram about their rights and liabilities and that of the firm in relation to the above transaction. (5)

- 11 Under the provisions of the Partnership Act, 1932 briefly state what may be regarded as the property of the firm. (5) Q.4(a)
S.(14)

- 12 Atif, Raja and Nazir are partners in Buland Associates. Atif without informing Raja and Nazir sold one of Buland Associates prime property to his friend Tariq and embezzled the money received in consideration. In the light of the provisions of Partnership Act, 1932 advise the rights available to Raja and Nazir under the circumstances. (6) Q.4(b)
A.(13)

- 13 What are the rights of a partner as regards the conduct of business? (6) Q.5(a)
S.(13)

- 14 A and B are partners in a barbeque business. They decided to sell their business along with its goodwill to Lahori Maza which is owned by C. Describe the rights of above parties under the Partnership Act, 1932 if A and B decide to carry on similar business and nothing is mentioned in this regard under the agreement. (5) Q.4(a)
S.(12)
- 15 Kashif, Irfan and Shujaat are partners in a firm. Irfan bought a shop in his own name. He issued a cheque from the partnership account and debited his account with the purchase price. He rented out the shop and credited the receipts of rent in his capital account. Kashif has objected to this practice and asked Irfan to register the shop in the firm's name contending that the shop is partnership's property. Irfan disagrees. Q.6(b)
S.(11)
- Explain what constitutes partnership property under the Partnership Act, 1932 and whether the shop is partnership property or not. (7)
- 16 Rafiq, Bari and Furqan have decided to establish a partnership business for trading in medical equipments. In the absence of any express contracts, advise them of their mutual rights and liabilities under the provisions of the Partnership Act, 1932 (9) Q.7(a)
S.(10)
- 17 Danish, a practicing lawyer, admitted Basit into partnership by persuading him that his practice earns R.s 20.0 million annually. Later however, it was revealed that the firm is not earning not more than R.s 8.0 million per annum. Under the provisions of Partnership Act, 1932 describe the rights available to Basit under the circumstances. (5) Q.7(c)
S.(10)
- 18 Obaid, Raheel and Pervez were partners in a firm. On September 1, 2009 Pervez retired from the partnership. The remaining partners continued the business, with the property of the firm, without final settlement of accounts as between them and Pervez. In the light of the Partnership Act, 1932, describe the rights of Pervez, in the above circumstances. (4) Q.6(c)
A.(09)
- 19 Sohail, Talha, Umair & Co., a partnership concern is engaged in trading of cloth. The firm bought a plot of land from Shining Star Limited. After some time Talha and Umair on their own account bought three more plots of land in the same locality and made good profits. Sohail on becoming aware of such profits sued Talha and Umair for his share. Under the provisions of Partnership Act 1932, explain whether Talha and Umair are liable to share such profits with Sohail. (4) Q.6(d)
A.(09)

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CH # 13**RELATIONS OF PARTNERS TO 3RD PARTIES****AUTHORITY AND LIABILITIES OF A PARTNER AND THE FIRM**

A partner is the agent of the firm for the purpose of the business of the firm.

Authority of partners**Actual authority**

- The authority of each partner may be specified in the partnership agreement.

Implied authority⁸⁰

- The act of a partner done by him as an agent of the firm in the course of business of the firm in the name of the firm, or in any other manner expressing an intention to bind the firm.
- An authority to bind the firm is known as implied authority of a partner.

Every partner within the scope of his implied authority may bind the firm by following acts:

- Buying and selling good, on behalf of the firm and giving valid receipts for them
- Receiving payments of debts due to the firm and giving valid receipts or discharge for them
- Contracting debts and paying debts on behalf of the firm
- Settling accounts with persons dealing with the firm
- Employing servants for the partnership of the firm
- Drawing cheques, accepting or endorsing bills of exchange and promissory notes in the name of the firm
- Pledging movable property of the firm
- Suing on behalf of the firm and defending suits in the name of the firm

Restrictions on the implied authority of a partner

Following acts are not included in the implied authority of a partner unless there is any usage or custom of trade

- | | |
|------------------------|--|
| ▪ Arbitration | Submit a dispute relating to the business of the firm to arbitration |
| ▪ Bank account | Open a banking account on behalf of the firm in his own name |
| ▪ Compromise | Compromise or relinquish any claim or portion of a claim by the firm |
| ▪ Withdrawal of suit | Withdraw a suit or proceeding filed on behalf of the firm |
| ▪ Liability Acceptance | Admit any liability in a suit or proceeding against the firm |
| ▪ Acquisition | Acquire immovable property on behalf of the firm |
| ▪ Transfer | Transfer immovable property belonging to the firm |
| ▪ Partnership | Enter into partnership on behalf of the firm. |

Restrictions by partnership deed

- Restriction which is specifically written in partnership deed
- It is effective only against the person dealing with the firm having knowledge of it⁸¹

Ratification of actions taken by a partner outside his actual authority

- When a partner exceeds his authority, the other partners may approve such unauthorized act with retrospective effect.
- By ratification, partners can remove any doubt about
 - Existence of implied authority
 - Knowledge of the other party that the partner did not have the actual authority

Partner's Authority in an Emergency

- A partner has authority, in an emergency, to do all such acts for protecting the firm from loss as would be done by a person of ordinary care, in his own case under similar situation⁸².

In order to bind a firm, an act done or instrument executed by a partner or other person on behalf of firm shall be done or executed in firm name, or in manner implying an intention to bind the firm.

Liabilities of partners and firm**Effect of admissions by a partner**

Any admission or representation made by a partner is valid against the firm if:

- Such admission or representation relate to the affairs of the firm and
- Such admission or representation made in the ordinary course of business.

Effect of notice to an active partner

Any notice to a partner operates as a notice to the firm if the following conditions are fulfilled:

- Such notice must relate to the affairs of the firm
- Such notice must be given to a working partner and not to a sleeping partner
- There must not be any fraud committed by the partner receiving the notice.
- **Liability of a partner for acts of a firm (Joint & Several Liability)** ⁸³
 - The liability of the partner is both joint and several, so that the creditor may compel any one or more of the partners to discharge the whole of the debts of the firm.
- **Liability of the firm for wrongful acts of a partner**⁸⁴
 - Where by wrongful act or omission of a partner acting in ordinary course of business any loss or injury is caused to any third party, firm is liable to same extent as partner.
 - For fraud, the firm is liable to the third party for loss caused to them (same must be borne by partner committing the fraud and cannot be shared among all)
- **Liability of firm for misapplication by partners**⁸⁵
 - A partner/firm acting within his apparent authority receives money or property from a third party and misapplies it, the firm is liable to make good the loss.

HOLDING OUT

A person who expressly or impliedly represents himself, or knowingly permits himself to be so represented to third party that he is a partner in a firm, is called partner by holding out. If third party gives credit to the firm, 'partner by holding out' shall be liable just like any other partner.

In order to render a person liable as a partner on the ground of holding out:

- He must have by spoken or written or by his conduct represented himself to be a partner (Direct representation)
- He must have knowingly permitted himself to be represented as a partner to other person (Indirect representation)
- Other person must have acted on the faith of such representation and gives credit to firm. (whether or not person representing know that representation has reached other person)

Silence may also constitute holding out representation.

Principle of holding out also applies in case of retiring partner; however, it does not apply in case of deceased or insolvent partner.

Tutor's Note: Difference between Estoppel and Holding out

Due to its placement in the study text and the language given therein, a confusion normally arises in the minds of students regarding the difference between these 2. Although these 2 concepts are sometimes used as an alternate to each other, yet we can make some demarcation between these.

Estoppel

- Where a person (appears to be Principal) makes a representation to third parties that another person (appears to be agent) has authority to act as his agent, even though he has not actually been appointed as agent; or
- Where a person (appears to be Principal) has previously represented to a third party that another person (appears to be agent) has the authority to act as his agent and:
 - Authority was subsequently taken away/ended, but
 - Third parties who previously dealt with the agent have not been informed of this fact.

In estoppel, due to **any act of (supposed) Principal** the 3rd party gets confused and think someone as (supposed) agent of that Principal

Holding out:

Where a person (supposed agent) represents himself, he is then estopped from denying the character he has assumed and upon the faith of which creditors may have acted.

In holding out, due to **any act of (supposed) Agent** the 3rd party gets confused and think someone as (supposed) Principal of that Agent

RIGHTS OF TRANSFEREE OF A PARTNER'S INTEREST

A partner may transfer his interest in the firm by sale, mortgage or charge fully or partially.

Rights of Transferee

- He is entitled to receive the share of the profits of the transferring partner.
- On the dissolution of firm or on retirement of transferring partner he is entitled to receive:
 - Share of the assets of the firm to which the transferring partner is entitled.
 - Account from the date of the dissolution for the purpose of ascertaining the share.

Disabilities of Transferee

- No status of a partner.
- Disability to interfere in the conduct of the business during the continuance of the firm
- Disability to require accounts.
- Disability to inspect the books of the firm.
- Disability to challenge the accounts of profits agreed to by the partners.
- Disability to sue for dissolution of the firm.

MINOR'S ADMISSION TO THE BENEFITS OF PARTNERSHIP

A minor cannot enter into a partnership agreement but with the consent of all the partners for the time being a minor may be admitted to the benefits of partnership.

Position of a minor before attaining majority

Rights

- Right to share property and profits of the firm as agreed by the partners
- Right to have access to accounts of the firm only and not to the secret books

Liabilities:

- Personally not liable i.e. limited liability.
- His share is liable for the acts of the firm.

Disabilities:

- No status of a partner.
- No suit against partners for profit and property except after disconnecting his relation with the firm.
- Not entitled to have access to books other than accounts.

Position of a minor on attaining majority

- On attaining majority, the minor partner has to decide within 6 months whether he shall continue in the firm or leave it.
- These 6 months run from the later of:
 - His attaining majority or
 - When he first comes to know that he had been admitted to the benefits of partnership
- He should give a public notice of his choice to become or not to become a partner.
- If he fails to give a public notice, he is deemed to have become a partner in the firm on the expiry of those 6 months
- The burden of proving the fact that such minor had no knowledge of such admission until a particular date after the expiry of six months of his attaining majority shall lie on such minor.

Where such person elects to become a partner

- He hold Personal liability since the date of admission to the benefits of the firm
- He hold same share in profits and property of firm to which he was entitled as a minor.

Where such person elects not to become a partner

- The status of a minor holds up to the date of public notice
- His share is not liable for any act of the firm after the date of public notice
- He has right to sue partners for share of the property and profits

QUESTION BANK – ICAP PAST PAPERS

- 1 Malik, Asif and Sohail are partners in a firm carrying on dairy business and sharing the profit or loss equally. Malik has recently started a poultry business in the same vicinity for which he has applied for a loan from a bank. As a security of the loan, he offered the bank to create charge over the book debts of the poultry business together with his interest in the dairy business. Q.5a
S.(21)
- Under the provisions of the Partnership Act, 1932 describe the bank's rights and limitations in the dairy business. (04)
- 2 Saeed, Mona and Burhan are engaged in a partnership business. On 26 March 2019, they admitted Laila, on her seventeenth birthday, to the benefits of partnership. Laila is Mona's niece. On 20 April 2020, Laila became aware of her admittance to the benefits of partnership. On acquiring the knowledge, she immediately gave notice to Saeed, Mona and Burhan that she intends to be their partner. Q.5b
A.(20)
- Under the provisions of the Partnership Act, 1932 discuss whether Laila would be regarded as a partner in the firm with effect from the date of her notice. i.e. 20 April 2020. Also describe Laila's liability with regard to firm's debts once she becomes a partner. (04)
- 3 (a) Respond to the following independent scenarios, under the provisions of the Partnership Act, 1932: Q.4
S.(20)
- (i) Saima, Ahsan and Bari are partners in a law firm. Bari received an advance of Rs. 150,000 from one of firm's clients for defending a law suit. Bari, without proceeding on client's request and informing other partners about the receipt of the amount, utilised the money for personal use. Discuss the rights and liabilities of partners and that of the firm with regard to Bari's act. (06)
- (b) Under the provisions of the Partnership Act, 1932 list down any four restrictions imposed on the implied authority of a partner. (02)
- 4 Masoom, Rahul and Naila are partners in a trading firm. In 2016, they borrowed Rs. 500,000 from Ishtiaq for purchasing a shop in Multan. The loan was agreed to be repaid in two years' time. However, due to financial crises the loan could not be re-paid in time. For the purpose of settling the loan, Ishtiaq has offered Naila to admit his seventeen-year-old son Muneer to the partnership business. Under the provisions of the Partnership Act, 1932 discuss whether Muneer can be admitted to the partnership business. State Muneer's rights and liabilities if he is so admitted. (04) Q.4b
A.(19)
- 5 (a) Respond to the following scenarios, under the provisions of Partnership Act, 1932: Q.4
S.(19)
- (i) Tehram, Rahil and Zain are partners in TRZ Associates. Zain, after obtaining mutual consent of all the partners, transferred his share of interest to Hatim. Hatim now wants to discuss the future business strategy of the firm with Tehram and Rahil. In this regard, he has asked the partners to provide him the firm's cash flow forecast so that he can determine firm's growth potential for the next five years. Comment on Hatim's entitlement to do the same. (03)

(ii) Sahir and Sarim are lawyers who have entered into a partnership namely SS Associates. Noreen approached SS Associates for a property dispute case. However, after seeing Sarim's capabilities, Noreen gave Rs. 250,000 to Sarim for investment in stocks and bonds at his discretion on her behalf. Sarim hid the said fact from Sahir and used the money to meet his personal needs. Subsequently, Noreen filed a suit on the firm for the recovery of Rs. 250,000. Reason out the validity of suit filed by Noreen. (02)

(iii) Faizan and Mehran are partners in a trading firm and have decided that no partner shall have the right to buy or sell goods beyond the value of Rs. 100,000 without consent of the other partner. Due to a sudden crisis in the market, prices of a product started falling sharply. Faizan without consulting Mehran sold all the perishable stock worth Rs. 950,000 in order to restrict the firm's loss. Can Mehran hold Faizan responsible for misconduct? (02)

(b) Define principle of 'holding out' under the Partnership Act, 1932 and state its exception, if any. (03)

- 6 In 2014, Majid and Ebad started a business of sale and repair of vehicles under the name of ME Motors (MEM). Majid sold one of the vehicles which came for repair to Zahid for Rs.10 million. Zahid on finding out that Majid did not have the legal title of the car sued MEM. Q.4b
S.(18)

Under the provisions of the Partnership Act, 1932 discuss who would be liable for damages in the above situation. (2.5)

- 7 Wasim, Ahmed and Salman are partners in a firm. Salman died in a plane crash. Wasim and Ahmed agreed to admit Salman's minor son, Noman, to the benefits of the Partnership. Noman attained majority on 6 June 2016. He became aware of the fact that he had been admitted to the benefits of the Partnership on 16 July 2016. Being undecided about joining the firm as a partner, he preferred to wait for some time. Q.4c
A.(17)

On 10 January 2017, the firm suffered heavy losses due to a fire in one of its factories. Wasim and Ahmed informed Noman that on account of losses, his entire capital has been wiped off and he is required to contribute Rs. 100,000 to enable the firm to settle its liabilities.

Under the provisions of the Partnership Act, 1932 analyse the above situation and advise whether Noman would be regarded as a partner in the firm. Also state his liabilities towards the losses, if any. (05)

- 8 (a) Amjad enjoys a very good credit standing in the market. Kashif, owner of Kashif Electronics, represents Amjad as his partner. Kalim on the faith of such representation supplied laptops to Kashif Electronics on credit. Kashif defaulted and Kalim filed a suit for the recovery of the amount against both Amjad and Kashif. Under the provisions of the Partnership Act, 1932 analyse the above situation and explain whether Amjad would be liable to pay the outstanding amount to Kalim. (04) Q.4
S.(17)

(b) Asghar, Babar and Careem are carrying on agricultural business in partnership. They have agreed to share the profits in the ratio of 4:3:2 respectively. Careem is not liable for the losses of the firm. Under the provisions of the Partnership Act, 1932 analyse and comment on each of the following independent situations:

- (i) Asghar, who is responsible for procurement, has suggested to buy seeds and pesticides from Zubair Enterprises, a supplier of crop products, as the seeds and pesticides offered by him are of good quality and at a very reasonable price. However, Babar is not in agreement with Asghar. (03)
- (ii) In February 2017, the partnership incurred substantial losses due to heavy floods in the area and the partnership assets are not sufficient to meet the firm's liabilities. A number of creditors have filed a suit for recovery of the amount from Careem. (03)

- 9 Raheel, Samina and Umair have agreed to constitute a partnership for carrying on a business of printing study text for CA students in Peshawar. Raheel wants to specify the rights and duties of partners in the partnership agreement so that these can be changed with mutual consent of all the partners whereas Samina and Umair do not consider it necessary and believe that the implied authority may be extended to bind the firm whenever required. Q.4(a)
A.(16)

Under the provisions of the Partnership Act, 1932 list:

- (ii) the restrictions imposed on the implied authority of a partner in the absence of any usage or custom of trade. (04)

- 10 Assume Umair is a minor who has been admitted to the benefits of the partnership with the consent of other partners Raheel and Samina. Q.4(b)
A.(16)

Under the provisions of the Partnership Act, 1932 list the rights and disabilities of Umair before attaining majority. (3)

- 11 Maqbool, Rufi and Sham are the partners in Zeeshan Builders (ZB), a firm engaged in the business of constructing industrial and residential projects in Balochistan. Sham is also the owner of a cottage industry in Quetta. Sham has obtained a long-term loan for his cottage industry from Dostana Bank Limited by transferring his interest in ZB to the bank by way of a mortgage. Under the provisions of the Partnership Act, 1932 describe the rights and disabilities, if any, of Dostana Bank Limited in the above circumstances. (6) Q.4(a)
S.(16)

- 12 Meher, Abid, Rani and Azra were partners in Abid Associates, a firm of town planners and consultants. Bari Builders supply goods to Abid Associates on credit. Abid died on 5 January 2015. Meher, Rani and Azra decided to continue the business in the old firm's name. However, neither the surviving partners nor the representative of Abid gave public notice to this effect. Due to insolvency of a major client, Abid Associates was facing difficulty in making payment to Bari Builders. When Bari Builders investigated the matter, they came to know about the death of Abid. They have now filed suits for the recovery of outstanding balance, severally against Abid's estate and Meher, as the credit was extended on the faith of Abid and Meher. Q.4(b)
A.(15)

In view of the provisions of the Partnership Act, 1932 explain whether Bari Builders are justified in filing the above suits and would they succeed in recovering the outstanding amount under the above circumstances. (5)

- 13 Rustum, Mahmood and Wali are partners in a firm. Wali wants to admit his sixteen year old son Raghiv as a new partner. Q.4(a)
A.(14)
- Under the provisions of the Partnership Act, 1932 can Raghiv be admitted to the partnership business? State the rights, liabilities and limitations of Raghiv, if he is admitted to the partnership business. (5)
- 14 In view of the provisions of the Partnership Act, 1932 list down the restrictions imposed on the implied authority of a partner. (5) Q.4(c)
S.(14)
- 15 Marvi, Zahid and Ahmed were partners in a firm of Consultants. Marvi, without informing Zahid and Ahmed started her own business of fashion garments. Zahid and Ahmed on knowing the fact expelled Marvi from the partnership. Q.7
A.(13)
- Under the provisions of Partnership Act, 1932 briefly describe whether Zahid and Ahmed were justified in their act. Would Marvi be liable for the acts of partners or the firm after her expulsion from the partnership? (10)
- 16 Waseem and Xavier are partners in a trading business. Yaseen was admitted in the partnership firm for five years on payment of a premium. After two years of successful operations, the firm was dissolved. Yaseen claimed refund of premium paid by him on his admission as a partner. Is Yaseen entitled to such refund? If so, to what extent and if not, then under what circumstances? Answer in the context of the Partnership Act, 1932. Q.5(b)
S.(13)
- 17 What is implied authority of a partner? What conditions should be met for the act of a partner to become binding on the firm? (4) Q.4(a)
A.(12)
- 18 Describe the liabilities of: Q.10(a)
S.(12)
- (i) a partner for the acts of the firm.
(ii) the firm for wrongful acts of a partner.
(iii) the firm for misapplication of money or property by a partner. (8)
- 19 Uzair, Vaqar and Waheed are partners in a firm. Waheed wants to make his nephew Yawar who is 17 years old, a partner. Explain whether and under what conditions Yawar can join the partnership. What will be Yawar's rights and liabilities under the Partnership Act, 1932? (7) Q.6(a)
S.(11)
- 20 Sameer, Fauzia and Sualat are partners in a firm. Fauzia transferred her interest in the firm absolutely to her son Adil. In the lights of the provisions of Partnership Act, 1932 would Adil be considered a new partner in the firm. Also describe the rights and restrictions of Adil in view of such transfer. (6) Q.7(b)
S.(10)

-
- | | | |
|----|---|------------------|
| 21 | The authority of a partner to bind the firm is called “Implied Authority.” List the acts which cannot be exercised by a partner as his implied authority. (4) | Q.6(a)
A.(09) |
| 22 | Karim, Luqman and Noman were partners in a firm. They admitted Moeen as a partner on the payment of a premium, for a fixed term of five years. However, the firm was dissolved after three years. Consequently, Moeen claimed repayment of the proportionate part of his premium. The other partners refused to return the premium. | Q.6(b)
A.(09) |

You are required to explain whether Moeen is entitled to claim the refund under the provisions of Partnership Act, 1932. (3)

Tutor’s Note:

Some questions pertaining to the contents deleted from the syllabus by the ICAP as per new syllabus of Business Law (Education Scheme 2021) are accordingly removed from the above question bank to avoid any confusion. And some questions and solutions are updated as per revised contents

CH # 14**NEGOTIABLE INSTRUMENTS ACT****CHARACTERISTICS OF NEGOTIABLE INSTRUMENTS**

- Negotiable Instruments Act, 1881 (the Act) extends to whole of Pakistan
- It is applicable since the first day of March 1882.
- It does not affect the provisions of Section 24 and Section 35 of SBP Act, 1956.
- This Act shall prevail regardless of any usage or custom that is different from the Act.

In simple terms, negotiable instrument means instrument transferable by delivery

Negotiable instruments

A negotiable instrument means a:

- Promissory note
 - Bill of exchange or
 - Cheque
- payable either to order or to bearer.

Delivery

Transfer of possession, actual or constructive, from one person to another

Essential characteristics of negotiable instrument**1) Payable to order or bearer**Payable to order

Which is expressed to be so payable or payable to a particular person

(e.g. Pay A, Pay A or order)

A crossed cheque "Account Payee only" can however still be negotiated further.

Payable to bearer⁸⁶

Which is expressed to be so payable or on which the only or last endorsement is an endorsement in blank.

(e.g. "Pay to A or bearer or pay bearer")

A negotiable instrument may be made payable to 2 or more payees jointly, or it may be made payable in the alternative to one of two, or one or some of several payees.

(e.g. "Azam and Babar.....", Azam or Babar....." etc)

SBP Act, 1956 (Sec 35) prohibits any person, other than a Bank or Federal Government, to issue:

- A promissory note payable to bearer.
- A bill of exchange payable to bearer on demand.

2) Easy transferability

- Transferable from one person to another by mere delivery, if payable to bearer
- Transferable from one person to another by endorsement and delivery, if payable to order.

3) Title of holder in due course⁸⁷

- Once an instrument is received in the hands of holder in due course it becomes free from all defects.

Parties to negotiable instrument

Maker

The person who makes a promissory note.

Payee

The person named in an instrument, to whom or to whose order money is to be paid.

Drawer

The maker of a bill of exchange or cheque.

Drawee

The person on whom bill of exchange or cheque is drawn and who is directed to pay the amount.

Acceptor

A bill of exchange (other than a cheque) must be presented to drawee for acceptance first, and then presented for payment on due date. Drawee becomes acceptor when he accepts the bill duly signing it.

Holder

A person is called **holder** of a negotiable instrument if he satisfies following two conditions:

- He must be entitled to the possession of the instrument in his own name and
- He must be entitled to receive / recover the amount due on the instrument from the parties liable under the instrument

So holder means bearer of the bearer instrument and endorsee or payee of the order instrument.

When the note, bill or cheque is lost and not found or is destroyed, the person in possession of it or the bearer at the time of loss or destruction shall deemed to continue to be its holder.

Holder in due course

Any person who for consideration becomes the possessor of a promissory note, bill of exchange or cheque if payable to bearer, or the payee or indorsee thereof, if payable to order, before it became overdue, without notice that the title of the person from whom he derived his own title was defective.

Title of a person is defective when he is not entitled to receive the amount due thereon

A person becomes holder in due course when he fulfills the following conditions

- He must be a holder.
- There must be a lawful and adequate consideration.
- A person should receive the instrument before its maturity.
(For instrument payable on demand, he must have taken it within reasonable time of issue)
- The instrument must be Complete and regular
(It is duty of every holder in due course to examine the form and contents of instrument to ensure that it does not contain any unauthorized material alteration or incompleteness)
- He should take the instrument without any negligence on his part and in good faith without having any reason to believe that any defect existed in the title of the transferor.

	Holder	Holder in due course
Meaning	A person who legally obtains the negotiable instrument, with his name entitled on it, to receive the payment from the parties liable.	A person who acquires the negotiable instrument bona fide for some consideration, whose payment is still due.
Consideration	Not necessary.	Necessary.
Right to sue	May not sue all prior parties.	Can sue all prior parties.
Good Faith	Instrument may or may not be obtained in good faith.	Instrument must be obtained in good faith.
Better title	May not get title free from defects.	Gets a better title than that of the transferor.
Maturity	Can become holder, before or after the maturity of the negotiable instrument.	A person can become holder in due course, only before the maturity of negotiable instrument.

The term "material alteration" in relation to a promissory note, bill of exchange or cheque includes any alteration of that date, the sum payable, the time of payment, the place of payment, and where any such instrument has been accepted generally the addition of a place of payment without the acceptor's assent. [Section 3(f)].

Endorsement

Endorsement

"When the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiation on the back or face or on a slip of paper annexed to it thereto, or so signs for the same purpose a stamped paper intended to be completed as negotiable instrument he is said to endorse the same and is called the endorser."

Essentials of valid endorsement

- It must be on instrument itself, if no space is left on the back of the endorsement, further endorsements are signed on a slip of paper attached to the instrument.
- It must be signed by the endorser for the purpose of negotiation.
- No particular form of words is necessary for an endorsement
- It must be completed by the delivery of the instrument.
- Negotiation by endorsement must be of the entire instrument

Negotiation

"When a promissory note, bill of exchange or cheque is transferred free from defects to any person, so as to constitute that person the holder of it, the instrument is said to be negotiated."

Payment in due course

Payment in accordance with the apparent tenure⁸⁸ (period expressly written) of the instrument in good faith and without negligence⁸⁹ to any person in possession of it under circumstances which do not raise doubts over its title.

PROMISSORY NOTE

Promissory note

“A promissory note is an instrument in writing (not being a bank note or currency note) containing an unconditional undertaking, signed by the maker, to pay on demand or at a fixed or determinable future time a certain sum of money only, or to the order of a certain person, or to the bearer of the instrument.

Following are the two main parties in a promissory note:

- **Maker** Who makes the promissory note and promises to pay the money stated in it.
- **Payee** To whom the promise to pay is made.

Specimen of a promissory note

	Date: September 15, 2013
Rs. 10,000/- only	
Three months after date I promise to pay ABC or to his order the sum of Rupees Ten Thousand, for value received	
To ABC (payee) Jail Road Lahore	Sign: _____ XYZ (maker) Saddar Karachi

Essential elements of a promissory note

In writing⁹⁰

- An oral promise to pay does not become a promissory note.
- Words must convey a clear undertaking to pay (use of words “promise” is not necessary)

Promise to pay⁹¹

- A mere acknowledgement of indebtedness is not a promissory note

Definite and unconditional⁹²

- Promise must not depend upon the happening of some uncertain event
- But a promise to pay is not conditional if the amount is made payable
 - at a particular place or
 - after a specified time or
 - on happening of an event which must happen

Signed by maker

- Promissory note should be duly authenticated by the signature of the maker.
- If the maker is illiterate, he may place his thumb mark.

Certain parties

- Instrument point out with certainty as to who is the maker and who is the payee.
- If parties cannot be identified with certainty, the instrument is not a promissory note.
- A promissory note cannot be made payable to the maker himself.

Sum payable must be certain

- Amount payable must not be capable of contingent addition or subtraction
- The sum payable is certain:
 - When it is payable with interest (or return in any other form).; or
 - When it is payable at an indicated or current rate of exchange; or
 - When it is payable in instalments, with a provision that on default being made in payment, the balance unpaid shall become due.

Note: A promise to pay is not 'conditional' nor is the sum payable 'uncertain' by reason of it being subject to adjustment for profit or loss, as the case may be, of the business of the maker.

Sum payable must be legal tender

- A promise to pay a certain amount of foreign or to deliver a certain quantity of goods is not a promissory note. Thus, an instrument signed by A, "I promised to pay B Rs.500 and to deliver him my black horse" is not a valid promissory note.

BILL OF EXCHANGE

Bill of exchange

“A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay on demand or at a fixed or determinable future time a certain sum of money only, to or to the order of, a certain person, or to the bearer of the instrument.”

Following are the three main parties in a bill of exchange:

- **Drawer** It is a person who draws a bill of exchange.
- **Payee** It is a person to whom the amount of bill of exchange is payable.
- **Drawee** It is a person who is ordered to pay the amount of the bill of exchange
(When drawee accepts the bill of exchange he is called the acceptor)

Specimen of a bill of exchange

	Date: September 15, 2013
Rs. 10,000/- only	
Three months after date pay to XYZ (payee) or to his order the sum of Rupees Ten Thousand, for value received.	
Accepted ABC (drawee)	
To ABC Jail Road Lahore	Sign: _____ MNO (drawer) Saddar Karachi

Essential elements of a bill of exchange

- In writing
- Order to pay
(Should not be a request to pay)
- Definite and unconditional
- Signed by drawer and drawee
- Certain parties
- Sum payable must be legal tender
- Sum Payable must be certain

Differences between promissory note and bill of exchange

	Promissory note	Bill of exchange
No of parties	2 parties (maker and payee)	3 parties (drawer, drawee & payee)
Same person	Maker cannot be the payee (same person cannot be both the promisor and the promise)	Drawer and the payee may be one and the same person (e.g. "Pay to me or my order")
Tone	Promise to make the payment.	Order for making the payment.
Acceptance	Requires no acceptance	Needs acceptance by drawee before it is presented for payment.
Nature of liability	Liability of maker is primary and absolute.	Liability of a drawer is secondary and conditional. It arise only when the acceptor does not honour the bill
Maker's position	Maker stands in immediate relation with the payee.	Drawer stands in immediate relation with the acceptor and not the payee.
Notice of dishonour	No notice of dishonour is required to be given to the maker.	Notice of dishonour must be given by the "holder" to all prior parties (including drawer and endorser)

TYPES OF NEGOTIABLE INSTRUMENTS

Order instrument

- Which is expressed to be so payable; or
- Which is expressed to be payable to a particular person and does not contain words:
 - which prohibit transfer, or
 - indicate an intention that it shall not be transferable.

Bearer instrument

- Expressed to be so payable; or
- Last endorsement must be an endorsement in blank.

Inland instrument

- Made or drawn in Pakistan and also made payable in Pakistan, or
- Made or drawn in Pakistan upon any person resident in Pakistan, although it may be payable in a foreign country.

An inland instrument remains inland even if it has been endorsed in a foreign country.

Foreign instrument

An instrument, which is not an inland instrument, is deemed to be a foreign instrument.

Demand instrument

- The instrument in which no time for payment is mentioned.
- A cheque is always payable on demand.
- A promissory note or bill of exchange is payable on demand where:
 - It is expressed to be so;
 - It is expressed to be payable “at sight” or “presentment”; or “on demand”;
 - No time for payment is specified; or
 - The bill or note accepted or endorsed after it is overdue, as regards to person accepting or endorsing it.

Time instrument

- An instrument payable after a fixed time or on a specified date
- A cheque cannot be a time instrument
- Promissory note or bill of exchange is time instrument when it is expressed to be payable:
 - After a specified period
 - On a specific day
 - Certain date after sight
 - On the happening of event which is certain to happen e.g. death.

QUESTION BANK – ICAP PAST PAPERS

- 1 Under the provisions of the Negotiable Instruments Act, 1881 identify the type of each of the following instruments and give reason(s) as to validity of each instrument. Q.6b S.(21)
- (i) I promise to pay Zahid Rs. 350,000 and all the applicable interest amounts.
 - (ii) Pay Rs. 350,000 to Jafer along with interest of Rs. 3,500.
 - (iii) I hereby acknowledge that I have taken Rs. 350,000 from Abid and shall pay the interest to him on the amount at agreed interest rate. (03)
- 2 (b) Mujahid bought readymade garments worth Rs. 600,000 from Shoaib on credit. The amount is payable on 25 December 2020. Mujahid wants to issue a negotiable instrument in satisfaction of his debt to Shoaib without involving a third party for the payment. Q.6b A.(20)
- Under the provisions of the Negotiable Instruments Act, 1881 identify the type of negotiable instrument which Mujahid may issue to Shoaib in satisfaction of his debt. Also prepare a draft of the said instrument. (04)
- (You may assume necessary details for the preparation of the negotiable instrument)***
- 3 (a) Respond to the following independent situations, under the provisions of the Negotiable Instruments Act, 1881: Q.5 A.(19)
- Samad drew a cheque which was payable to 'Munaf or order'. Saleem after forging Munaf's endorsement on the cheque received payment from the banker. Discuss whether the banker would be liable on the cheque to Samad. (02)
- (b) Under the provisions of the Negotiable Instruments Act, 1881 briefly describe: Payment in due course (02)
- 4 (a) Under the provisions of Negotiable Instruments Act, 1881 define 'Holder in due course'. (03) Q.2 S.(19)
- 5 (a) In view of the provisions of the Negotiable Instruments Act, 1881 comment on the type and validity of each of the following instruments signed by Rahul: Q.3a A.(18)
- (i) Nauman please pay to Mahreen Rs. 100,000.
 - (ii) Nauman, I shall be highly obliged if you make it convenient to pay Rs. 100,000 to Mahreen.
 - (iii) I acknowledge myself to be indebted to Nauman in Rs. 100,000 to be paid on demand, for value received.
 - (iv) I promise to pay Mahreen or order Rs. 100,000 six days after Nauman's death. (04)
- 6 Under the provisions of the Negotiable Instruments Act, 1881 briefly explain: Q.5 S.(18)
- (a) the term endorsement. (03)
- 7 (b) Aamna has received a bearer cheque from her uncle Shoaib as a gift. Shoaib's title to the cheque was defective and Aamna after receiving the cheque indorsed it to her landlord on account of rent. Under the Negotiable Instruments Act, 1881 explain whether the landlord would be able to recover the amount of the cheque. (03) Q.5b S.(17)

- 8 Under the provisions of the Negotiable Instruments Act, 1881 briefly describe the term Endorsement (4) Q.5(a)
S.(16)
- 9 Sarwat owes Rs. 500,000 to Zain. The amount is payable on 11 August 2016. Sarwat intends to issue a negotiable instrument to Zain in satisfaction of her debt. Q.5(b)
S.(16)

Under the provisions of the Negotiable Instruments Act, 1881 advise Sarwat about the type of negotiable instrument which may be issued to Zain, assuming that Sarwat does not want to involve a third party in making the payment. Also prepare a draft of the said instrument.

(You may make assumptions wherever you consider necessary) (4)

10

Specimen of a Negotiable Instrument

<p style="text-align: right;">Date: September 12, 2015</p> <p>Rs. 100,000/- only</p> <p>Please pay on demand to Tauseef or to his order the sum of Rupees One Hundred Thousand only, for value received.</p> <p style="margin-left: 40px;">Accepted</p> <p style="margin-left: 40px;">Laila</p> <p>To</p> <p style="margin-left: 40px;">Laila</p> <p style="margin-left: 40px;">Busy Road</p> <p style="margin-left: 40px;">Karachi</p>	<p>Sd/- _____</p> <p>Laeq</p> <p>Saddar</p> <p>Karachi</p>
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Q.5(a)
A.(15)

- (a) Identify the type of above negotiable instrument and briefly describe its essential characteristics under the provisions of the Negotiable Instruments Act, 1881. (07)
- (b) Salma drew a cheque for Rs. 50,000 in favour of her landlord Zoaib. The cheque was not presented for payment by Zoaib within a reasonable time of its issue. Salma suffered damage of Rs. 30,000 through the delay because the bank failed.

Under the provisions of the Negotiable Instruments Act, 1881 describe whether Zoaib can recover the money in the above circumstances. (03)

- 11 What do you understand by the terms 'Holder', 'Holder in due course' and 'Payment in due course' under the Negotiable Instruments Act, 1881? (8) Q.5(a)
A.(14)
- 12 Explain the term "promissory note" in accordance with Negotiable Instruments Act, 1881. (6) Q.4(b)
A.(12)
- 13 A drew a bill payable by B which is due after three months. It passed through several hands before X became its holder. On presentation by X, B refused to pay the bill. Discuss the rights of X. (3) Q.10b
A.(12)

- 14 Explain the following terms as given in the Negotiable Instrument Act, 1881: Q.4(b)
S.(12)
- (i) payment in due course
 - (ii) holder
 - (iii) holder in due course (8)
- 15 A draws a bill on B who accepts it without consideration. A indorses the bill to C for Q.11(b)
valuable consideration. On due date C presents the bill to B for payment but B contends S.(12)
absence of consideration and refuses to pay. Is B's contention justified? (3)
- 16 What liabilities does the drawer of a bill of exchange incur under the Negotiable Q.11(a)
Instruments Act, 1881? (3) A.(11)
- 17 Salman is an agent of Malik and has an authority to draw bills of exchange on Malik's Q.7(a)
behalf. Ghani who had supplied goods to Malik on credit approached Salman to accept a S.(11)
bill of exchange for the amount due. Salman signed the bill of exchange. On due date, Malik
did not honor the bill. Discuss the rights and liabilities of Salman under the Negotiable
Instruments Act, 1881. (3)
- 18 Based on the provisions of Negotiable Instruments Act, 1881 briefly explain whether the Q.9(a)
following are promissory notes or not. A.(10)
- (i) I promise to pay Rahat on demand Rs. 5,000 at my convenience.
 - (ii) On demand, I promise to pay Sonu or order Rs. 5,000, for value received.
 - (iii) I promise to pay Adil or order Rs. 5,000 and 500 shares of Sigma Limited.
 - (iv) I promise to pay Mahi or order Rs. 5,000 with interest calculated at quarterly rests.
 - (v) I promise to pay you or your successors on demand Rs. 10,000.
 - (vi) I promise to pay Rafi or order Rs. 10,000 seven days after Salik's death.
 - (vii) I am liable to pay Ahmad Rs. 5,000. (7)

Tutor's Note:

Many questions pertaining to the contents deleted from the syllabus (in 2020) by the ICAP are accordingly removed from the above question bank to avoid any confusion. Past papers analysis given at start of the book still contain the marks allocated to those questions (now being deleted)

CH # 15**PROVISIONS RELATING TO CHEQUES****CHEQUE****Cheque**

Cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand.

Following are the three main parties in a cheque:

- **Drawer** It is a person who draws a cheque.
- **Drawee** It is a banker who is ordered to pay the amount of the cheque.
- **Payee** It is a person to whom the amount of cheque is payable.

Specimen of a cheque

ABC Bank Limited	Date: September 15, 2013
Main Branch, Karachi	Cheque no: _____
Pay _____ OR BEARER	
Rupees _____	Rs.
Account no: _____	
Title of account _____	
Do not write below this line	Signature _____

Essential elements of a cheque

- In writing
- An express order to pay
(not a request to pay)
- Definite and unconditional
- Signed by the drawer
- Certain parties (drawer, drawee and payee)
- The order must be to pay a certain sum
- The order must be to pay money only
- It must always be drawn upon a specified banker
- It must always be payable on demand

A cheque, of itself, does not mean that party has received payment. The party has to present it to bank for cash/collection⁹³.

Differences between Cheque and Bill of exchange

	Cheque	Bill of exchange
Drawee	Always drawn on a banker.	May be drawn on any person, including a banker.
Payable on demand	Can only be payable on demand.	May be payable on demand or on expiry of a certain period after date or sight.
Payable to bearer on demand	A cheque drawn "payable to bearer on demand" is valid.	A bill drawn "payable to bearer on demand" is absolutely void (can be done later by endorsement in blank).
Acceptance	Does not require any acceptance	Requires acceptance by the drawee before he can be made liable upon it.
Stamp	Does not require any stamp.	Must be properly stamped.
Crossing	May be crossed for safety.	Cannot be crossed.
Stopping the payment	Payment may be stopped by the drawer.	Payment cannot be stopped by the drawer.

CROSSING OF CHEQUES

- A cheque is said to be crossed when it bears across its face two parallel transverse lines which are usually drawn on the left hand top corner of the cheque.
- Purpose of crossing is to direct the drawee (banker) to pay the amount only to a banker (so that the party who receives the payment can easily be traced)

Types of crossing

Type	How to Cross	Effects
General Crossing	An addition of words “and company” or any abbreviation of it between two parallel transverse lines.	Drawee shall not pay it otherwise than to a banker.
Special crossing	Where it bears across its face an addition of the “Name of the banker” (Parallel lines are not necessary)	Drawee shall not pay it otherwise than to a banker to whom it is crossed or his agent for collection.
Restrictive crossing	May be added with general crossing by adding the words “A/c Payee” or “A/c Payee only”	The amount collected on the cheque must be credited only to the account of payee.
Not negotiable crossing	May be added with general crossing or special crossing by adding the words “Not negotiable”	A holder with a defective title cannot give a good title to a subsequent holder. It does not restrict the further transfer ability. It only takes away main feature of negotiability (i.e. a transfer free from defects)

Crossing of a cheque after issue

Case	Right to cross
Cheque is uncrossed	Holder may cross it generally or specially.
Cheque is crossed generally	The holder may cross it specially by adding the name of the banker.
Cheque is crossed generally/specially	Holder may add the word “Not negotiable” .
Cheque is crossed specially	Banker to whom it is crossed may again cross it specially to another banker (his agent) for collection

PAYMENTS OF CHEQUES

Rules regarding payment of Cheques

- If cheque is crossed specially to more than 1 banker (except when crossed to an agent for collection), banker to whom it is drawn shall refuse payment
- If banker, on whom a cross cheque is drawn, makes a payment in due course, paying banker and drawer positioned as if cheque had been paid to and received by the true owner thereof.
- If banker, on whom a cross cheque is drawn, makes a payment out of due course, the paying banker shall be liable to true owner of cheque for any loss he may sustain for that payment

Protection to the collecting banker

- Collecting/receiving banker is one who receives the payment of a crossed cheque on behalf of his customer.
- If the collecting banker has collected a cheque on behalf of a person whose title to the cheque was defective, he would be protected and would not be held liable, provided he proves that he acted in good faith and without negligence
- This protection to receiving banker is available even if it credits customer's account with the amount of the cheque before receiving payment thereof.
- Also, if collecting banker has collected a cheque which does not appear to be crossed "account payee", banker, in good faith and without negligence collecting payment of cheque and crediting proceeds thereof to a customer, shall not incur any liability.

Revocation of banker's authority

Duty and authority of a banker to pay a cheque drawn on him by customer are determined by:

- Countermand (Stopping) of payment;
- Notice of customer's death;
- Notice of adjudication of the customer as an insolvent

Rules applicable to bank draft [Section 131A]

- Rules for payment of cheque are also applicable to bank draft.
- A bank draft is an order issued by one bank on another bank or on its own branch instructing it to pay a specified sum of money to a specified person or his order.
- A bank draft is an instrument similar to cheque with following distinctions:
 - It can be drawn only by a bank on another bank or on its own branch (not by an individual)
 - It cannot be made payable to bearer.
 - Its payment cannot be stopped as easily as that of a cheque.

QUESTION BANK – ICAP PAST PAPERS

- | | | |
|---|--|------------------|
| 1 | Under the provisions of the Negotiable Instruments Act, 1881 explain different types of crossing of cheque along with their respective effects. (04) | Q.6a
S.(21) |
| 2 | Under the provisions of the Negotiable Instruments Act, 1881 what would be the effect(s) of the words 'Not negotiable' on a cheque crossed generally? (03) | Q.6a
A.(20) |
| 3 | Under the provisions of the Negotiable Instruments Act, 1881 discuss the effect(s) of the words 'Not negotiable' on a cheque crossed specially. (03) | Q.3b
A.(18) |
| 4 | Under the provisions of Negotiable Instruments Act, 1881 describe the purpose of crossing a cheque. Also state whether a cheque can be crossed especially more than once. (2) | Q.5(c)
S.(16) |
| 5 | Under the provisions of the Negotiable Instruments Act, 1881 identify the person(s) who may cross the cheque after its issue and the manner in which it may be crossed. (5) | Q.5(a)
S.(15) |
| 6 | What do you understand by the term "Cheque" as specified in the Negotiable Instruments Act, 1881? When is a cheque deemed to be crossed generally? (6) | Q.9(a)
A.(13) |
| 7 | State the conditions when a cheque crossed generally is considered to be paid by a banker in due course or out of due course. Describe the rights of the banker when payment of a cheque crossed generally is made in due course and the consequences of payment out of due course under the Negotiable Instruments Act, 1881. (4) | Q.9(b)
A.(13) |
| 8 | Explain the term "Cheque" as defined in the Negotiable Instruments Act, 1881 and list down the essential elements of a valid cheque. (7) | Q.7(a)
A.(09) |
| 9 | Who can cross the cheque after its issue? Also describe the manner in which it can be crossed. (4) | Q.7(b)
A.(09) |

Tutor's Note:

Many questions pertaining to the contents deleted from the syllabus (in 2020) by the ICAP are accordingly removed from the above question bank to avoid any confusion. Past papers analysis given at start of the book still contain the marks allocated to those questions (now being deleted)

CH # 16 ANTI MONEY LAUNDERING & ELECTRONIC PAYMENTS**ANTI-MONEY LAUNDERING**

- Money laundering is illegal process of making money generated by a criminal activity (e.g. drug trafficking, terrorist funding or tax evasion), appear to have come from a valid source.
- Money from criminal activity is considered dirty, and process "launders" it to make clean.
- Anti-money laundering (AML) laws are rules for businesses, institutions, and even countries to eliminate money laundering and terrorist financing activities.
- Initially, AML laws were implemented on financial institutions to control drug trafficking.
- Since then, it have become global concern.
- International authorities such as FATF and world bank are collaborating with national authorities and state banks to control money laundering.
- In Pakistan, the relevant legislation is the Anti-Money Laundering Act, 2010.
- AML laws discourage criminals by making it harder for them to hide ill-gotten money.
- AML regulations also require financial institutions to monitor customers' transactions and report on suspicious financial activity.

Financial institution

Includes any institution carrying on any one or more of the following activities, namely:—

- Acceptance of deposits and other repayable funds from the public;
- Lending in whatsoever form;
- Financial leasing;
- Money or value transfer;
- Issuing and managing means of payments including but not limited to credit and debit cards, cheques, travelers cheques, money orders, bank drafts and electronic money;
- Financial guarantees and commitments;
- Trading in—
 - Money market instruments;
 - Foreign exchange;
 - Exchange, interest rate and index instruments;
 - Transferable securities; and
 - Commodity futures trading;
 - Participation in shares issues and the provision of services related to such issues;
 - Individual and collective portfolio management;
 - Safekeeping and administration of cash or liquid securities on behalf of other persons;
 - Investing, administering or managing funds or money on behalf of other persons;
 - Insurance business transactions;
 - Money and currency changing; and
 - Carrying out business as intermediary.

Offence of Money Laundering

A person shall be guilty of offence of money laundering, if the person:

- Acquires, converts, possesses, uses or transfers property, knowing or having reason to believe that such property is proceeds of crime⁹⁴;
- Conceals or disguises the true nature, origin, location, disposition, movement or ownership of property, knowing or having reason to believe that such property is proceeds of crime⁹⁵;
- Holds or possesses on behalf of any other person any property knowing or having reason to believe that such property is proceeds of crime⁹⁶; or
- Participates in, associates, conspires to commit, attempts to commit, aids, abets, facilitates, or counsels the commission of the above 3 acts⁹⁷.



*Tutor
Note*

Proceeds of crime

Any property derived or obtained directly or indirectly by any person from a predicate offence or a foreign serious offence

Predicate offence - An offence specified in the Schedule-I to this Act

Foreign serious offence - Just like a predicate offense but in any other country

- The knowledge, intent or purpose required as an element of an offence set forth here may be taken from factual circumstances in accordance with Qanun-e-Shahadat 1984.
- In order to prove an offence of money laundering, the conviction of an accused for the respective predicate offence shall not be required.

Punishment for Money Laundering

Whoever commits the offence of money laundering shall be

- Punishable with rigorous imprisonment of at least 1 year (may extend up to 10 years);
- Liable to fine which may extend to Rs. 25 Million; and
- Liable to forfeiture of property involved in the money laundering

Penalty in case of a Company

- Fine may extend to Rs. 100 Million
- Every director, officer or employee found guilty shall also be punishable under this section.
- Where a company contravene the provisions of this Act or any related rules etc, every responsible person (director/partner, manager, secretary or other officer) shall be liable to be proceeded against and punished accordingly

ELECTRONIC PAYMENTS

- A payment system (PS) is any system used to settle financial transactions through transfer of monetary value.
- This includes institutions, instruments, people, rules, procedures, standards & technologies that make its exchange possible.
- EFT is electronic transfer of money from one bank account to another, either within a single financial institution or across multiple institutions, via computer-based systems, without the direct intervention of bank staff.
- Relevant law in Pakistan is the Payment Systems and Electronic Fund Transfers Act, 2007.

“Electronic Fund or Electronic Money” means money transferred through

- An Electronic Terminal,
- ATM,
- Telephone instrument,
- Computer,
- Magnetic medium or
- Any other electronic device

so as to order, instruct, or authorize

- A banking company,
- A Financial Institution or
- Any other company or person

to debit or credit an account; and

- includes monetary value as represented by a claim on the issuer which is stored in an electronic device or Payment Instrument, issued on receipt of funds of an amount not less in value than the monetary value issued, accepted as means of payment by undertakings other than the issuer and
- includes electronic store of monetary value on an electronic device that may be used for making payments or
- as may be prescribed by the State Bank.

“Electronic Fund Transfer” means any transfer of funds, other than a transaction originated by cheque, draft or similar paper instrument, which is initiated through an Electronic Terminal, telephonic instrument, point-of-sale Terminal, stored value card Terminal, debit card, ATM, computer magnetic tape or any other electronic device so as to order, instruct, or authorize a Financial Institution to debit or credit an Account.

“Operator” means any financial or other institution or any person, authorized by the State Bank to operate any Designated Payment System (DPS).

Designation of Payment System

- State Bank may designate a PS as a DPS by a written order, if necessary in the public interest.
- State Bank may inspect the premises, equipment, machinery, apparatus, books or other documents, or accounts and transactions relating to PS, in considering to designate it as DPS.

State Bank **may revoke the designation** of a DPS if it is satisfied that:

- DPS has ceased to operate effectively as a PS;
- Operator of the designated system has knowingly furnished information or documents to the State Bank in connection with the designation of the PS which is or are false or misleading in any material particular;
- Operator or settlement institution of the DPS is in the course of being wound up or otherwise dissolved, whether in Pakistan or elsewhere;
- Any of terms and conditions of designation or requirements of Act has been contravened; or
- State Bank considers that it is in the public interest to revoke the designation.

The State Bank shall not revoke a designation without giving the operator of the DPS an opportunity to be heard. However, the State Bank may suspend the designation of a PS without notice pending the final order, if an immediate systemic risk is involved.

Operational Arrangements

An Operator of a DPS shall establish the following operational arrangements:

- Rules and procedures setting out the rights and liabilities of the operator and the participant and the financial risks the participants may incur;
- Procedures, controls and measures for the management of credit, liquidity and settlement risk, including rules determining time when a payment instruction and a settlement is final;
- Criteria for participation in the DPS; and
- Measures to ensure the safety, security and operational reliability of the DPS including contingency arrangements.

CH # 17**DATA PROTECTION AND ELECTRONIC CRIMES****DATA PROTECTION**

- Legislation on personal data protection in Pakistan is in draft stage
- The Bill (Personal Data Protection Bill, 2020) is yet to be passed by Parliament.
- Consultation draft of the Bill is available at website of Ministry of IT and Telecommunication.
- The Bill proposes establishment of Personal Data Protection Authority of Pakistan
 - to protect personal data from any loss or misuse
 - to promote awareness of data protection and deal with complaints.
- Prevention of Electronics Crimes Act, 2016 also contains provisions about data protection.
- Payment Systems and Electronic Fund Transfers Act, 2007 provides for secrecy of customer information held by financial institutions, and violation is punishable
- Telecom Consumer Protection Regulations, 2009 give the subscribers a right to lodge complaints for any 'illegal practices' by telecom operators.
 - The complaint is lodged to the Pakistan Telecommunication Authority.
 - 'Illegal practices' includes, among other things, illegal use of personal data of subscribers.

Data Subject

A natural person who is the subject of the personal data.

Personal data

Any information that relates directly or indirectly to a data subject, who is identified or identifiable from that information or from that and other information in the possession of a data controller, including any sensitive personal data. Provided that anonymized, encrypted or pseudonymized data which is incapable of identifying an individual is not personal data.

Sensitive personal data

Data relating to access control (username and/or password), financial information such as bank account, credit card, debit card, or other payment instruments, and, passports, biometric data, and physical, psychological, and mental health conditions, medical records, and any detail pertaining to an individual's ethnicity, religious beliefs, or any other information for the purposes of this Act and rules made thereunder.

Consent of the data subject

Any freely given, specific, informed and unambiguous indication of the data subject's wishes by which he or she, by a statement or by a clear affirmative action, signifies agreement to the collecting, obtaining and processing of personal data relating to him or her.

Key Principles applicable to personal data processing

- Lawfulness, fairness and transparency
- Purpose limitation
- Data minimisation (adequate, relevant and limited to what is necessary in relation to the purposes for which they are processed)
- Accuracy
- Storage limitation
- Integrity and confidentiality (security)
- Accountability

Individual rights

In relation to processing of their personal data, an individual has the right to:

- Be informed
- Access to data (including right to get copies of data)
- Rectification of errors
- Be forgotten / Right of erasure
- Object to processing and marketing
- Restrict processing
- Data portability
- Withdraw consent
- Complain to the relevant data protection authority

PREVENTION OF ELECTRONIC CRIMES

In 2016, the National Assembly enacted the Prevention of Electronic Crimes Act (“PECA”) to provide a comprehensive legal framework to define various kinds of electronic crimes, mechanisms for investigation, prosecution and adjudication in relation to electronic crimes.

Unauthorised access [Section 2(xxxi)]

Access to an information system or data which is not available for access by general public, without authorization or in violation of the terms and conditions of the authorization.

Access to data [Section 2(ii)]

Gaining control or ability to use, copy, modify or delete any data held in or generated by any device or information system.

Access to information system [Section 2(iii)]

Gaining control or ability to use any part or whole of an information system whether or not through infringing any security measure.

Data damage [Section 2(xiv)]

Alteration, deletion, deterioration, erasure, relocation, suppression of data or making data temporarily or permanently unavailable.

Critical infrastructure [Section 2(x)]

Critical elements of infrastructure namely assets, facilities, systems, networks or processes the loss or compromise of which could result in:

- major detrimental impact on the availability, integrity or delivery of essential services including those services, whose integrity, if compromised, could result in significant loss of life or casualties, taking into account significant economic or social impacts; or
- significant impact on national security, national defence, or the functioning of the state.

The Government may also designate any private or Government infrastructure in accordance with the above objectives, as critical infrastructure.

Offences and Punishments

Offense	Offender having dishonest intention	Imprisonment up to	Fine up to Rs
Unauthorized access to information system or data	Whoever gains unauthorized access to any information system or data.	3 months	50,000
Unauthorized copying or transmission of data	Whoever without authorization copies or otherwise transmits or causes to be transmitted any data.	6 months	100,000
Interference with information system or data	Whoever interferes with or damages or causes to be interfered with or damages any part or whole of an information system or data.	2 years	500,000
Unauthorized access to critical infrastructure information system or data	Whoever gains unauthorized access to any critical infrastructure information system or data.	3 years	Rs. 1 million
Unauthorized copying or transmission of critical infrastructure data	Whoever and without authorization copies or otherwise transmits or causes to be transmitted any critical infrastructure data.	5 years	Rs. 5 million
Interference with critical infrastructure information system or data	Whoever interferes with or damages, or causes to be interfered with or damaged, any part or whole of a critical information system, or data.	7 years	Rs. 10 million
Glorification of an offense (depiction of any form of praise or celebration in a desirable manner)	Whoever prepares or disseminates information, through any information system or device, with the intent to glorify an offence relating to terrorism, or any person convicted of a crime relating to terrorism, or activities of proscribed organizations or individuals or groups.		

Note: There can be imprisonment alone, fine alone or a combination of both

CH # 18**COMPETITION ACT AND ARBITRATION ACT****COMPETITION ACT 2010**

- Objective of Competition Act, 2010 states is “to ensure free competition in all spheres of commercial and economic activity to enhance economic efficiency and to protect consumers from anti-competitive behaviour and to provide for the establishment of the Competition Commission of Pakistan to maintain and enhance competition”.
- The Act established the Competition Commission of Pakistan (CCP) which is an independent quasi-regulatory, quasi-judicial body with task to help ensure healthy competition between companies for the benefit of the economy.

Goods

Includes any item, raw material, product or by-product which is sold for consideration.

Retailer

In relation to the sale of any goods, means a person who sells the goods to any other person other than for resale.

Wholesaler

In relation to the sale of any goods, means a person who purchases goods and sells them to any other person for resale.

Relevant market

Market which shall be determined by CCP with reference to a product market and a geographic market

Product market comprises of all products/services which are regarded as interchangeable or 'Substitutable by consumers by reason of the products' characteristics, prices and intended uses.

A geographic market comprises the area in which the undertakings concerned are involved in the supply of products or services and in which the conditions of competition are sufficiently homogenous and which can be distinguished from neighboring geographic areas because, in particular, the conditions of competition are appreciably different in those areas;

Prohibitions under the Competition Act

There are 4 common prohibitions imposed by CCP under this Act

- Abuse of Dominant Position
- Certain Prohibited Agreements
- Deceptive Marketing Practices
- Mergers lessening competition

Abuse of dominant position

An abuse of dominant position consists of practices which prevent, restrict, reduce or distort competition in the relevant market⁹⁸.

Examples of such practices (include but are not limited to):

- Limiting production, sale and unreasonable increase in prices or other unfair trading conditions.
- Charging different prices from different customers for the same goods or services without any objective justification (price discrimination).
- Making sale conditional with purchase of other goods or services (tie-ins).
- Making the conclusion of contract subject to acceptance of other parties of supplementary obligations which by their nature or according to commercial usage, have no connection with the subject of the contract
- Applying dissimilar conditions to equivalent transactions for different parties (placing them at a competitive disadvantage).
- Driving the competitor out of market, preventing new entry and creating monopoly in the market by predatory prices.
- Boycott, exclude other undertaking from production, distribution or sale of goods or services.
- Refusal to deal.

Prohibited agreements

- An undertaking or an association of undertakings shall not enter into a contract or take a decision for production, supply, distribution or control of goods or services to prevent, restrict or reduce competition in the relevant market except when granted exemption under this Act.
- A contract entered into in contravention of this section shall be void.

Examples of Prohibited agreements (include but are not limited to):

- Fixing prices or imposing restrictive trading conditions for purchase, sale and distribution of goods & services⁹⁹.
- Dividing market by territories, volume of sale or purchase, type of goods and services or by any other means.
- Fixing or setting the quantity of production, distribution or sale with regards to goods
- Fixing manner or means of providing any services.
- Limiting technical development for production and sales of goods or services.
- Collusive tendering or bidding for purchase and sale of goods and procurement of services.
- Applying different conditions for equivalent transactions to different parties.
- Making the conclusion of contract subject to acceptance of other parties of supplementary obligations which by their nature or according to commercial usage, have no connection with the subject of the contract

Deceptive marketing practices

Deceptive marketing practices shall be deemed to be continued in following circumstances:

- Distribution of false/misleading information capable of harming business interests of other undertaking.
- Distribution of false/misleading information to customers lacking reasonable basis about prices, character, method or place of production, properties, suitability for use or quality of goods
- False or misleading comparison of goods in advertising
- Fraudulent use of another's trademark, firm name, product labeling or packaging

ARBITRATION ACT, 1940

- Arbitration is a method, through which, parties resolve their disputes outside court by avoiding technicalities of procedural law.
- It is one of the modes of Alternate Dispute Resolution.
- There are limited rights of review and appeal of arbitration awards.
- Although Arbitration Act 1940 is a very old law, it still serves as a clear and well settled piece of law with consistent chain of judicial precedents backing the interpretational aspects particularly in trade and commercial matters.

Arbitration agreement means a written agreement to submit present or future differences to arbitration, whether an arbitrator is named therein or not.

Legal representative means a person who in law represents the estate of a deceased person, and includes any person who intermeddles with the estate of the deceased, and, where a party acts in representative character, the person on whom the estate devolves on the death of the party so acting.

Reference means reference to arbitration.

An umpire is a 3rd-party appointed by arbitrators to settle differences between arbitrators

Provisions implied in arbitration agreement

An arbitration agreement, unless a different intention is expressed therein, shall be deemed to include following provisions (set out in First Schedule of the Act):

- Reference shall be normally to a sole arbitrator (Unless otherwise expressly provided)
- If reference is to an even number of arbitrators, arbitrators shall appoint an umpire not later than 1 month from the latest date of their respective appointments.
- Arbitrators shall make their award within:
 - 4 months of Entering on reference or
 - 4 months of Written notice from any party to arbitration or
 - Such extended time as the Court may allow.
- If arbitrators have allowed their time to expire without making an award or have delivered to any party to the arbitration agreement or to the umpire a notice in writing stating that they cannot agree, the umpire shall forthwith enter on the reference in place of arbitrators.
 - Umpire shall make his award within 2 months of entering reference or within such extended time as the Court may allow.
- Parties to reference and all persons claiming under them shall submit for examination by arbitrators or umpire on oath or affirmation in relation to the matters in difference and shall produce before them all books, deeds, papers, accounts writings and documents within their possession or power do all other things which are required by arbitrators or umpire

- Award shall be final and binding on parties and persons claiming under them respectively.
- Cost of reference and award shall be discretion of arbitrators or umpire who may direct to, and by whom, and in what manner, such costs or any part thereof shall be paid, and may tax or settle the amount of costs to be so paid or any part thereof and may award costs to be paid as between legal practitioner and client.

Other Rules

- Parties to an arbitration agreement may agree that any reference shall be to an arbitrator or arbitrators to be appointed by a person designated in agreement either by name or as the holder for the time being of any office or appointment¹⁰⁰.
- Authority of an appointed arbitrator or umpire shall not be revocable except with leave of Court (unless otherwise agreed in the arbitration agreement).
- Where in any suit all the parties interested agree that any matter in difference between them in suit shall be referred to arbitration, they may at any time before judgment of case apply in writing to the Court for an order or reference¹⁰¹.

Common Powers of arbitrators or umpire

- Administer oath to the parties and witnesses appearing;
- State a special case for the opinion of Court on any question of law involved, or state the award, wholly or in part, in the form of a special case of such question for opinion of Court;
- Make the award conditional or in the alternative;
- Correct in an award any clerical mistake/error arising from any accidental slip or omission;
- Administer to any party to arbitration such interrogatories as may be deemed necessary

EXAMPLES TO EXPLAIN DIFFERENT CONCEPTS OF M.LAW

This unit contains the examples cross linked with the notes given here before. This is important to note that these examples are not part of syllabus and we don't need to memorise that (unlike the notes portion), still it provides a good understanding of the topics covered in the notes portion. Most of the examples are taken from ICAP official study text, nevertheless these examples are redesigned and edited at places to remove some errors or to present the concept in more meaningful manner. At some instances some additional examples (not available in Official Study Text) are also given to support the understanding.

So the students are advised to cross link the examples with relevant area of notes. For the purpose of cross linking, you can see a serial number of example given here under, this is the same number as is appearing on the right top of the relevant sentence (in the notes area) for which the example is quoted here.

¹ Goods were displayed in a departmental store (without mentioning price) for sale and self-service system was there. One customer selected an item. Here the display of goods is an invitation to offer and selection by the customer is an offer to buy

² A promises to deliver iPhone to B and B promises to pay Rs. 85,000 on delivery. Here the consideration for A will be Rs. 85,000 on delivery and consideration for B will be iPhone

³ A, for natural love and affection; promises to give his son, B, Rs. 10,000. A puts his promise to B into writing and registers it. This is a contract.

⁴ A found B's purse and gave it to him 3 months ago on a voluntary basis (i.e. in friendship). B promised to give A Rs.5,000 now. This promise of B is a contract.

⁵ X transferred some property to Y by a duly written and registered deed as a gift. This is a valid contract even though no consideration given by Y.

⁶ A beats B and compels him to sell his bike for Rs. 20,000. Here, B's consent has been obtained by coercion because beating someone is an offence under the Pakistan Penal Code.

⁷ A threatens to kill C, B's daughter, if B refuses to sell his house to him. B agrees to sell his house. Here, B's consent has been obtained by coercion though C is not a party to the contract

⁸ A threatens to kill B if he does not sell his BMW for Rs 1 million to A. B contracted to sell his BMW to A and receives the payments. Here, B's consent has been obtained by coercion. Hence, this contract is voidable at the option of B but B has no right to insist that contract shall be performed.

⁹ A contracted with his son B to purchase the plot of B in DHA at a price of Rs 400,000. B loves his father so much and having a high respect of A in his mind, he accepted the arrangement. Here the consent of B is not free and is obtained through undue influence.

¹⁰ A sells to B locally manufactured goods representing them to be imported goods charging a higher price, it amounts to fraud.

¹¹ Z a furniture dealer conceals the cracks in furniture sold by him by using some packing material and polishing it in such a way that the buyer even after reasonable examination cannot trace the defect, it would amount to fraud through active concealment.

¹² Buying goods under a contract of sale with an intention of not paying the price is fraud

¹³ A sells by auction to B a horse which A knows to be unsound. A says nothing to B about the horse's unsoundness. This is not fraud by A.

¹⁴ Continuing above example, suppose B is A's daughter. Here, the relation between the parties would make it A's duty to tell B if the horse is unsound.

¹⁵ B says to A, "If you do not deny it, I shall assume that the horse is sound." A says nothing. Here A's silence is equivalent to speech. If horse turns out to be vicious. A can be held liable for fraud

¹⁶ A agrees to sell to B a specific cargo of goods supposed to be on its way from England to Karachi. It turns out that, before the date of the bargain, the ship conveying the cargo had been cast away and the goods lost. Neither party was aware of facts. The agreement is void

¹⁷ A agrees to buy from B a certain horse. It turns out that the horse was dead at the time of bargain though neither party was aware of the fact. The agreement is void because there is bilateral mistake as to the existence of subject matter.

¹⁸ A agrees to buy from B all his horses believing that B has two horses (and B also was of the opinion that he has two horses) but B actually has three horses. The agreement is void because there is bilateral mistake as to the quantity of subject matter

¹⁹ A agrees to buy a particular horse from B. Both believe it to be a race horse but it turns to be a cart horse. The agreement is void because there is bilateral mistake as to the quality of the subject matter

²⁰ A agrees to buy a particular horse from B who mentioned in his letter the price as Rs 1,150 instead of 5,150. The agreement is void because there is bilateral mistake as to the price of the subject matter.

21 A agrees to buy from B a certain horse. B has one race horse and one cart horse. A thinks that he is buying race horse but B thinks that he is selling cart horse. The agreement is void because there is bilateral mistake as to the identity of subject matter

22 A agrees to buy a particular horse from B. That horse is already owned by C. Both of them are unaware of the fact. The agreement is void because there is bilateral mistake as to the title of the subject matter.

23 A and B carried on business in a certain locality in Karachi. A promised to stop business in that locality if B paid him Rs. 1,000. A stopped his business but B did not pay him the promised money. It was held that A could not recover anything from B because the agreement was in restraint of trade and was thus void.

24 A promises to pay Rs. 10,000 to B if it rained today, and B promises to pay Rs. 1,000 to A if it did not.

25 A contracts to pay B Rs.10,000 if B's house is burnt. This is a contingent contract.

26 A contracted to deliver to B at his warehouse on 1st November, 500 bales of cotton of a particular quality. A brought the cotton of requisite quality to the appointed place on the appointed day during the business hours, and B took the delivery of goods. This is an actual performance.

27 A contracted to deliver to B at his warehouse on 1st November, 500 bales of cotton of a particular quality. On due date B refused to take the delivery of goods; It is a case of attempted performance because A has done what he was required to do under the contract

28 A owes to B, among other debts; the sum of Rs.567. B writes to A and demands payment of this sum. A sends to B Rs.567. This payment is to be applied to the discharge of the debt of which B had demanded payment

29 A owes money to B under a contract. It is agreed between A, B and C that B shall now accept C as his debtor; instead of A. The old debt of A to B no longer exists and a new debt from C to B has been contracted

30 X promise to sell and deliver 500 bales of cotton, on 1st November and Y promises to pay for goods on 1st December. Afterwards, X and Y mutually decide that the goods shall be delivered in five equal instalments at Z's godown. Here, original contract has been discharged and a new contract has come into effect.

31 A promises to paint a picture for B. B afterwards requested A not to do so. A, if agreed is no longer bound to perform the promise

32 A music hall was rented out for a series of concerts. The hall caught fire before the date of first concert. It was held, the contract has become void on the ground of supervening impossibility.

33 A agreed to sing on a specified day. A fell seriously ill and could not perform on that day. The contract was discharged.

34 X contracts to take in cargo for Y at a foreign port. X's government afterwards declares war against the country in which the port is situated. The contract becomes void when the war is declared.

35 A and B contract to marry each other. Before the time fixed for the marriage, A goes mad. The contract becomes void.

36 A agreed to supply gold within a specified time. He failed to supply in time because of government's restriction on the transport of gold from collieries. Here A will not be discharged because the gold was available in the open market from where A could have obtained it.

37 A, a furniture retailer, agreed to supply certain furniture to B at an agreed rate. Afterwards, there was a sharp increase in the rates of the timber and rates of wages. Since, it was no longer profitable to supply at the agreed rate, A did not supply. A will not be discharged on the ground of supervening impossibility.

38 A entered into a contract with B for the sale of goods to be manufactured by C, a manufacturer of those goods. C did not manufacture those goods. A will not be discharged and will be liable to B for damages

39 A agreed to supply to B certain goods to be imported from America. The goods could not be imported due to riots in that country. It was held that this was no, excuse for non-performance of the contract.

40 A promises to marry B, A must perform this promise personally.

41 A promises to pay B a sum of money. A may perform this promise either by personally paying the money to B, or by causing it to be paid B by another, and if A dies before the time appointed for payment, his representatives must perform the promise, or employ some proper person to do so.

42 A promises to marry B, A dies. A's legal representatives cannot perform this promises.

43 A and B jointly promise to repay a loan of Rs.10,000 on a specified day. A dies before that specified day. A's representative jointly with B must perform the promise on the specified day.

44 A, B and C jointly promise to pay D Rs.3,000. D may compel either A or B or C to pay him Rs.3,000.

⁴⁵ A, B and C jointly promise to pay D a sum of Rs.3,000. C is compelled to pay the whole. C is entitled to receive Rs.1000 each from A and B.

⁴⁶ A, B and C jointly promise to pay D a sum of Rs.3,000. C is compelled to pay the whole. No amount could be recovered from B. C is entitled to receive Rs.1500 from A.

⁴⁷ A, B and C jointly promise to pay D Rs.3,000. D releases A from his liability and sues B and C for payment. Here, neither B and C are released from their liability to D nor is A released from his liability to B and C for contribution.

⁴⁸ Azam, in consideration of Rs.5,000 lent to him by Babar and Saqlain, promises Babar and Saqlain jointly to repay them that sum with interest on a day specified. Babar dies. The right to claim performance rests with Babar's representative jointly with Saqlain during Saqlain's life, and, after the death of Saqlain, with the representatives of Babar and Saqlain jointly

⁴⁹ B owes A Rs.2,000. A desires B to pay the amount to A's account with C, a banker. B also has a bank account with C, orders the amount to be transferred from his account to A. Afterwards, and before A knows of the transfer, C is bankrupt. There has been a good payment by B.

⁵⁰ Adeel ordered Yum Bakers for a Birthday cake to be delivered on 22nd February. The nature of transaction clearly indicates that time is the essence of the contract

⁵¹ A agreed to supply 2,500 cans to B. According to agreement, the date of delivery was 31 August 2017 with time as essence of contract. However, on the due date A refused to supply the cans. Following would be the rights of B under the circumstances:

- B may insist that A should deliver the product at a future date and give notice to claim damages on account of the delayed supply;
- B may decide not to accept performance beyond stipulated time and claim compensation for any loss which it may have sustained due to non-fulfillment of the contract by A.

⁵² In a contract for sale, A promises to deliver the goods to B at a fixed price and B promises to pay a fixed price for delivery of goods to him. Such promises are called reciprocal promises

⁵³ A and B contract that A shall deliver goods to B to be paid for by B on delivery A need not deliver the goods unless B is ready and willing to pay for the goods on delivery B need not pay for the goods, unless A is ready and willing to deliver them on payment.

⁵⁴ A and B contract that A shall build a house for B and then B shall be paying him a fixed price. A's promise to build the house must be performed before B's promise to pay for it.

⁵⁵ A and B contract that B shall execute certain work for A, for Rs.1,000. B is ready and willing to execute the work accordingly, but A prevents him from doing so. The contract is voidable at the

option of B; and, if he elects to rescind it, he is entitled to recover from A compensation for any loss which he has incurred by its non-performance.

56 A promises B to sell him 1000 bales of merchandise to be delivered next day, and B promises A to pay them within a month. A does not deliver according to his promise. B's promise to pay need not be performed, and A must make compensation.

57 A and B agree that A shall sell B a house for Rs.10,000 but that, if B uses it as a gambling house, he shall pay Rs.50,000 for it. The first set for reciprocal promises, namely to sell the house and to pay Rs.10,000 for it, is a contract. The second set is for an unlawful object, namely, that B may use the house as a gambling house and is a void agreement.

58 Zahid and Yasir agree that Zahid shall pay Yasir Rs. 1 million for which Yasir shall afterwards deliver to Zahid either rice or smuggled opium. This is a valid contract to deliver rice, and a void agreement as to the opium

59 A supplies B, a lunatic, with necessaries suitable to his condition in life. A is entitled to be reimbursed from B's property.

60 B holds land in Sindh, on a lease granted by A, a Zamindar. The tax payable by A to the Government being remained unpaid and his land is advertised for sale by the Government. Under the tax law, the consequence of such sale will be the cancellation of B's lease. B, to prevent the sale and the consequent cancellation of his own lease, pays the Government the sum due from A. A is bound to make good to B the amount so paid.

61 A, a tradesman, leaves goods at B's house by mistake. B treats the goods as his own. He is bound to pay A for them.

62 A found a diamond rings at a wedding reception of B. A told B and other guests about it with an intention to find the true owner. If he is not able to find the owner he can retain the ring as bailee.

63 A railway company refuses to deliver up certain goods to the consignee, except upon the payment of an undue charge for carriage. The consignee pays the sum charged in order to obtain the goods. He is entitled to recover so much of the charge as was excessive

64 On 1st December; X contracted to sell and deliver 50 tons of wheat @ Rs. 8,000 per ton to Y on 1st January. On 20th December y, afterwards, contracted to sell those goods to Z at Rs. 10,000 per ton. X failed to deliver goods on 1st January when the price of the wheat was Rs. 9,500 per ton. Y is entitled to recover Rs. 75,000 [i.e. (Rs. 9,500 – Rs. 8,000) x50]. Y is not entitled to recover Rs. 1,00,000 as profit which would have arisen to Y from the sale to Z because the profit is the indirect consequence of the breach of contract.

65 A, a builder; contracts to erect and finish a house by the first of January, in order that B may give possession of it at that time to C, to whom B has contracted to let it. A is informed of the contract between B and C. A builds the house so badly that, before the first of January it falls down, and has to be rebuilt by B, who, in consequence, loses the rent which he was to have received from C, and is obliged to make compensation to C for the breach of his contract. A must make compensation to B for the cost of rebuilding the house, for the rent lost, and for the compensation made to C.

66 A taxi driver is booked to take a passenger to the airport in time for a certain flight to Karachi where the passenger expects to complete a deal worth Rs. 1 million. If the taxi driver breaches the contract by arriving late, the taxi firm may be liable for expenses such as any extra cost for getting the next flight but is unlikely to be expected to compensate the passenger for the loss of Rs. 1 million.

67 An agent A is acting on behalf of a principal P. He enters into a contract with another party T, stating that he is acting as agent for P. However, A has actually acted outside his authority. P refuses to carry out the terms of the contract. In this situation, the agent A would be liable to both the third party T and to the principal for breach of warranty of authority

68 The purchasing director of a company may order a quantity of goods from a supplier. In doing so, the director might exceed the scope of his express authority, because the company policy might be that purchases above a certain value must be made by the managing director. Unless the supplier has knowledge that the purchasing director has exceeded the limits of his authority, he is entitled to assume that the director does have the authority to purchase the goods. The company must accept that in the circumstances the purchasing director had implied authority.

69 A and B decided to help the needy by contributing the money available with both. As they are not carrying on a business so their arrangement would not be regarded as partnership.

70 A, B and C are partners in a business. D an outsider deals with the firm through A. As between A and D, A is the agent of firm. But as between A, B and C, A is also the agent of B and C. As such A, B and C can all sue D. D can also sue A, B and C. Furthermore A is accountable to B and C because he is an agent of B and C.

71 Arslan and Noman are co-owners of a house and let it to a paying guest. They divide the rent between them in 50:50 ratio as they both have a 50% right in the property. There is no business being carried on and therefore, they are not partners

72 Aftab, Badal and Chand started a business of trading in light bulbs together under the name Solar Traders. They decided to share profits equally and the business will be managed by Aftab only and the existence of Badal and Chand as partners will be kept secret from outsiders. Badal and Chand are sleeping partners

⁷³ Azam and Babar started a law firm. They also requested a retired senior lawyer Arif to join in. Arif stated that they can use his name as partner but he would not be able to give his time to the firm and that he would not share in profits as well. Arif is a nominal partner and would still be liable to outsiders for the acts of firm

⁷⁴ Adeel and Kashif are partners in a firm. The terms of agreement are that they will share profit in the ratio of 3:2. Unknown to Kashif, Adeel further agrees with his friend Adnan to share half of his individual share from partnership with Kashif. Adnan would be required to share some of the tasks assigned to Adeel without informing Kashif. Adnan is a sub-partner

⁷⁵ Aftab, Badal and Chand started a business of trading in light bulbs together under the name Solar Traders. They decided to share profits equally and the business will be managed by Aftab only and Badal and Chand will not take any active part in management although their existence shall be known to outsiders. Badal and Chand are silent partners

⁷⁶ Adeel and Kashif started a partnership business by contributing Rs. 5 million and Rs. 7 million respectively and Adeel also advance Rs. 1 million to the firm as loan. They did not decide anything regarding interest on this loan. Adeel demands 10% interest should be given by the firm to him on this loan. In absence of specific agreement, interest @6% shall be paid to Adeel on his loan to the firm

⁷⁷ Tom and Jerry are in partnership. The partnership purchased an item of equipment costing Rs.30,000. It was discovered later that the equipment had actually been purchased by Tom for Rs.18,000, and Tom had re-sold it to the partnership without revealing that he was the owner of the property. In this case, since the other partner did not know that Tom had made a personal profit from the transaction with the partnership, he can claim successfully that Tom should hand over to the partnership the Rs.12,000 profit that he made. If Tom had informed Jerry in advance that he was the owner of the equipment and intended to keep the profit himself, and if Jerry agreed to this, Tom would have been able to keep all the profit for himself.

⁷⁸ A, B, C and D are in partnership. Without informing the other partners, D sets up a sole trader's business in competition with the partnership, and makes a profit of Rs. 50,000 by either, using firm name or property or connections of the firm. When the other partners find out what D has been doing, they can require D to account to the partnership for the profits he has made while operating in competition (and hand over the Rs. 50,000 to the partnership).

⁷⁹ Noman and Usman are partners. Noman buys shares from stock exchange in his own name with the monies and on account of the firm. The value of shares subsequently increases by considerable amount. Noman claims that shares are his personal property. The shares are partnership property.

⁸⁰ A and B are partners. A with the intention to bind the firm, goes to a shop and purchases certain articles on behalf of the firm which are generally used in the partnership business. Here firm will be liable for the price of the goods because A acted within his authority.

⁸¹ The partnership deed of a trading firm placed a restriction on the authority of the partners to sell the goods. One of the partners sells the good. If the third party did not know of the restriction the firm is liable toward such third party and if the third party know of the restriction the firm will not be liable

⁸² Wajid, Yasir and Zahid are partner in a firm. By an agreement, they decided that no partner would have authority to sell goods of the firm above the value of Rs. 50,000/- without the consent of other partners. Owing to a sudden slump in the market, the prices crashed. Yasir, in order to save the firm from loss, sold all the stock worth Rs. 5,000,000 without consulting any other partner. Such act would bind the firm as it was an emergency situation

⁸³ B, C and D are in partnership. Partner B purchases equipment for the partnership business. The equipment itself cost Rs. 20,000 and the installation costs were Rs.15,000. There is a dispute with the supplier, and the firm refuses to pay the installation costs. The supplier decides to sue for the unpaid Rs.15,000. If the supplier succeeds in his action, all the partners will be liable jointly for the Rs.15,000 liability. If the dispute goes to court, the supplier can either:

- sue all three partners jointly, or*
- he can sue any individual partner, B, C or D. If he chooses to sue B personally, and succeeds with his claim, B will be required to pay the supplier. It will then be for B to obtain from his partners C and D their share of the liability that they now owe.*

⁸⁴ One of the partners who was an active partner in the firm, knowing that the goods were stolen, purchased and sold them in the name of the firm. The other partner knew nothing about this theft. In this case all the partners will be liable to the 3rd person but as between them the partner who know about the stolen goods would be held liable..

⁸⁵ A, B and C are partners in an instalment sales business. A asked one of the customer to deposit a security worth Rs. 100,000 in order to purchase goods on instalments. Subsequently, A misappropriated the security and absconded. The other partners will be liable for the misappropriation as security was given to A while he was acting within his scope of his apparent authority

⁸⁶ A cheque is payable to A. A endorses it merely by putting his signature on the back and delivers it to B with the intention of negotiating it (without making it payable to B or B's order). In the hands of B the cheque is a bearer instrument.

⁸⁷ A gives a promissory note to B. B lost the instrument and it was found by C. C cannot recover the amount on the negotiable instrument as he is not the holder in due course but if C transfer the instrument to D and D becomes holder in due course he can recover the amount on the instrument from A or all prior parties.

⁸⁸ *If a banker makes payment of a post-dated cheque before the date mentioned on the cheque, he acts against the apparent tenor of the instrument. Hence the payment will not be treated as payment in due course.*

⁸⁹ *Bill of Exchange is paid without enquiry as to the payee or cheque with forged signature of the drawer is paid will amount to negligence on the party of the payer and the payment will not be treated as payment in due course*

⁹⁰ *"I promise to pay B or order Rs.500".*

⁹¹ *"I acknowledge myself to be indebted to B in Rs.1,000 to be paid on demand for value received. There is a valid promissory note*

⁹² *I promise to pay B Rs.500 seven days after my marriage with C.*

⁹³ *Adeel draws a cheque of Rs. 5 million in favour of Kashif on 1st July 2021. Kashif does not become entitled to Rs. 5 million that are in the account of Adeel at bank on just receiving this cheque. He must deposit the cheque in his account and when bank transfers the amount to his credit, he will become entitled to those Rs. 5 million*

⁹⁴ *A government official received bribes for official work and bought a house using the proceeds. He has committed offence of money laundering*

⁹⁵ *A banker, knowing that the transactions in a client's account represented proceeds of crime, concealed it from law enforcement agencies, the banker has committed offence of money laundering*

⁹⁶ *An employee holds Rs. 10 million on behalf of his employer, knowing that the amount was proceeds of crime, he has committed offence of money laundering*

⁹⁷ *An accountant advised one of his client to conceal criminal property and facilitated for such concealment, he has committed offence of money laundering*

⁹⁸ *XYZ Limited operates a chain of retail outlets selling essential materials used in construction in all major cities across Pakistan having market share of 60%. The management team of XYZ Limited has finalised a strategy to lower the prices significantly in some cities where recently small competitors have emerged. An executive explained that XYZ Limited would have to bear loss in those cities for some time but this strategy is highly likely to force competitors to closure, XYZ Limited will make profit subsequent to that by raising prices even higher than before. Such practice is abuse of dominant position and would be in contravention of Competition Act, 2010*

⁹⁹ *Javed Limited and Saleem Limited are the leading manufacturers of textile products in Pakistan. Both companies have recently signed an agreement under which they would restrict the supply of*

their products to particular geographical areas. Since the agreement between Javed Limited and Saleem Limited will restrict the competition in the market, this agreement would be void

¹⁰⁰ *Two businessmen agreed in a contract that in case of any dispute the matter shall be referred to arbitration and for this purpose, the arbitrator shall be appointed by the Chairperson of the Chamber of Commerce of the city*

¹⁰¹ *Naeem had filed a suit against Kareem in court for breach of contract. Kareem contacted Naeem and requested out of court settlement. Naeem agreed and both of them signed and submitted a written arbitration agreement to court before pronouncement of judgement. Such an agreement is valid*

Chapter 1 – Introduction to the legal system

- 1 (a) **PartIII- The Federation of Pakistan** include provisions related to:
- eligibility, term of office, powers, removal of President of Pakistan;
 - the President of Pakistan’s job responsibilities and limitations such as exercising functions in accordance with the advice of the Cabinet or Prime Minister;
 - composition, duration and meetings of the Parliament and Senate;
 - qualifications and disqualifications for membership of the Parliament;
 - introduction and passing of bills.

Part VI - Finance, Property, Contracts and Suits include provisions of:

- distribution of revenues between the federation and the provinces;
- financial provisions such as exemption and imposition of certain taxes;
- borrowing by Federal and Provincial government;
- appointment, powers and functions of Auditor General of Pakistan;
- property, contracts, liabilities and suits.

- 2 **Promulgation of an Ordinance in Pakistan:**

In terms of the constitution, the President has power to promulgate Ordinances only if the Senate or National Assembly is not in session and the President is satisfied that circumstances exist which render it necessary to take immediate action.

The Ordinance as promulgated by the President has the same force and effect as an Act of the Parliament.

However, within 120 days of its issuance, such Ordinance is required to be presented or passed by the National Assembly in case of money bill and by both the houses in case of all other bills, otherwise the Ordinance stands repealed.

- 3 (b) **Delegated Legislation:**

In Delegated Legislation power is given to an Executive (a minister or public body to make subordinate or delegated legislation for specified purposes only).

Disadvantages of delegated legislation:

- The main criticism of delegated legislation is that it takes law making away from the democratically elected members. Power to make law is given to unelected civil servants and experts working under the supervision of a government minister.

- 4 **System of government:**

Pakistan has a Federal Parliamentary System of government, with the President as the Head of State and Prime Minister as Head of Government. The Federal Legislature is a bicameral Majlis- e- Shoorā (Parliament), composed of the President, National Assembly (Lower House) and Senate (Upper House).

Role of Senate:

The role of the Senate is to approve all statutes passed by the National Assembly with the exception of money bills.

- 5 (a) In delegated legislation power is given to an executive (a minister or public body to make subordinate or delegated legislation) for specified purpose only. For example, local authorities are given statutory powers to make bye-laws which apply within a specific locality.

Control over delegated legislation is exercised in following ways:

- (i) Parliament exercises control over delegated legislation by restricting or defining power to make rules
- (ii) Rules made under delegated power to move legislation may be challenged in the courts on the grounds of being ultra vires.

(b) Legislation in case of a money bill when National assembly is in session:

A money bill shall originate in the National Assembly and after it has been passed by the Assembly it shall, without being transmitted to the Senate, be presented to the President for assent.

- 6 (i) Legislation in case of a money bill when National assembly is in session:
A money bill shall originate in the National Assembly and after it has been passed by the Assembly it shall, without being transmitted to the Senate, be presented to the President for assent.
- (ii) Legislation in case of a money bill when National assembly is not in session:
 - When National assembly is not in session and President deems necessary to take immediate action, he has the power to issue an Ordinance.
 - Such Ordinance promulgated thus, shall have the same force and effect as an Act of the parliament.
 - However, the Ordinance shall stand repealed after 120 days if it is not presented or passed by the National assembly.

7 **Basis of legal system in Pakistan:**

The legal system in Pakistan is based on the Constitution of Pakistan 1973 as well as Islamic law (Sharia).

Main sources of law in Pakistan:

Following are the main sources of law in Pakistan:

- (i) Legislation: It is the law created by the Parliament of the country and other bodies to whom it has delegated authority.
- (ii) Precedent: Precedent is a judgment or decision of a superior Court which are binding on the subordinate Courts.
- (iii) Custom: Certain customs practices and beliefs are so vital and intrinsic part of a social and economic system that they are treated as if they were laws.
- (iv) Agreement: Parties in their agreement stipulate terms for themselves which constitute law for the contracting parties.

8 **Delegated Legislation:**

In Delegated Legislation power is given to an Executive (a minister or public body to make subordinate or delegated legislation for specified purposes only). Advantages of delegated legislation:

- Time
Parliament does not have time to examine matters in detail
 - Expert opinion
Much of the content of delegated legislation is technical and is better worked out in consultation with professional, commercial or industrial groups outside Parliament.
 - Flexible
Delegated legislation is more flexible than an Act of Parliament. It is far simpler to amend a piece of delegated legislation than to amend an Act of Parliament.
- Disadvantages of delegated legislation:

- The main criticism of delegated legislation is that it takes law making away from the democratically elected members. Power to make law is given to unelected civil servants and experts working under the supervision of a government minister.
- Because delegated legislation can be produced in large amounts the volume of such law making becomes unmanageable and it is impossible to keep up-to-date.

9 **Statute::**

The Act of Parliament is also termed as 'Statute'. It is the primary source of law and is made by the Parliament itself. Act begins as a bill and after passing through the National Assembly and Senate becomes law on the granting of assent of the President. Act is binding on everyone.

Ordinance:

When the National Assembly is not in session and the President deems necessity of an immediate law, he can promulgate Ordinance. The Ordinance has the same force and effect as an Act of Parliament. The Ordinance, if not presented or passed by the National Assembly within 4 months, stands repealed.

Purposes of Act of Parliament:

Following are the purposes of the Act of Parliament:

- (i) Create new law when none exists before.
- (ii) Consolidate existing law.
- (iii) Amend existing law.
- (iv) Cancel existing law.
- (v) Authorize taxation.
- (vi) Codify and clarify existing law

- 10 Civil law regulates the disputes in respect of rights and obligations between persons dealing with each other. The court does not punish the wrong doers but imposes a settlement, either by awarding damages or granting injunctions or other orders.

Examples of civil laws are:

- (i) company law
- (ii) revenue law
- (iii) commercial law
- (iv) constitutional law
- (v) family laws
- (vi) employment law

Criminal law is a body of law:

- defining offenses against the community at large;
- regulating how suspects are investigated, charged and tried and;
- establishing punishments for convicted offenders. Criminal law deals with crimes such as murder, violence, terrorism, theft, robbery etc.

- 11 If the President deems necessary to take an immediate action, he has the power to promulgate an ordinance if the Senate or National Assembly is not in session. Such ordinances have the same force and effect as an act of the Parliament. The ordinance stands repealed after one hundred twenty days if it is not passed by the National Assembly or by National Assembly and Senate both as the case may be. However, National Assembly may extend it for another period of one hundred twenty days. Thereafter it will stand repealed.

Chapter 2 – OFFER, ACCEPTANCE AND REVOCATION**1 (a) Essentials of a valid acceptance:**

Following are the essentials of a valid acceptance:

- (i) acceptance must be absolute and unqualified;
- (ii) it must be communicated either in writing or by word of mouth or by performance of some act;
- (iii) acceptance must be in the prescribed mode/reasonable mode;
- (iv) the acceptance must be given within the time specified or within a reasonable time when no time is specified;
- (v) mere silence is not acceptance. It cannot be in the form of a negative confirmation. The acceptor should expressly accept the offer;
- (vi) acceptance must be given only by that person to whom the offer has been made;
- (vii) the acceptor must be aware of the proposal at the time of acceptance of the proposal;
- (viii) the acceptance must be given before the offer lapses or is withdrawn.

(b) In order for Mehmood to claim the reward from Sulman, it is necessary for him to prove that he was aware of Sulman's proposal before finding the missing boy.

As the communication of the proposal is complete when it comes to the knowledge of the person to whom it is made.

Under the given circumstances, since Mehmood acted in ignorance of the offer, he is not entitled to claim the reward from Sulman.

2 (c) Acceptance must be absolute:

An acceptance should be unconditional assent by the offeree to all the terms of the offer. In this case, since the offer has been accepted with a variation it would be regarded as a qualified acceptance. Therefore, a contract between Batool and Saqib has not been formed.

However, if Batool accepts the counter offer made by Saqib then it would be a binding contract.

3 The first letter from Ahmed and Adil's response on it were merely 'asking for information' and 'providing information' respectively and not offer and acceptance. The second letter from Ahmed sent as a reply to Adil was itself an offer and not the acceptance of an offer. Since this offer had not been accepted by Adil, there is no binding contract between the parties. Accordingly, there is no liability if Adil sells his bungalow to Hamid.**4** Communication of offer, acceptance and revocation:

- (i) Communication of offer was completed on 5 September 2018 i.e. when it came to the knowledge of Ghazi.

Communication of acceptance was completed as against Saleem when the letter was posted i.e. on 6 September 2018 and as against Ghazi it was completed when the letter of acceptance reached Saleem i.e. on 8 September 2018.

The communication of revocation of offer was completed as against Saleem on 5 September 2018 i.e. when the letter of revocation was posted, and as against Ghazi on 7 September 2018, when the letter of revocation was received by him.

- (ii) Since Ghazi had posted his letter of acceptance on 6 September 2018 and revocation of offer was communicated to him on 7 September 2018, his acceptance was valid Saleem cannot revoke his offer after 6 September 2018, when the communication of acceptance was completed as against him. Therefore, a binding contract had been created between Saleem and Ghazi.

- 5
 - acceptance must be absolute and unqualified;
 - its must be communicated in writing or by word of mouth or by performance of some act;
 - acceptance must be in the prescribed mode/reasonable mode;

- acceptance must be given within the time specified or within a reasonable time when no time is specified;
- mere silence is not acceptance.
- It cannot be in the form of a negative confirmation.
- The acceptor should expressly accept the offer;
- acceptance must be given only by that person to whom the offer has been made;
- the acceptor must be aware of the proposal at the time of acceptance of the proposal;
- the acceptance must be given before the offer lapses or is withdrawn.

6 **Offer and acceptance:**

It is the case of a general offer as it was made to the public. A contract is made with the person who having the knowledge of the offer comes forward and acts according to the conditions of the offer. However, under the given circumstances, Aftab cannot claim the amount of reward from Bader as there was lack of communication of the offer and Aftab did not know about the reward when he found the missing horse. Aftab could have accepted the offer only when he knew about it because an offer accepted without its knowledge does not confer any legal rights on the acceptor.

7 **Acceptance must be absolute:**

An acceptance should be unconditional assent by the offeree to all the terms of the offer. In this case, since the offer has been accepted with a variation it would be regarded as a qualified acceptance. Therefore, a contract between Murad and Sanum has not been formed. However, if Murad accepts the counter offer made by Sanum then it would be a binding contract.

8 A proposal is revoked –

- (i) by the communication of notice of revocation by the proposer to the other party
- (ii) by the lapse of the time prescribed in such proposal for its acceptance, or if no time is so prescribed, by the lapse of a reasonable time, without communication of the acceptance;
- (iii) by the failure of the acceptor to fulfill a condition precedent to acceptance; or
- (iv) by the death or insanity of the proposer, if the fact of the death or insanity comes to the knowledge of the acceptor before acceptance.

9 A proposal cannot be revoked after the communication of its acceptance is complete as against the proposer i.e. when the acceptance is put in a course of transmission to the proposer so as to be out of the power of the acceptor.

10 When the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted.

- (i) Acceptance must be absolute and unqualified.
- (ii) It must be expressed in some usual and reasonable manner, unless the proposal prescribes the manner in which it is to be accepted. If the proposal prescribes a manner in which it is to be accepted, and the acceptance is not made in such manner, the proposer may, within a reasonable time after the acceptance is communicated to him, insist that his proposal shall be accepted in the prescribed manner and not otherwise, but if he fails to do so he accepts the acceptance.
- (iii) Acceptance must be made by the offeree i.e. by the person(s) to whom offer was made and only such person or a person with his authority must communicate the acceptance to the offeror.
- (iv) Acceptance must be given within a reasonable time and before the offer lapses and/or is revoked.
- (v) Acceptance must succeed the offer.

Chapter 3 – Lawful consideration and objects, and capacity of parties

Capacity of Parties

- 1 Aliya's brother is justified in refusing the delivery to Salma, if at the time of making the agreement, Aliya was:
 - not capable of understanding it; and
 - not capable of forming a rational judgment as to its effect upon her interests.

If Aliya is usually of unsound mind but occasionally of sound mind then she may enter into a contract when she is of sound mind. However, if she was of unsound mind, then the agreement would be void.

- 2 **Disqualified Persons**

Following persons are disqualified from entering into the contract though they are major and of sound mind:

- (i) Alien enemies

If a war is declared with the enemy country then alien enemy of Pakistan can neither enter into a contract or be sued during the period of war.

- (ii) Foreign sovereigns and ambassadors

As such persons have immunity. They have a right to enter into a contract but can claim the privilege of not being sued.

- (iii) Convicts

A convict while under imprisonment is incapable of contracting.

Legality of object & consideration

- 1 **Agreement**

Every promise and every set of promises, forming the consideration for each other, is an agreement. An agreement not enforceable by law is said to be void.

Circumstances in which an object of an agreement is considered unlawful: The object of an agreement is unlawful when:

- (i) it is forbidden by law; or
- (ii) is of such a nature that, if permitted, it would defeat the provisions of any law; or
- (iii) is fraudulent; or
- (iv) involves or implies injury to the person or property of another; or
- (v) the court regards it as immoral, or opposed to public policy.

Consideration

1 **(b) Completed gift/love and affection:**

An agreement made without consideration is void. However, Muneer may claim the amount of Rs. 2 million from his uncle Furqan Butt, by proving either of the following two conditions.

- (i) gift
- (ii) love and affection

Completed gift:

In case of a gift it needs to be completed. The rule 'No consideration no contract' does not apply to completed gifts.

Love and affection:

An agreement made on account of natural love and affection without consideration will be valid if it is:

- expressed in writing,
- registered under the law,
- made on account of natural love and affection, and
- between parties standing in a near relation to each other.

However, in the given scenario, Furqan Butt only made a promise to pay Rs. 2 million by way of a gift and did not actually pay the amount. Similarly, the promise was not made in writing and was not registered, therefore, the promise cannot be enforced in both of the above circumstances and Muneer cannot recover anything from his uncle Furqan Butt.

2 **Completed gift/love and affection:**

An agreement made without consideration is void. However, Mrs. Ikram may claim the amount of Rs. 1.0 million from her grandfather Nadeem, by proving either of the following two conditions.

- (i) Gift
- (ii) love and affection

Completed gift:

In case of a gift it needs to be completed. The rule 'No consideration no contract' does not apply to completed gifts.

Love and affection:

An agreement made on account of natural love and affection without consideration will be valid if it is:

- expressed in writing,
- registered under the law,
- made on account of natural love and affection, and
- between parties standing in a near relation to each other.

However, in the given scenario, Nadeem only made a promise to pay Rs. 1.0 million by way of a gift and did not actually pay the amount. Similarly, the promise was not made in writing and was not registered, therefore, the promise cannot be enforced in both of the above circumstances and Mrs. Ikram cannot recover anything from her grandfather Nadeem.

- 3 (i) Agreement without consideration void:
In order to make it a binding contract, Raheel needs to make his promise in writing and sign it either by himself or by his agent generally or specially authorized in that behalf. In this case, Raheel must be the person against whom the liability might have been enforced by Sameer but for the law for the limitation of suits.
- (ii) Agreement without consideration void:
To make it a binding contract, Shazia needs to express it in writing and get it registered under the law for the time being in force for the registration of documents. This agreement must be made on account of natural love and affection between the parties standing in near relation to each other.
- 4 Tahir's suit will not be admitted by the Court because if the performance of a promise is contingent upon the mere will and pleasure of the promisor, there is no contract. The rule of law is that "agreements, the meaning of which is not certain, or capable of being made certain, are void."
- 5 A is liable to B for damages as A had agreed to sell the motorcycle willingly; hence the contract is not void merely because the consideration is inadequate.
- 6 **Validity of an agreement made without consideration**
An agreement without consideration is considered valid in any of the following circumstances:
- (i) it is expressed in writing and registered under the law for the time being in force for the registration of documents and is made on account of natural love and affection between parties standing in a near relation to each other.
 - (ii) it is a promise to compensate wholly or in part, a person who has already voluntarily done something for the promisor, or something which the promisor was legally compellable to do.
 - (iii) it is a promise, made in writing and signed by the person to be charged therewith, or by his agent generally or specially authorized in that behalf, to pay wholly or in part a debt which is barred by the law for the limitation of suits.
 - (iv) any gift which is actually made as between the donor and the donee.

Chapter 4 – Free consent and void agreements

Free consent

1 (a) **Exceptions to rescind the contract under misrepresentation:**

A party cannot rescind the contract where:

- Party whose consent was caused had means of discovering truth with ordinary diligence;
- Party gave the consent in ignorance of misrepresentation

2 (b) **Undue influence:**

Ghazala may succeed to recover her jewellery and apartment from Haroon on the presumption of undue influence. A contract is said to be induced by undue influence where the relation subsisting between the parties is such that one of the parties is in a position to dominate the will of the other and uses that position to obtain unfair advantage over the other.

Haroon in this case is a fiancé of Ghazala and is in a position to dominate her will. When the consent to an agreement is caused by undue influence, the agreement is voidable at the option of the party whose consent is so caused. Therefore, the contract is voidable at the option of Ghazala.

The Court may set aside the contract either absolutely or, in case if Ghazala has received any benefit under the contract, upon such terms and conditions as the Court may seem just. The burden of prove that the above contract, which on the face of it appears to be unconscionable, was not induced by undue influence lies on Haroon, as he is the one who is in a position to dominate Ghazala's will.

(c) **Fraud:**

A promise made without any intention of performing it tantamount to fraud. Therefore, in this case since Sultan had no intention of performing the contract, he committed a fraud and the contract is voidable at the option of Zameer

3 **Fraud:**

No, Mughal is not justified in repudiating the contract. Dawood is not bound to disclose the information to Mughal as the relationship existing between them is not that of 'utmost good faith' (i.e. fiduciary relationship). Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud, unless there is a duty to disclose such fact or where silence is equivalent to speech.

4 **Fraud:**

Sharif's statement that in his opinion the land could support 2,500 mango trees clearly indicated that he was not sure about it and was just giving an opinion.

Therefore, unless Ghaffar can show that the statement was made with the intention to deceive him, he cannot claim damages on the grounds of fraud.

5 The contract in the above situation is voidable at the option of Rafia as her consent is not free and has been obtained by coercion.

6 Shafiq may not be able to rescind the contract under the following circumstances:

- If Shafiq had the means of discovering the truth with ordinary diligence; or
- Abad's misrepresentation was not the basis for Shafiq's consent; or
- After becoming aware of the misrepresentation Shafiq may have taken benefit under the contract; or
- If an innocent third party had acquired for consideration and in good faith some interest in the property; or
- Shafiq and Abad cannot be restored to their original positions.

7 **Undue Influence:**

- (i) A contract is said to be induced by “undue influence” where the relation subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and uses that position to obtain unfair advantage over the other.
- (ii) In particular and without prejudice to the generality of the foregoing principle, a person is deemed to be in a position to dominate the will of another.
 - (a) Where he holds a real or apparent authority over the other or where he stands in a fiduciary relation to the other; or
 - (b) Where he makes a contract with a person whose mental capacity is temporarily or permanently affected by reason of age, illness, or mental distress or bodily distress.

Fraud:

“Fraud” means and includes any of the following acts committed by a party to a contract, or with his connivance, or by his agent with intent to deceive another party thereto or his agent, or to induce to enter into the contract.

- (i) The suggestion, as a fact of that which is not true, by one who does not believe it to be true;
- (ii) The active concealment of a fact by one having knowledge or belief of the fact;
- (iii) A promise made without any intention of performing it;
- (iv) Any other act fitted to deceive;
- (v) Any such act or omission as the law specially declares to be fraudulent.

Explanation: Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud, unless the circumstances of the case are such that, regard being had to them, it is duty of the person keeping silence to speak, or unless his silence is in itself, equivalent to speech.

- 8 (i) The consent of the aggrieved party is obtained by committing or threatening to commit an act forbidden by(Pakistan Penal Code) PPC or detaining or threatening to detain some property unlawfully.
The consent of aggrieved party is affected from domination of the will of one person over another.
- (ii) It involves the use of physical or violent force.
In undue influence, mental or moral influence is used to dominate the will of other.
- (iii) There is no presumption of coercion by law under any circumstances. The burden of proof rests on the aggrieved party. There is presumption of undue influence in the case of certain relationships. The burden of proof rests on the defendant.
- (iv) In case of rescission, any benefit received by the aggrieved party has to be restored to the other party. The Court has discretion to direct the aggrieved party to restore the benefit whether in whole or in part or set aside the contract without any direction for refund of benefit.
- (v) The offending party exposes itself to criminal liability under PPC and also an action under Contract Act, 1872

Undue Influence

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- (iv) In case of rescission, any benefit received by the aggrieved party has to be restored to the other party. The Court has discretion to direct the aggrieved party to restore the benefit whether in whole or in part or set aside the contract without any direction for refund of benefit.
- (v) The offending party exposes itself to criminal liability under PPC and also an action under Contract Act, 1872.
- 9 The following are the rights of Karim:
- (i) When consent to an agreement is caused by fraud, the agreement is a contract voidable at the option of the party whose consent was so caused. Karim could therefore rescind contract. However, if Karim could have discovered the truth with ordinary diligence, then the contract is not voidable.
- (ii) If Karim thinks fit he can insist that the contract shall be performed and that he shall be put in the position in which he would have been if the representations made had been true.
- 10 The following are the points of distinction between the two:
- (i) Fraud implies an intention to deceive; it is deliberate or willful; whereas misrepresentation is innocent without any intention to deceive.
- (ii) Fraud is a civil wrong which entitles a party to claim damages in addition to the right of rescinding the contract. Misrepresentation gives the right to avoid the contract but damages cannot be claimed.
- (iii) In misrepresentation, if the aggrieved party had the means to discover the truth with ordinary diligence, it cannot avoid the contract. But in fraud, the contract is voidable even though the party defrauded had the means of discovering the truth with ordinary diligence.
- 11 No, Bint-e-Aslam cannot avoid the promissory note. It is not coercion as there was a proper basis for prosecution and such act is not forbidden by Pakistan Penal Code.
- 12 A contract is said to be induced by “undue influence” where the relation subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and uses that position to obtain unfair advantage over the other.
- In particular and without prejudice to the generality of the foregoing principle, a person is deemed to be in a position to dominate the will of another ---
- where he holds a real or apparent authority over the other or where he stands in a fiduciary relation to the other; or
 - where he makes a contract with a person whose mental capacity is temporarily or permanently affected by reason of age, illness or mental or bodily distress.
 - where a person who is in a position to dominate the will of another enters into a contract with him and the transaction appears, on the face of it or on the evidence adduced, to be unconscionable, the burden of proving that such contract was not induced by undue influence shall lie upon the person in a position to dominate the will of the other.
- 13 Fraud – Fraud means acts committed by a party to a contract, or with his connivance, or by his agent with intent to deceive another party thereto or his agent, or to induce to enter into the contract and includes any of the following –
- (i) the suggestion, as a fact of that which is not true by one who does not believe it to be true;
- (ii) the active concealment of a fact by one having knowledge or belief of the fact;
- (iii) a promise made without any intention of performing it;
- (iv) any other act fitted to deceive;
- (v) any such act or omission as the law specially declares to be fraudulent.

- 14 Free Consent – Consent is said to be free when it is not caused by:
- (i) coercion, or
 - (ii) undue influence, or
 - (iii) fraud, or
 - (iv) misrepresentation, or
 - (v) mistake.
- Various modes of discharge of contract:

Void agreements

- 1 The contract between Salman and Rehan is partly valid to the extent of supply of cotton yarn and partly void where it restricts them absolutely from enforcing their rights by legal proceeding. Under the Contract Act, 1872 the remedy available to Rehan is that he may approach the Court if there is any dispute with Salman.
- 2 (b) The agreement between Naeem and Raheel is void as its object is unlawful. Raheel, therefore, is not bound to fulfil his part of the promise.
- 3 (i) Agreement in restraint of trade:
Yes, Arif is justified in starting a sweets business at Multan railway station. As any agreement by which anyone is restricted from exercising a lawful profession, trade or business of any kind, is void to that extent.
- (ii) Exception:
Arif in this case would not be justified to start similar business at Multan railway station. An agreement which restrains the seller of a goodwill from carrying on a business is valid if all the following conditions are fulfilled:
- Such restriction must relate to a similar business.
 - Such restriction must be within specified local limits.
 - Such restriction must be for the time so long as the buyer or any person deriving title to the goodwill from him carries on a like business in the specified local limits.
 - Such specified local limits must be reasonable to the Court having regard to the nature of the business.
- (iii) Agreement in restraint of legal proceedings:
Yes, Mansoor is justified in filing a suit against Arif.
Every agreement, by which any party is restricted absolutely from enforcing his rights under or in respect of any contract, by the usual legal proceedings in the ordinary tribunals, is void to that extent.
- (iv) Exception:
An agreement between Arif and Mansoor to refer to arbitration any dispute which may arise between them is not void. However, if Mansoor or Arif are not satisfied with the arbitration award, they cannot be restricted to go to the court of law. This right cannot be excluded by the agreement.
- 4 **Agreement in restraint of legal proceedings is void:**
The following are not absolute restrictions of legal proceedings
- An agreement whereby parties agree not to file an appeal in upper court of law.
 - Parties selecting one court of law between two courts equally competent.

Exceptions of Arbitration

An agreement between persons who agree that any dispute shall be referred to arbitration.

- Parties may agree that any dispute which may arise between them shall be referred to arbitration and only the amount awarded in such arbitration shall be recoverable.

(A suit may still be brought by a party in court for specific performance or recovery of that)

Two or more persons may agree in writing to refer to arbitration any question between them which has already arisen.

- 5 The agreement between Mohsin and Bari is void as its object is unlawful. Mohsin, therefore, is not bound to fulfill his part of the promise.
- 6 The following are the exceptions to the rule that agreement in restraint of trade are void:
 - (i) Restraint on Existing Partners
The Partnership agreement may provide that a partner shall not carry on any business other than that of the firm, while he is a partner.
 - (ii) Restraint on Outgoing Partners
A partner may make an agreement with his partners that on ceasing to be a partner on retirement or upon dissolution, he will not carry on any business similar to that of the firm within a specified period or within specified limits; and the agreement shall be valid if the restrictions are reasonable.
 - (iii) Restraint on Partner selling goodwill
A partner may, upon the sale of the goodwill of a firm make an agreement that such partner will not carry on any business similar to that of the firm within specified period or specified local limits; and such agreement shall be valid if restrictions imposed are reasonable.

Chapter 5 – Contingent contracts

1 **Contingent contract:**

It is a contingent contract as the condition i.e. certification of the construction in accordance with the layout plan by a third party is collateral to the contract. Although it is a valid contract, the performance can only be enforced by Zubair after happening of the collateral event. i.e. certification by Muneer.

- 2 The contract between Vazir and Saulat is a contingent contract whose performance is based on the happening of certain event collateral to the contract, i.e. arranging of license for Vazir. If such event has not happened the performance of the contract does not become due. It does not matter at all that Saulat had applied for the license and also paid processing fee of Rs. 100,000 to the authorities. Thus Vazir is not bound to purchase the boats from Saulat.

3 **Contingent agreement considered void ab-initio:**

Contingent agreement to do or not to do anything becomes void ab-initio, if an impossible event happens, whether the impossibility of the event is known or not known to the parties to the agreement at the time when it is made.

Illustration:

Bilal agrees to pay Rs. 100,000 to Yasin if he will marry Zahid's daughter Razi-a. She was dead at the time of the agreement. The contract is void ab-initio.

4 **Wagering Agreements:**

All agreements knowingly made to further or assist the entering into, effecting or carrying out, or to secure or guarantee the performance, of any agreement void being in nature of wager, are void. But in this case, Goga and Sheeda were not going to win or lose in terms of money as a result of wrestling match (i.e. uncertain event). The winning amount had not to be given out of their pockets, but had to be paid from the gate money which was provided by the public. As for the condition of payment for non-appearance, no uncertain event provided the equal chances of winning or losing. Therefore, Sheeda is entitled to recover the amount from Goga as the agreement between Goga and Sheeda is not a wagering agreement and therefore, it is enforceable at law.

5 **Contingent Contract**

No, this is not a contingent contract as the condition i.e. construction of a bungalow is not collateral to the contract; but in itself forms a consideration and is thus an integral part of the contract.

Essentials of a contingent contract

The following are the essential characteristics of a contingent contract:

- (i) the performance of such a contract depends upon the happening or non-happening of some future event;
- (ii) the event must be uncertain;
- (iii) the event must be collateral i.e. incidental to the contract.

Chapter 6 – Performance of a contract - I

Performance of a contract

- 1 Imran's objection is not valid. In the absence of any intimation from the debtor or circumstances indicating to which debt payment is to be applied, the creditor is free to use his discretion and apply it to any lawful debt actually due and payable to him from the debtor.

- 2 **Condition of Valid Offer**
 In order to constitute a valid offer, Masoom must fulfill the following conditions:
 - The offer must be unconditional;
 - It must be made at a proper time and place, and under such circumstance that Mubarak may have a reasonable opportunity of ascertaining that Masoom is able and willing there and then to deliver 300 Rolex watches;
 - Mubarak (the promisee) must have a reasonable opportunity of satisfying himself that the watches offered are the Rolex watches and are 300 in numbers which Masoom (the promisor) was bound by his promise to deliver.

- 3 Every offer/tender of valid performance must fulfill the following conditions:
 - (i) It must be unconditional.
 - (ii) It must be made:
 - At a proper time.
 - At a proper place.
 - Under such circumstances that the person to whom it is made may have a reasonable opportunity of ascertaining that the person by whom it is made is able and willing there and then to do the whole of what he is bound by his promise to do.
 - (iii) If the offer is an offer to deliver anything to the promisee, the promisee must have a reasonable opportunity of ascertaining that the thing being offered is the one which the promisor is bound to deliver. Effect of refusal to accept offer of performance: Where a promisor has made an offer of performance to the promisee, and the offer has not been accepted, the promisor is not responsible for non-performance, nor does he thereby lose his rights under the contract.

- 4 (i) The payment should be applied in discharging the following debts:

Debt of	Rupees
March 2, 2009	20,000
August 30, 2010	50,000
	70,000

As Ubaid has written the break-up of payment at the back of the cheque, it implies that payment should be applied to discharge those particular debts.

 - (ii) The payment should be applied in discharging the debts in the order in which they became due. It is irrelevant whether the debts are or are not barred by the law in force for the time being as to limitation of suits.

- 5 (i) The contract becomes voidable at the option of Mujahid and now Mujahid may claim Rs, 400,000 if the intention of the parties was that time was of the essence of the contract. If time was not of essence to the contract, Mujahid is entitled to compensation for any damage/loss which he has sustained through the non-fulfillment of the contract.
 - (ii) If Mujahid accepts the amount even after the delay he can claim compensation provided at the time of acceptance of performance, he had given notice to Adnan of his intention to do so.

- 6 Rights and responsibilities of Mehboob
- Mehboob would not be responsible for non-performance;
 - he will not lose his rights under the contract, for instance he will be entitled to compensation and contract will become voidable at his option;
 - in case of performance by Saulat on Mehboob's demand, Mehboob will be responsible to perform his promise.

Essentials of a valid offer of performance:

- (i) it must be unconditional;
- (ii) it must be made at a proper time and place, and under such circumstances that the person to whom it is made may have a reasonable opportunity of ascertaining that the person by whom it is made is able and willing there and then to do the whole of what he is bound by his promise to do;
- (iii) if the offer is an offer to deliver anything to the promisee, the promisee must have reasonable opportunity of seeing that the thing offered is the thing which the promisor is bound by his promise to deliver.

An offer to one of several joint promisees has the same legal consequences as an offer to all of them.

Discharge of a contract

1 **(d) Contract to do act afterwards becoming impossible or unlawful:**

A contract to do an act which, after the contract is made, becomes impossible, or, by reason of some event which the promisor could not prevent, becomes void when the act becomes impossible, or unlawful.

However, events that make the contract extremely difficult, costly or less beneficial or commercially unviable or non-profitable than that agreed at the time of its formation, but not impossible, are not accepted as an excuse for non-performance.

Therefore, in the given scenario, Imran Traders excuses shall not be acceptable and in the event of non-performance they will be held liable for the breach of contract and the consequential damages.

2 **(i) Supervening impossibility:**

Following are the circumstances under which the parties to the contract are not absolved from the performance of their contractual obligations on the ground of supervening impossibility:

- Difficulty of performance due to some un contemplated events or delays.
- Commercial impossibility like non-realisation of higher profits, increase in prices of raw material or other inputs due to any reason, or a sudden depreciation of currency.
- Default by a third person on whose work the promisor relied.
- Strikes, lock-outs and civil disturbances unless the parties have specifically agreed in this regard at the time of the contract.
- Failure of one of the objects in a contract with several objects.
- Self-induced impossibility.

3 **Discharge of a contract:**

A contract is said to be discharged when contractual relations between the parties to a contract are terminated or come to an end.

Discharge by agreement:

A contract can be discharged by mutual agreement in any of the following ways:

- (i) Novation:
 - Novation means the substitution of a new contract for an existing one.
 - This new contract may be between the same parties with new terms, or
 - between new parties with old or new terms.
 - (ii) Rescission:

Rescission is the cancellation of a contract by mutual agreement.
 - (iii) Alteration:

Alteration means a variation made in the language or terms of a contract with mutual agreement. When this occurs the original contract is discharged and a new contract is created. The parties in alteration remain same.
 - (iv) Remission:

Remission means acceptance of a lesser amount or lesser degree of performance than what was contracted for in full discharge of the contract. 0
 - (v) Waiver:

Waiver is a unilateral act of one person that results in the surrender of a legal right. Thus, it amounts to releasing a person of certain legal obligation under a contract.
 - (vi) Promisee's refusal/neglects:

If any promisee neglects or refuses to afford the promisor reasonable facilities for the performance of his promise, the promisor is excused by such neglect or refusal as to any non-performance caused thereby.
- 4 (i) Contract to do act afterwards becoming impossible or unlawful:
A contract to do an act which, after the contract is made, becomes impossible, or, by reason of some event which the promisor could not prevent, becomes void when the act becomes impossible, or unlawful.
However, events that make the contract extremely more difficult, costly or less beneficial or commercially unviable or non-profitable than that agreed at the time of its formation, but not impossible, are not accepted as an excuse for non-performance.
Therefore, in the given scenario, Lalchi Traders pleas shall not be acceptable and in the event of non-performance they will be held liable for the breach of contract and the consequential damages.
- (ii) A contract is discharged, if after its formation, a law or regulation is adopted that makes performance impossible/ illegal. Therefore, due to the imposition of ban on the import of yarn by the Government, Lalchi Traders would be discharged from their liability to perform the contract.
- 5 In the given situation, the contract becomes voidable at the option of Imran; and he is entitled to compensation from Yousuf for any loss which he may sustain in consequence of the non-performance of the contract.
- 6 **Following are the different situations in which a contract is discharged by mutual agreement:**
Novation: Novation takes place when a new contract is substituted for an existing one.
Alteration: Alteration means change in one or more of the terms of a contract.
Rescission: Rescission means cancellation of the contract. A contract may be rescinded by agreement between the parties at any time before it is discharged by performance or some other way.
Waiver: Waiver takes place where the promisee gives up his rights to claim performance of the contract.
Remission: Remission means acceptance of lesser amount or lesser degree of performance than what was contracted for, in full discharge of the contract.

- 7 When the parties to a contract mutually agree to substitute a new contract for an existing contract, it is called novation of a contract. Novation takes place when:
- (i) a new contract is substituted for an existing one between the same parties; or
 - (ii) parties to the contract are substituted by the new contracting parties while the terms of the contract remain the same.

Difference between novation and alteration

In case of novation there may be a change of parties also while in case of alteration parties remain the same, only the terms of a contract are altered.

Chapter 7 – Performance of a contract - II

- 1 **(b)** Time being essence of the contract, following would be the rights of Khwaja Contractors (KC) under the circumstances:
 - Contract would be voidable at the option of KC (promisee).
 - KC may insist that Sarya Traders (ST) should deliver building material. However, in order to claim compensation on account of the delayed supply, KC shall have to give notice to ST of their intention to do so at the time of acceptance of performance at any time other than earlier agreed.
 - KC may decide not to accept performance beyond the stipulated time and rescind the contract and claim compensation for any damages which it may have sustained due to non-fulfillment of the contract by ST.

- 2 **(c)** Munaf will not succeed in his case. He must be joined by Muslim as the right to claim performance rests with all the promisees (i.e. Munaf and Muslim) jointly and a single promisee (i.e. Munaf) cannot claim performance.

- 3 Rules regarding performance of reciprocal promises under the Contract Act, 1872
 - (i) Simultaneous performance
When a contract consists of reciprocal promises to be simultaneously performed, the promisor need not perform his promise unless the promisee is ready and willing to perform his reciprocal promise.
 - (ii) Order of performance
Where the order in which reciprocal promises are to be performed is expressly fixed by the contract, they must be performed in that order, and where the order is not expressly fixed by the contract, they must be performed in that order which nature of the transaction requires.
 - (iii) Preventing the performance
When a contract contains reciprocal promises, and one party to the contract prevents the other from performing his promise, the contract becomes voidable at the option of the party so prevented; and he is entitled to compensation from the other party for any loss which he may sustain in consequence of the non-performance of the contract.
 - (iv) Mutual and dependent reciprocal promises
Where the performance of one party depends on the prior performance of the other party and party who is liable to perform first, fails to perform it, then such party cannot claim the performance from the other party and must make compensation to the other party for any loss which the other party may sustain by non-performance of the contract.
 - (v) Promise to do legal & illegal things
Where persons reciprocally promise, firstly, to do certain things which are legal, and secondly, under specified circumstances, to do certain other things which are illegal, the first set of promises is a contract, but the second is a void agreement.

- 4 **(a)** Time being essence of the contract, following would be the rights of Riaz Grocery Stores (RGS) under the circumstances:
 - Contract would be voidable at the option of RGS (promisee);
 - RGS may insist that Golden Foods (GF) should deliver the product and to claim compensation on account of the delayed supply;
 - RGS may decide not to accept performance beyond the stipulated time and claim compensation for any damages which it may have sustained due to non-fulfillment of the contract by GF.

(b) Effect of acceptance of performance at a time other than that agreed upon:
Riaz Grocery Stores (RGS) is not entitled to claim compensation for any damages which it may have sustained through the non-fulfillment of the contract where performance beyond the stipulated time is accepted, unless at the time of acceptance RGS gives notice to GF of its intention to claim damages.

- 5 (a) Any one of Joint promisors may be compelled to perform In absence of express agreement to the contrary, Faheem, Saleem and Jameel are jointly liable to fulfil the promise.
However, Kamal, may compel anyone (Faheem/Saleem/Jameel) or more of them to perform whole of the promise.

Each joint promisor (Faheem/Saleem/Jameel) may compel every other joint promisor to contribute equally with himself to the performance of the promise.

If anyone of joint promisor (Faheem/Saleem/Jameel) or more of them makes default in such contribution, remaining joint promisors must bear the loss arising from such default in equal share.

Effect of release of one joint promisor

If Kamal releases Jameel, it will not discharge the other joint promisors Faheem and Saleem; neither would it free Jameel from responsibility

- b) In case of death of one or more of joint promisors, the liability would devolve as follows:
- to representatives of the deceased promisor jointly with the surviving promisor(s) in case of death of any of the joint promisors; and
 - to representatives of all of them jointly in case of death of all joint promisors.

- 6 (i) Discharge of Baqir and Qurban from their liability.
No, they are not discharged as Saleem and Atif are joint promisees and jointly have the right to receive payment. Thus payment to anyone of them does not operate as a complete discharge of debt.
- (ii) Will Saleem succeed in his case?
No, Saleem will not succeed in his case. He must be joined by Atif as the right to claim performance rests with all the promisees jointly and a single promisee cannot claim performance.

7 **Reciprocal promises**

Promises which form the consideration or part of the consideration (between the parties) for each other are called reciprocal promises. Where the order in which reciprocal promises are to be performed is expressly fixed by the contract, they shall be performed in that order; and Where the order is not expressly fixed by the contract, they shall be performed in the order which the nature of transaction requires.

- 8 In the absence of a contrary agreement, Nageen can return the jewellery set either to Saima or Nishat as the bailee is required to deliver the bailed goods to or according to direction of one joint owner without the consent of others.
- 9 Unless a contrary intention appears from the contract, the right to claim performance rests:
- (i) with Hatim and Tahir jointly
 - (ii) after the death of Hatim, with the representative(s) of Hatim jointly with Tahir
 - (iii) after the death of both Hatim and Tahir, with the representative(s) of both, jointly.

10 Time and place of performance not specified in contract:

If according to the contract, a promisor is to perform his promise without application by the promisee, and no time for performance is specified, the promise must be performed within a reasonable time. When a promise is to be performed without application by the promisee, and no place is fixed for the performance, it is the duty of the promisor to apply to the promisee to appoint a reasonable place for the performance of the promise, and to perform it at such place. The question "what is reasonable time and place" is, in each particular case, a question of fact.

Order of performance of reciprocal promises

The promises must be performed in the order expressly fixed by the contract, and where the order is not expressly fixed, they must be performed in the order which nature of transaction requires. Effect of release of one joint promisor

Where two or more persons have made a joint promise, release of one such promisor by the promisee does not discharge the other joint promisor(s); neither does it free the joint promisors so released from responsibility to the promisor who was not released.

- 11 No, Nasir need not perform his promise to pay and Maimar must compensate Nasir for any loss which Nasir may sustain due to Maimar's non-performance.
- 12 (i) Afaq alone cannot compel Mohsin to make payment unless a contrary intention appears from the contract. The right to claim performance rests with all the promisees jointly and a single promisee cannot demand performance.
- (ii) Mohsin may compel every other joint promisor to contribute equally with himself to the performance of the promise, unless a contrary intention appears from the contract. Therefore, Faizan must share the loss arising from default of Laila equally with Mohsin.

Chapter 8 – CERTAIN RELATIONS RESEMBLING THOSE CREATED BY CONTRACT**1 (a) Payment by interested person:**

To constitute a quasi-contract and be entitled for reimbursement, following conditions must be satisfied:

- (i) the person who made the payment must have his own interest in the payment; and
- (ii) the other person must be bound by law to pay.

In the given scenario, Qasim Soomro was legally bound to pay the land revenue to the Provincial Government and Mohsin, being interested in such payment, as his lease would have been annulled upon sale of land by the provincial government, is entitled to recover the amount from Qasim Soomro.

2 Different types of quasi contract**▪ Supply of necessities:**

If a person incapable to enter into contract or his dependent is supplied by another person necessities suited to his conditions in life, the person supplying such necessities is entitled to be reimbursed the price from the property of such incompetent person.

▪ Payment by interested person:

A person, who is interested in the payment of money which another is bound by law to pay, and who therefore pays it, is entitled to be reimbursed by the other.

▪ Person enjoying benefit of non-gratuitous act/goods:

Where a person lawfully does anything for another person, or delivers anything to him, not intending to do so gratuitously and such other person enjoys the benefit thereof, the latter is bound to make compensation to the former in respect of, or to restore, the thing so done or delivered.

▪ Finder of goods:

A person who finds goods belonging to another, and takes them into his custody, is subject to the same responsibility as a bailee.

▪ Payment by mistake or under coercion:

A person to whom money has been paid, or anything delivered by mistake or under coercion, must repay or return it.

3 (i) Claim for necessities supplied to person incapable of contracting, or on his account: Baqir can recover the amount from Sultan if following conditions were satisfied:

- (a) the jacket supplied was the necessity suited to Sultan's condition in life.
- (b) Baqir can recover the reasonable market value of Rs. 1,500 only from Sultan's property. He cannot recover Rs. 2,000 which Sultan had agreed to pay to Baqir as Sultan, being an incompetent person was not in the capacity to contract.

(ii) Reimbursement of person paying money due by another in payment of which he is interested: Rohi can recover the amount of electricity bill from Saulat only if the following two conditions were satisfied:

- (a) Rohi who made the payment had interest in such payment.
- (b) the payment must be such which Saulat was bound by law to pay.

(iii) Obligation of person enjoying benefit of non-gratuitous act:

Sami can recover the amount of service charges from Nadia if following conditions were satisfied:

- (a) Sami had lawfully done the service for Nadia, i.e. Nadia had the option to accept or reject the services rendered by Sami.
- (b) Sami did not have an intention to act gratuitously and Nadia had enjoyed the benefits of the service so provided by Sami.

4 Reimbursement of person paying money due by another, in payment of which he is interested: Apparently Maya acted voluntarily and had no interest of her own in the payment, she cannot recover the amount from Wasi. However, Maya can recover the payment if she can prove her interest in the payment which Wasi was bound by law to pay. Or Wasi promises to compensate Maya wholly or in part for the payment she made which Wasi was legally compelled to do.

5 **Obligations under Quasi Contracts**

If a person incapable of entering into a contract or any one whom he is legally bound to support, is supplied by another person with necessaries suited to his condition in life, the person who has furnished such supplies is entitled to be reimbursed from the property of such incapable person. A person who is interested in the payment of money which another is bound by law to pay, and who therefore pays it, is entitled to be reimbursed by the other. Where a person lawfully does anything for another person, or delivers anything to him, not intending to do so gratuitously, and such other person enjoys the benefit thereof, the latter is bound to make compensation to the former in respect of, or to restore, the thing so done or delivered.

A person who finds goods belonging to another and takes them into his custody, is subject to the same responsibility as a bailee.

A person to whom money has been paid, or anything delivered, by mistake or under coercion, must repay or return it.

6 Yes, Qasim can enforce the promise though consideration is not present, it being a promise to compensate the voluntarily payment which Omair (the promisor) was legally compellable to make.

7 **Quasi contract:**

A quasi contract is a kind of contract by which one party is bound to pay money in consideration of something done or suffered by the other party, though; no contractual relation exists between the parties. As a result of the above, certain legal rights and obligations are created between the concerned parties. Such type of relations resembles those created by the contract and such a contract is called Quasi contract.

It is an obligation based on the principle of equity and justice, which the law creates in the absence of any formal agreement.

Different Types of relationships causing Quasi Contract:

There are five kinds of quasi contractual obligations. These are discussed below:

- (a) Supply of necessaries: – If a person incapable of entering into a contract, or any one whom he is legally bound to support, is supplied by another person with necessaries suited to his condition in life the person who has furnished such supplies is entitled to be reimbursed from the property of such incapable person.
- (b) Payment of lawful dues by interested persons: – A person, who is interested in the payment of money which another is bound by law to pay, and who therefore pays it, is entitled to be reimbursed by the other.
- (c) Obligation of a person enjoying benefit of a non-gratuitous act: – Where a person lawfully does anything for another person, or delivers anything to him, not intending to do so gratuitously and such other person enjoys the benefit thereof, the latter is bound to make compensation to the former in respect of, or to restore, the thing so done or delivered.
- (d) Responsibility of finder of goods: – A person, who finds goods belonging to another and takes them into his custody, is subject to the same responsibility as a bailee.
- (e) Liability of a recipient of goods delivered by mistake or under coercion: – A person to whom money has been paid or anything delivered, by mistake or under coercion, must repay or return it.

- 8 Reimbursement of person paying money due by another, in payment of which he is interested
No, however, Baqar may recover the amount, if he has his interest in the payment.
To constitute a quasi contract and be entitled for reimbursement, following conditions must be satisfied:
- (i) the person who made the payment must have his own interest in the payment; and
 - (ii) the other person must be bound by law to pay.

Chapter 9 – Consequences for breach of contract

- 1 In this case, ST is liable to pay by way of compensation to KC, the difference between the contract price and the price which KC had to pay for procuring building material.
However, if ST was aware about the penalty, which KC had to pay to the third party due to delay in construction of hospital, at the time of contract with KC, ST would be liable to compensate the amount of Rs. 50,000 to KC.
On the contrary, if ST was not aware of any such penalty at the time of contract with KC, then KC cannot recover the amount of Rs. 50,000 from ST.
- 2 **Compensation for loss or damage caused by breach of contract:**
Saleem is entitled to receive from Phony (Pvt.) Limited (PL), compensation for any loss or damage caused to him which naturally arose in the usual course of things from such breach i.e. Rs. 2 million. However, such compensation can not be claimed for any remote and indirect loss or damage sustained by reason of the breach unless the parties knew about such consequences when they made the contract. Hence, PL would only be liable to pay the amount of Rs. 0.6 million claimed by JL if PL knew about this arrangement at the time of entering into the contract.
- 3 Ordinary damages are those which arise naturally in the usual course of things from breach itself. These damages can be awarded if the following two conditions are fulfilled:
 - The aggrieved party must suffer by breach of contract, and
 - The damage must be a direct consequence of the breach of contractSpecial damages are due to special losses which are in the reasonable contemplation of the parties at the time of formation of contract.
Special damages can be awarded for the special loss which the parties:
 - Knew about
 - At the time they made the contract
 - As likely to result from such breach of contract
- 4 Assessment of compensation on account of breach of contract:
 - (i) The aggrieved party is entitled to receive compensation for such loss or damage as is caused to him by breach of contract:
 - which naturally arose in the normal course of things from such breach; or
 - which parties knew, when they made contract to be likely to result from the breach of it.
 - (ii) Compensation will not be given for any remote or indirect loss or damage sustained by reason of the breach.
 - (iii) In estimating loss or damage arising from a breach of contract, the means which existed of remedying inconvenience caused by non-performance of contract must be taken into account.
 - (iv) If a sum is named in the contract as amount to be paid in case of such breach, or if contract contains any other stipulation by way of penalty, Court will allow a reasonable compensation not exceeding the amount so named or, as the case may be, penalty stipulated for.
 - (v) The injured party is to be placed in the same position, so far as money can do as if the contract has been performed.
- 5 On default in payment of debt by Ramla, Ovais may:
 - (i) bring a suit against Ramla upon debt and retain the goods pledged as a security; or
 - (ii) he may sell the jewellery pledged on giving Ramla reasonable notice of the sale.
If the proceeds of such sale are less than the amount due in respect of the debt, Ramla would still be liable to pay the balance.
If the proceeds of the sale are greater than the amount so due, Ovais shall pay over the surplus to Ramla.

Chapter 10 – Agency

- 1 Shoaib, being a minor, lacks the capacity to enter into a legally binding contract with the seller. Therefore, Shoaib is not bound by the contract and the contract is void ab-initio. A minor can only be bound by a contract, if he has been supplied with necessaries suited to his condition in life. His liability in such a case would be limited to the extent of his property, if any.

In this case, the vintage car cannot be regarded as a necessary good. Therefore, the seller cannot enforce payment for the vintage car against Shoaib. The seller can only claim for the return of his car through an order of restitution. Similarly, Ijaz Munsif cannot be held liable for the price of the car which his son Shoaib bought. He would have been held liable if his son had either entered into a contract jointly with him or the contract was for the supply of necessaries to Shoaib.

Moreover in the given situation Ijaz Munsif have not represented shoaib to be his agent therefore he cannot be held liable on the principal of estoppel

- 2 (iv) Khizar in this situation has become agent of Lucky by estoppel. Lucky is bound by this transaction and he is stopped from denying the existence of the agency since he gave out clear representation to others by smiling and keeping quiet.
Moiz relied on representation of existence of agency. Thus, if he suffers a loss from the transaction, he may hold Lucky liable as principal.
- 3 The relationship between Arif and Moiz, in the above situation, is that of an agency and presence of consideration is not necessary for creation of agency. Request by Arif to Moiz to look after his shop in his absence tantamount to an express authority which may be given by words spoken or written. Arif's liability against Moiz as a principal: Since Arif asked Moiz to look after his shop during his absence, he is bound to indemnify Moiz against all expenses incurred by Moiz on the repair of deep-freezer. The repair of deep-freezer was a lawful act done by Moiz in exercise of the authority conferred on him. Further, Arif is also bound to bear the discount of 5% which Moiz offered to the customers on the first day, on the pretext that, an agent has the authority in an emergency to do all such acts as a man of ordinary prudence would, for protecting his principal from losses under similar circumstances.

Rights of Arif:

However, Moiz's action of continuing the discount of 5% on sale of meat, following the repair of deep-freezer, was beyond the authority bestowed upon him by Arif as Arif had simply asked him to look after his shop in his absence. Further, an agent is bound to conduct the business of his principal according to the directions given by the principal, or in the absence of any such directions, according to the custom which prevails in doing business of the same kind at the place where the agent conducts such business. When the agent acts otherwise, if any loss is sustained he must make it good to his principal and if any profit accrues he must account for it. In view of above, Moiz's act of offering 5% discount after the first day cannot be justified as a lawful act necessary for the purpose, or usually done in the course of conducting such business. Resultantly, Arif is entitled to recover the loss incurred as a result of this 5% discount on the price that had been originally fixed by Arif.

- 4 In the absence of any special contract, payment for the performance of any act is not due to the agent until the completion of such act. Therefore, under the given situation, Thaseen is entitled to receive remuneration for selling the car and recovering Rs. 500,000 from Asad and for investing Rs. 400,000 on good security, according to the instructions given by Behram However, he is not entitled to receive any remuneration for investing Rs. 100,000 on volatile security. As he is guilty of misconduct relating to that part of investment. Thaseen is also liable to make good the loss of Rs. 50,000 to Behram as he acted otherwise than the directions given to him by Behram.

5 Agent's authority in an 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.

Chapter 11 – NATURE OF PARTNERSHIP**1 (i) Existence of partnership:**

No, Adeeb's widow is not a partner in the firm. The receipt by a person of a share of the profits of a business, is a prima facie evidence of the existence of partnership. However, the receipt by the widow of a deceased partner, as annuity, does not of itself make the receiver a partner with the persons carrying on the business. In determining whether Adeeb's widow is a partner in the firm regard shall be had to the presence of mutual agency relationship among Moiz, Mumtaz and Adeeb's widow, which is a conclusive evidence, of the presence of partnership, and which in this case does not exist.

2 Determination of rights and duties of partners by contract between them:

The contract between the partners may be varied by consent of all the partners, and such consent may be expressed or may be implied by a course of dealing. In view of above, the suit filed by Rehan and Bali against Aftab is not maintainable because by accepting profits for the past many years in a ratio different from the agreed ratio they have impliedly consented to the variation in the contract. i.e. partnership deed.

3 Circumstances in which a non-partner could benefit from the profits of a partnership.

Following are the circumstances in which a non-partner could benefit from the profits of a partnership:

- (i) Lender of money to persons engaged or about to engage in any business
- (ii) Servant or agent as remuneration
- (iii) Widow or child of a deceased partner as annuity
- (iv) Transferee of a partner's interest
- (v) A minor who is admitted to the benefits of partnership
- (vi) Previous owner or part owner as consideration for the sale of goodwill or share thereof.

4 Mode of determining existence of partnership:

In determining whether X and Y are partners, regard shall be had to the real relationship between the partners, as shown by all the relevant facts taken together.

A partnership exists where following conditions are complied with:

- (i) There is an agreement between two or more persons;
- (ii) They run a business with the intention of sharing profits; and
- (iii) The business is run by all, or by any one of them acting for all.

The Partnership Act, does not require that a partner must contribute money or capital in the partnership.

Therefore, since both X and Y have a common interest in the same business in which they are sharing profit and have a mutual agency relationship between them, partnership does exist in above situation unless it can be proved that real relationship of being partners does not exist

5 (a) Under the following circumstances the receipt by a person of a share of profits of a business does not of itself make him a partner with the persons carrying on the business:

where profit or payment is received

- (i) by a lender of money from persons engaged or about to engage in any business
- (ii) by a servant or agent as a remuneration
- (iii) by the widow or child of a deceased partner, as annuity
- (iv) by the previous owner or part owner of the business, as consideration for the sale of goodwill or share thereof
- (v) by a transferee of a partner's interest

- (vi) by the persons holding a joint or a common interest in any property
- (vii) by the minor who is admitted to the benefits of existing partnership
- (viii) by a sub partner from a partner in the firm.

6 Mode of determining existence of partnership:

In determining whether Munaf and Lari constitute a partnership, regard shall be had to the real relation between the parties, as shown by all relevant facts taken together.

The essentials of a partnership are:

- (i) There should be a relationship by agreement between two or more persons;
- (ii) They should run a business with the intention of sharing profits; and
- (iii) The business should be run by all, or by any one of them acting for all.

The Partnership Act does not require that a partner must contribute money or capital.

Similarly the partners may also agree that any one of them shall not be liable for losses.

Thus, in the presence of the above essentials and the fact that Lari is entitled to exercise all the powers of a partner Munaf and Lari are said to have constituted a partnership.

7 Sharing profits is not a conclusive evidence of a partnership:

These situations are:

- The joint owners of a property who share profits or gross returns arising from the property are not partners.
- Where the profits are received by a creditor in payment of a debt or as interest on loan.
- Where the profits are received as wages by an employee.
- Where the profits are received as an annuity by a widow or child of a deceased partner.
- Where profits are received as consideration for the sale of property/goodwill or share thereof.
- A transferee of a partner's interest.
- A minor who is admitted to the benefits of an existing partnership.

8 In the absence of any agreement, D will be entitled to 1/4th of the profits and A, B and C will share the balance of the profits in the ratio of 4:3:2.

9 Partnership at will: where no provision is made by contract between the partners for the duration of their partnership, or for the determination of their partnership, the partnership is "partnership at will". Particular Partnership: A person may become a partner with another person in particular adventures or undertakings. The partnership so formed will be called particular partnership.

Chapter 12 – RELATIONS OF PARTNERS TO ONE ANOTHER

- 1 Tahira and Farhana would be justified in their demand, if they have restrained Sadia from carrying on another business other than that of the firm as is permitted under the Partnership Act, 1932.
- In the absence of any such agreement, they are not justified in claiming profits of the jewellery shop as the said business is not of same nature nor competes with the bridal boutique business.
- Moreover, jewellery shop having same customers does not amount to misusing resources of boutique business unless it is established that Sadia had used property or business connection of boutique or the firm's name to earn personal profits i.e. if she referred the boutique customers to jewellery shop, only then she would be liable to pay such profits to Tahira and Farhana.
- 2 **General duties of partners:**
Following are the mandatory duties of a partner that cannot be changed by an agreement amongst the partners:
- (i) Duty to be just and faithful.
 - (ii) Duty to carry on business to the greatest common advantage.
 - (iii) Duty to render true accounts.
 - (iv) Duty to provide full information.
 - (v) Duty to indemnify for loss caused by fraud.
 - (vi) Duty to be liable jointly and severally - unlimited liability.
 - (vii) Duty to act within authority.
 - (viii) Duty in case of emergency.
- 3 **Mandatory duties of partners:**
Following are the mandatory duties of a partner that cannot be changed by an agreement amongst the partners:
- Duty to be just and faithful.
 - Duty to carry on business to the greatest common advantage.
 - Duty to render true accounts.
 - Duty to provide full information.
 - Duty to indemnify for loss caused by fraud.
 - Duty to be liable jointly and severally - unlimited liability.
 - Duty to act within authority.
 - Duty in case of emergency.
- 4 (a) **Restriction of partner's implied authority:**
Any act done by a partner on behalf of the firm which falls within his implied authority binds the firm unless, the person with whom he is dealing knows about the restriction.
Under the given scenario, the firm and all the partners are jointly and severally liable to pay the entire amount to Wajid as he was unaware of any such restriction on partners authority.
- (b) **Partnership property:**
Land provided by Yaseen:
Subject to contract between the partners, the land would not be treated as the partnership property. It will become the partnership property only if the partners show an intention to make it so.
But since Yaseen, by way of an agreement, brought the property only for the use of the partnership, the mere use of such land by the partnership would not make the land part of the partnership property.

Delivery van:

In this case, van does not constitute partnership property because recording of receivable in partnership books shows that the van was not acquired for the partnership.

5 Personal profits earned by partners

Gul has a duty to give full information to other partners, in relation to everything affecting the partnership. Subject to contract between the partners, if Gul had derived any profit for himself from any transactions with the firm then Gul shall account for that profit and pay it to the firm.

A partnership exists where following conditions are complied with:

- (i) There is an agreement between two or more persons;
- (ii) They run a business with the intention of sharing profits; and
- (iii) The business is run by all, or by any one of them acting for all.

The Partnership Act, does not require that a partner must contribute money or capital in the partnership.

Therefore, since both X and Y have a common interest in the same business in which they are sharing profit and have a mutual agency relationship between them, partnership does exist in above situation unless it can be proved that real relationship of being partners does not exist

6 (b) Interest to be received by each partner:

Where a partner is entitled to interest on capital such interest is required to be paid only out of profits of the firm. During the year, since the firm has incurred a loss, all the partners are not entitled to receive any interest on their capital.

However, any partner making any payment, for the purpose of the business, beyond the amount of his capital contribution, is entitled to interest thereon at the rate of 6% per annum.

Therefore, Abid is entitled to receive Rs. 6,000 on the amount paid as a security deposit.

(c) Noman would only be considered a partner in the firm when either he gives public notice of becoming a partner, at any time within six months of the later of following dates:

- the date of his attaining majority; or
 - the date of his obtaining knowledge that he had been admitted to the benefits of partnership; or
- If Noman fails to give such notice he shall become a partner on the expiry of the above six months. i.e. 15 January 2017 in the given case.

Since up to 10 January 2017, when the firm suffered heavy losses, Noman's status in the firm had not been determined, i.e. whether he is or is not a partner in the firm, Noman would not be liable to pay additional Rs. 100,000 and would only be liable up to the extent of his share in the firm.

7 (i) General duties of partners:

Following are the mandatory duties of a partner that cannot be changed by an agreement amongst the partners:

- Duty to be just and faithful.
- Duty to carry on business to the greatest common advantage.
- Duty to render true accounts.
- Duty to provide full information.
- Duty to indemnify for loss caused by fraud.
- Duty to be liable jointly and severally – unlimited liability.
- Duty to act within authority.
- Duty in case of emergency.

8 Property of the firm:

Subject to contract between the partners, the property of the firm includes:

- All property originally brought into the common stock of the firm;
- All rights or interest in the property originally so brought;
- All property acquired, by purchase or otherwise, by the firm or for the firm and all rights and interest in any property so acquired; and
- Goodwill of the business of the firm;
- Unless, any contrary intention appears any property purchased with partnership money with or without other partners consent will be deemed to be partnership property.

Therefore, the plot of land which Rufi intends to acquire for the firm with his own money shall become firm's property only if partners intend to make it so.

Application of the property of the firm:

Subject to contract between the partners, the property of the firm shall be held and used by the partners exclusively for the purposes of the business.

9 Subject to contract between the partners, following are their mutual rights and liabilities:

- (i) Every partner has a right to take part in the conduct of the business;
- (ii) Every partner is bound to attend diligently to his duties in the conduct of the business;
- (iii) Every partner shall have the right to express his opinion in case of difference arising as to ordinary business matters;
- (iv) Every partner has a right to have access to and to inspect and copy any of the books of the firm;
- (v) A partner is not entitled to receive remuneration for taking part in the conduct of the business;
- (vi) The partners are entitled to share equally in the profits earned, and shall contribute equally to the losses sustained by the firm;
- (vii) Where a partner is entitled to interest on the capital subscribed by him such interest shall be payable only out of profits;
- (viii) A partner making, for the purposes of the business, any payment or advance beyond the amount of capital he has agreed to subscribe, is entitled to interest thereon at the rate of six percent per annum;
- (ix) The firm shall indemnify a partner in respect of payments made and liabilities incurred by him:
 - in the ordinary and proper conduct of the business, and
 - in doing such act, in an emergency, for the purpose of protecting the firm from loss, as would be done by a person of ordinary prudence, in his own case, under similar circumstances; and
- (x) A partner shall indemnify the firm for any loss caused to it by his willful neglect in the conduct of the business of the firm.

10 Behram has clearly exceeded his authority. However, Nomi and Sultan cannot repudiate Behram's transaction with the bank. As a trading partnership, all the partners have the implied authority to borrow money on the credit of the firm and the bank is under no obligation to find out the purpose for which the loan has actually been used.

Further, where a partner acting within his apparent authority receives money from a third party and misapplies it, the firm is liable to make good the loss. As a result, each of the partners is jointly and severally liable to the bank for repayment.

However, Behram would be personally liable to the other partners for Rs. 100,000 and shall indemnify the firm for any loss caused to it by his willful neglect in the conduct of the business of the firm. Further consequence of his breach of duty not to act in any way prejudicial to the partnership business; the partnership could be wound up.

- 11 Subject to contract between the partners, the property of the firm includes all property and rights and interests in property
- originally brought into the stock of the firm, or
 - acquired by purchase or otherwise by or for the firm, or
 - for the purposes and in the course of the business of the firm, and it also includes the goodwill of the business.
- 12 Like any other contract a contract of partnership may be rescinded on the ground of fraud or misrepresentation. Therefore, Raja and Nazir who were defrauded by Atif have the right to rescind partnership contract and are entitled to the following rights, without prejudice to any other right:
- (i) to a lien on, or a right of retention of,
 - the surplus or
 - the assets of the firm remaining after the debts of the firm have been paid,
 - for any sum paid by them for the purchase of a share in the firm; and
 - for any capital contributed by them;
 - (ii) to rank as a creditor of the firm in respect of any payment made by them towards the debts of the firm; and
 - (iii) to be indemnified by Atif who is guilty of fraud or misrepresentation against all debts of firm.
- 13 Subject to contract between the partners,
- (i) every partner has a right to take part in the conduct of the business;
 - (ii) every partner is bound to attend diligently to his duties in the conduct of the business;
 - (iii) any difference arising as to ordinary matters connected with the business may be decided by a majority of the partners, and every partner shall have the right to express his opinion before the matter is decided;
 - (iv) no change may be made in the nature of the business without the consent of all the partners;
 - (v) every partner has a right to have access to and to inspect and copy any of the books of the firm;
 - (vi) the firm shall indemnify a partner in respect of payments made and liabilities incurred by him
 - In the ordinary and proper conduct of the business, and
 - In doing such act, in an emergency, for the purpose of protecting the firm from loss, as would be done by a person of ordinary prudence, in his own case, under similar circumstances.
- 14 A and B may carry on a business competing with that of Lahori Maza and they may advertise such business. However, it is the right of C that A and B do not:
- (i) use the firm name
 - (ii) represent themselves as carrying on the business of the firm, or
 - (iii) solicit the persons who were dealing with the firm before its sale.
- 15 **The property of the firm**
Subject to the contract between the partners, the property of the firm includes:
- (i) all property and rights and interests in property originally brought into the stock of the firm or
 - (ii) all property acquired by purchase or otherwise, by or for the firm or for the purposes and in the course of the business of the firm,
 - (iii) the goodwill of the business.
 - (iv) property and rights and interests in property acquired with money belonging to the firm unless the contrary intention appears.

The shop is not property of the firm as Irfan has bought it with the firm's money and by debiting it in his account, he showed his intention of taking the money as loan.

16 Mutual rights and liabilities of partners

In the absence of any express contract:

- (i) every partner has a right to take part in the conduct of the business;
- (ii) every partner shall have the right to express his opinion before a matter is decided. Any difference arising as to ordinary matters connected with the business may be decided by a majority of the partners, but no change may be made in the nature of the business without the consent of all the partners;
- (iii) every partner has a right to have access to and to inspect and copy any of the books of the firm;
- (iv) a partner is not entitled to receive remuneration for taking part in the conduct of the business;
- (v) the partners are entitled to share equally in the profits earned and shall contribute equally to the losses sustained by the firm;
- (vi) where a partner is entitled to interest on the capital subscribed by him such interest shall be payable only out of the profits;
- (vii) a partner making, for the purposes of the business, any payment or advance beyond the amount of capital he has agreed to subscribe, is entitled to interest thereon at the rate of six percent per annum;
- (viii) the firm shall indemnify a partner in respect of payments made and liabilities incurred by him:
 - in the ordinary and proper conduct of the business, and
 - in doing such act, in an emergency, for the purpose of protecting the firm from loss, as would be done by a person of ordinary prudence, in his own case, under similar circumstances; and
- (ix) a partner shall indemnify the firm for any loss caused to it by his willful neglect in the conduct of the business of the firm.

17 A contract of partnership like any other contract may be rescinded on the ground of fraud or misrepresentation. Therefore, Basit who was misled by Danish has a right to rescind the partnership contract and is entitled to the following rights, without prejudice to any other right:

- (i) to a lien on, or a right of retention of, the surplus or the assets of the firm remaining after the debts of the firm have been paid, for any sum paid by him for the purchase of a share in the firm and for any capital contributed by him;
- (ii) to rank as a creditor of the firm in respect of any payment made by him towards the debts of the firm; and
- (iii) to be indemnified by the partner or partners guilty of the fraud or misrepresentation against all the debts of the firm.

18 Right of Pervez to share subsequent profits

In the absence of a contract to the contrary, Pervez has an option either:

- (i) to claim such share of the profits of the firm, earned after he ceased to be a partner, as may be attributable to the use of his share of the property of the firm; or
- (ii) to claim interest at the rate of six percent per annum on the amount of his share in the property of the firm.

19 Personal profits earned by partners

No, Talha and Umair are not liable to share such profits with Sohail as this transaction was not within the scope of the partnership. Subject to the contract between the partners, the partner shall account for that profit and pay it to the firm, which:

- (i) he derives for himself, from any transaction of the firm, or from the use of the property or business connection of the firm or the firm's name; or
- (ii) he made for himself, from carrying on any business of the same nature as and competing with that of the firm.

Chapter 13 – RELATIONS OF PARTNERS TO 3rd Parties**1 (a) Rights of the bank in the dairy business:**

- The bank is entitled to receive the share of profits of Malik in the dairy business.
- In case of dissolution or if Malik ceases to be a partner, the bank will be entitled as against the remaining partners to receive the share of the assets of the dairy business to which Malik was entitled, and, for the purpose of ascertaining that share, to receive partnership's accounts as from the date of the dissolution.

Limitation of the bank in the dairy business:

The bank, during the continuance of the dairy business, is not entitled to:

- interfere in the conduct of the dairy business, or
- to require its accounts, or
- to inspect the books of the dairy business.

2 Admittance of minor as a partner:

By giving notice of her willingness to be a partner in the firm to the existing partners, Laila would not become a partner in the firm.

In order to be a partner, Laila may give a public notice that she has elected to become a partner in the firm and such notice may be given at any time within six months of her attaining majority i.e. up to 26 September 2020, or her obtaining knowledge that she has been admitted to the benefits of partnership i.e. 20 October 2020, whichever date is later. And such public notice shall determine her position as regards the firm.

If Laila fails to give public notice till 20 October 2020, she will become a partner in the firm on the expiry of the said six months.

Laila's liability with regard to firm's debts:

Laila would be personally liable to third parties for all debts of the firm from the date she was admitted to the benefits of partnership i.e. 26 March 2019.

3 (a)**(ii) Mutual rights and liabilities of partners and the firm:**

Bari has clearly exceeded his authority. However, Saima and Ahsan cannot repudiate Bari's transaction with the client. Bari's act of receiving Rs. 150,000 from the client, for defending them against a law suit, was done to carry on, in the usual way, business of the kind carried on by the firm and such act binds the firm. Further, where a partner acting within his apparent authority receives money from a third party and misapplies it, the firm is liable to make good the loss. As a result, each of the partners is jointly and severally liable to the client for all the acts of the firm done while they are the partners.

Similarly, where by the wrongful act or omission of Bari (not defending the client against the law suit), a loss or injury is caused to the client or any penalty is incurred, the firm is liable to the same extent as the partners are liable.

However, Bari would be personally liable to the other partners for Rs. 150,000 and shall indemnify the firm for any loss caused to it by his wilful neglect in the conduct of the business of the firm.

Further consequence of his breach of duty not to act in any way prejudicial to the partnership business; the partnership could be wound up

(b) Restrictions imposed on the implied authority of a partner:

In the absence of any usage or custom of trade to the contrary, the implied authority of a partner does not empower him to:

- (i) submit a dispute relating to the business of the firm to arbitration,
- (ii) open a banking account on behalf of the firm in his own name,
- (iii) compromise or relinquish any claim or portion of a claim by the firm,
- (iv) withdraw a suit or proceeding filed on behalf of the firm,

4 (b) Minor's admission to the partnership:

Partnership is created by a valid contract. Since a minor is not capable of entering into a contract, a contract by or with a minor is void ab-initio. Accordingly, Muneer cannot be a partner in the firm. However, Muneer can be admitted to the benefits of partnership with the consent of all the partners and not only by Naila alone.

The rights and liabilities of Muneer, who has been admitted to the benefits of partnership are governed by the following rules:

Rights:

- (i) Right to share property and profits of the firm as agreed by the partners.
- (ii) Right of inspecting and taking copies of accounts of the firms ONLY.
- (iii) Right not to be adjudged insolvent.

Liabilities:

- (i) Personally not liable to third parties for the debts of the firm i.e. limited liability.
- (ii) His share is liable for the acts of the firm.

5 (a)

- (i) A transfer by a partner of his interest in the firm does not entitle Hatim to interfere in the conduct of the business, or to require accounts, or to inspect the books of the firm, but entitles Hatim only to receive the share of profits of Zain, and Hatim shall accept the account of profits agreed to by the partners.
- (ii) The firm cannot be made liable since the receiving of money by Sarim for investment purposes is not in ordinary course of a lawyer's business and accordingly, is beyond the scope of his implied authority as a partner.
- (iii) A partner has authority, in an emergency, to do all such acts for the purpose of protecting the firm from loss as would be done by a person of ordinary prudence, in his own case, acting under similar circumstances, and such acts bind the firm. Hence, Faizan cannot be held responsible for misconduct.

(b) Holding out

Anyone, who by words spoken or written or by conduct represents himself, or knowingly permits himself to be represented, to be a partner in a firm, is liable as a partner in that firm to anyone who has on the faith of any such representation given credit to the firm, whether the person representing himself or represented to be a partner does or does not know that the representation has reached the person so giving credit.

Exceptions of holding out partner

After a partner's death if the business of the firm is continued in the old firm's name, the continued use of that name or of the deceased partner will not itself make legal representatives of the deceased partner liable for any act of the firm done after his death.

- 6 The act of a partner which is done to carry on, in the usual way, business of the kind carried on by the firm, binds the firm. Further, in case a loss is sustained by a third party ME Motors (MEM) would be liable even for the wrongful acts of Majid. Therefore, Zahid can recover the amount from MEM or any of the partners.

However, Majid shall indemnify MEM or Ebad for any loss caused to them by his fraud in the conduct of the firm's business.

- 7 Noman would only be considered a partner in the firm when either he gives public notice of becoming a partner, at any time within six months of the later of following dates:
- the date of his attaining majority; or
 - the date of his obtaining knowledge that he had been admitted to the benefits of partnership; or
- If Noman fails to give such notice he shall become a partner on the expiry of the above six months. i.e. 15 January 2017 in the given case.

Since up to 10 January 2017, when the firm suffered heavy losses, Noman's status in the firm had not been determined, i.e. whether he is or is not a partner in the firm, Noman would not be liable to pay additional Rs. 100,000 and would only be liable up to the extent of his share in the firm.

- 8 (a) Partner by Estoppel or Holding out:

Amjad would be regarded as partner by estoppel or holding out if:

- he knowingly permitted himself to be represented as a partner in the firm by Kashif.
- Kalim on the faith of such representation extended credit to the firm.

It does not matter whether Amjad does or does not know that the representation has reached Kalim. Therefore, in such case, Amjad would be liable for the outstanding amount to Kalim.

However, Amjad would not be considered as holding out partner if he has denied Kashif's representation in public holding him as a partner in the firm or if he has no knowledge of Kashif's representation.

(b)

- (i) Subject to contract between the partners, a partner can bind the firm by his actions. However, in case of differences, decision should be made by majority of the partners. Asghar cannot take decision without consultation with other partners. Every partner has a right to express his opinion before the matter is decided.
- (ii) Every partner is liable jointly with all the other partners and also severally to third parties for all acts of the firm done while he is a partner. A partner may not share in the business losses, yet his liability towards outsiders shall be unlimited. If the partnership assets are insufficient to meet the firm's liabilities, Careem would have to repay the amount personally. However, Careem can recover the amount which he is called upon to pay to the creditors from Asghar and Babar.

- 9 (ii) Restrictions on the implied authority:

In the absence of any usage or custom of trade to the contrary, the implied authority of a partner does not empower him to:-

- submit a dispute relating to the business of the firm to arbitration,
- open a bank account on behalf of the firm in his own name,
- compromise or relinquish any claim or portion of a claim by the firm,
- withdraw a suit or proceeding filed on behalf of the firm,
- admit any liability in a suit or proceeding against the firm,
- acquire immovable property on behalf of the firm,
- transfer immovable property belonging to the firm, or
- enter into partnership on behalf of the firm.

- 10 (i) Rights:
- right to share property and profits of the firm as agreed by the partners.
 - right to have access to accounts of the firm and not to the secret books of the firm.
 - right not to be adjudged insolvent
- (ii) Disabilities:
- he will not be considered as a partner.
 - cannot file suit against partners for profit and property except after disconnecting his relation with the firm.
 - not entitled to have access to books other than accounts.
- 11 Rights of Dostana Bank Limited:
Following rights are available to the bank:
- (i) entitlement to receive the share of the profits of Sham (the transferring partner).
- (ii) On the dissolution of the firm or on retirement of Sham the bank is entitled to receive:
- the share of the assets of the firm to which Sham is entitled.
 - an account from the date of the dissolution for the purpose of ascertaining the share.

Disabilities of Dostana Bank Limited:

The bank shall not be treated as a partner in the firm and during the continuance of the partnership, shall not be entitled, to:-

- interfere in the conduct of the business of the firm.
- require accounts.
- inspect the books of the firm.
- challenge the accounts of profits agreed to by the partners.
- sue for dissolution of the firm.

- 12 Liability of a partner for acts of the firm:

Where after a partner's death, the business is continued in the old firm name, the continued use of that name or of the deceased partner's name as a part thereof shall not of itself make his legal representative or his estate liable for any act of the firm done after his death. Bari Builders cannot sue Abid's estate for the recovery of the outstanding amount of the credit which was extended after Abid's death.

However, Bari Builders can recover the outstanding amount from Abid's estate only if the credit was extended to the firm before Abid's death.

Moreover, since 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, Bari Builders may file a suit against Meher for the recovery of outstanding balance and succeed, provided Meher was a partner in the firm at the time when credit was extended to the firm.

- 13 Minor's admission to the partnership:

Partnership is created by a valid contract. Since a minor is not capable of entering into a contract, a contract by or with a minor is void ab-initio. Accordingly, a minor cannot be a partner in the firm. However, a minor can be admitted to the benefits of partnership with the consent of all the partners for the time being. i.e. before admission of a minor there must be an existence of partnership.

Rights, liabilities/limitations of Raghiv (minor):

The rights, liabilities and limitations of Raghiv who has been admitted to the benefits of partnership are governed by the following rules:

Rights:

- (i) Right to share property and profits of the firm as agreed by the partners.
- (ii) Right of inspecting and taking copies of accounts of the firms ONLY.
- (iii) Right not to be adjudged insolvent.

Liabilities:

- (i) Personally not liable to third parties for the debts of the firm i.e. limited liability.
- (ii) His share is liable for the acts of the firm.

Limitations:

- (i) No status of partner. The minor is not entitled to take part in the conduct of the business of firm.
- (ii) No suit against partners for profit and property except after disconnecting his relation with the firm.
- (iii) Not entitled to have access to books other than accounts.

- 14 Restrictions imposed on the implied authority of a partner:
In the absence of any usage or custom of trade to the contrary, the implied authority of a partner does not empower him to:
- (i) submit a dispute relating to the business of the firm to arbitration,
 - (ii) open a banking account on behalf of the firm in his own name,
 - (iii) compromise or relinquish any claim or portion of a claim by the firm,
 - (iv) withdraw a suit or proceeding filed on behalf of the firm,
 - (v) admit any liability in a suit or proceeding against the firm,
 - (vi) acquire immovable property on behalf of the firm,
 - (vii) transfer immovable property belonging to the firm, or
 - (viii) enter into partnership on behalf of the firm.
- 15 Expulsion of a partner: Marvi cannot be expelled from firm by Zahid and Ahmed except if following conditions are fulfilled:
- (i) the power of expulsion has been expressly provided in the partnership deed;
 - (ii) power has been exercised by all partners whose concurrence must be necessary in agreement;
 - (iii) the power has been exercised in absolute good faith.
- Liability of Marvi after expulsion from partnership: So far as the liability is concerned, Marvi would be treated as if she were a retired partner. Marvi may be discharged from any liability to any third party for the acts of the firm done before her retirement if,
- (i) Zahid and Ahmed agree with Marvi to release her from the existing debts and liabilities; and
 - (ii) the third party is informed of Marvi's expulsion and the new arrangement and such third party has expressly or impliedly agreed to release Marvi and accept the reconstituted firm as their debtor. Marvi will not be liable for any act of the firm done after her expulsion if a public notice of expulsion is given either by Marvi herself or by Zahid or Ahmed of the reconstituted firm. If a public notice is not given Marvi and the partners will continue to be liable as partners to third parties for any act done by any of them which would have been an act of the firm if done before the expulsion.
- 16 Yaseen is entitled to the repayment of premium or of such part thereof as may be reasonable regard being had to the terms upon which he became a partner and to the length of time during which he was a partner. He will not be entitled to repayment of premium if the dissolution of the firm was:
- (i) By the death of a partner.
 - (ii) Mainly due to his own misconduct.
 - (iii) In pursuance of an agreement containing no provision for the return of the premium or any part of it.
- 17 The authority of a partner to bind the firm with his acts is referred to as the implied authority of a partner. Accordingly, for an act to be covered within the implied authority, it is necessary that:
- (i) The act should be for the kind of business carried on by the firm;
 - (ii) The act should be done in the usual way of such business; and
 - (iii) The act must be done in the name of the firm or in any other manner expressing or implying an intention to bind the firm.

- 18 (i) Liability of a partner for acts of the firm 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.
- (ii) Liability of the firm for wrongful acts of a partner Where, by the wrongful act or omission of a partner acting in the ordinary course of the business of a firm, or with the authority of his partners, loss or injury is caused to any third party, or any penalty is incurred, the firm is liable to the same extent as the partner. Although the firm is liable to the third party for the loss caused to him (third party) by fraud committed by a partner, but, as between the partners, the same must be borne by the partner committing the fraud and cannot be shared among all the partners.
- (iii) Liability of firm for misapplication of money or property by a partner The firm is liable to make good the loss where:
- A partner acting within his apparent authority receives money or property from a third party and misapplies it, or
 - A firm in the course of its business receives money or property from a third party, and the money or property is misapplied by any of the partners while it is in the custody of the firm.
- 19 Yawar, a minor may not be a partner in a firm, but, with the consent of all the partners for the time being, he may be admitted to the benefits of partnership.

Rights

- (i) He has a right to such share of the property and of the profits of firm as may be agreed upon, and
(ii) He may have access to and inspect and copy any of the accounts of the firm.

Liabilities

- (i) His share is liable for the acts of the firm but he is not personally liable for any such act.
(ii) He may not sue the partners for an account or payment of his share of the property or profits of the firm.

20 Rights of transferee of a partner's interest

Where a partner's interest is transferred, the transferee does not become a partner and similarly the transferor does not cease to be a partner. Therefore, Adil would not be considered as a partner in the firm.

Rights of Adil:

Adil would be entitled only to receive the share of the profits of the firm to which Fauzia is entitled. He would be bound to accept the account of profits agreed to by the partners.

Upon dissolution of the firm or, in case, if Fauzia ceases to be a partner, Adil would be entitled, as against the remaining partners, to receive the share of the assets of the firm, to which Fauzia was entitled and for the purpose of ascertaining that share he would be entitled to ask for the accounts as from the date of the dissolution.

Restrictions on Adil:

Adil would not be entitled, during the continuance of the partnership:

- (i) to interfere in the conduct of the business; or
(ii) to require accounts; or
(iii) to inspect the books of the firm.

21 Partner's Act not under implied authority

In the absence of any usage or custom of trade to the contrary, the implied authority of a partner does not empower him to:

- (a) submit a dispute relating to the business of the firm to arbitration,
(b) open a banking account on behalf of the firm in his own name,

- (c) compromise or relinquish any claim or portion of a claim by the firm,
- (d) withdraw a suit or proceeding filed on behalf of the firm,
- (e) admit any liability in a suit or proceeding against the firm,
- (f) acquire immovable property on behalf of the firm,
- (g) transfer immovable property belonging to the firm, or
- (h) enter into partnership on behalf of the firm.

22 **Return of premium on premature dissolution**

Moeen would be entitled to claim the refund of the premium or of such part thereof as may be reasonable, however, regard being had to the terms upon which he became a partner and to the length of time during which he was a partner.

Moeen would however, not be entitled for the return of premium if:

- (i) the dissolution is mainly due to his own misconduct, or
- (ii) the dissolution is in pursuance of an agreement containing no provision for the return of the premium or any part of it, or
- (iii) the dissolution is due to the death of a partner.

Chapter 14 – Negotiable instruments Act

- 1 (b)
- (i) This instrument is a promissory note. It should not be accepted as it is invalid since the amount payable under it is not certain.
 - (ii) This instrument is a bill of exchange. It will be considered valid if signed by drawer and drawee as it meets rest of the conditions of bill of exchange hence should be accepted.
 - (iii) This instrument is a promissory note. It should not be accepted as it is invalid since payment of principal amount has not been promised.

- 2 Mujahid would issue a promissory note as time instrument to Shoaib in satisfaction of his debt.

Draft of the promissory note

	Date: September 26, 2020
Rs. 600,000/- only	
Three months after date I promise to pay Shoaib or to his order the sum of Rupees Six Hundred Thousand, for value received.	
To Shoaib XYZ Street Karachi	Sd/- _____ Mujahid Down Town Karachi

- 3 (a) Payment in due course of crossed cheque:
The banker in this case would not be liable to Samad and can debit Samad's account with the amount of the cheque provided the payment was made in due course without negligence and in accordance with the apparent tenor of the cheque. The banker is not expected to verify the signatures of the payees and the endorsees in an order cheque. The banker would only be liable to Samad if he can prove that payment was not made in due course.
- (b) Payment in due course:
Payment in due course means payment in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment of the amount therein mentioned
- 4 (a) Holder in due course - means any person who for consideration becomes the possessor (holder) of a promissory note, bill of exchange or cheque if payable to bearer, or the payee or endorsee thereof, if payable to order, before it became overdue, without notice that the title of the person from whom he derived his own title was defective.
- 5 (a)
- (i) It is a valid bill of exchange as it contains an unconditional order to pay.
 - (ii) It is in the nature of bill of exchange but it is not a valid bill of exchange as it contains only request to pay and not an order to pay.
 - (iii) It is a valid promissory note containing all the essential elements.
 - (iv) It is a valid promissory note. It is not considered to be conditional, for it is certain that Nauman will die, though the exact time of his death is uncertain.
- (b) Effect(s) of the words 'Not negotiable' on a cheque crossed specially.
The effect of the words "not negotiable" on a crossed cheque is that the title of the transferee of such a cheque cannot be better than that of its transferor. The addition of the words not negotiable does not restrict the further transferability of the cheque. It only takes away the main feature of negotiability, which is transferability free from defects.

6 **(a) Endorsement**

When the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiation, on the back or face thereof or on a slip of paper annexed thereto, or so signs for the same purpose a stamped paper intended to be completed as a negotiable instrument such act is called endorsement.

7 If the landlord has no knowledge of the defects in title of the previous holders of the cheque, he would be regarded as holder in due course as he has received the cheque against consideration (rent). Therefore, he is entitled to recover the amount of the cheque.

However, if the landlord was aware of the defective title of the holder from whom he derived his own title, then he would not be considered as holder in due course and he would not be able to recover the amount of the cheque.

8 Endorsement: When the maker or holder of a negotiable instrument signs the same, otherwise than as maker, for the purpose of negotiation on the back or face of it or on a slip of paper annexed thereto, or so signs for the same purpose a stamped paper intended to be completed as a negotiable instrument he is said to indorse the same and is called the endorser."

9 Sarwat would issue a promissory note to Zain

Draft of the promissory note

Rs. 500,000/- only	Date: March 12, 2016
Five months after date I promise to pay Zain or to his order the sum of Rupees Five Hundred Thousand, for value received	
To	Sd/- _____
Zain	Sarwat
ABC Road	New Town
Karachi	Karachi

10 Bill of Exchange:

The above negotiable instrument is a bill of exchange.

Essential characteristics of a bill of exchange:

Following are the essential characteristics of a bill of exchange:

- (i) In writing
A bill of exchange is required to be in writing.
- (ii) Order to pay
The drawer orders the drawee to pay money to the payee. Mere request does not constitute an order.
- (iii) Definite and unconditional
The order to pay should not depend upon a condition or upon the happening of an uncertain event.
- (iv) Signed by drawer
The instrument must be signed by the maker (drawer) and accepted by the drawee.
- (v) Certain parties
All the parties must be certain i.e. indicated in a bill of exchange with reasonable certainty.
- (vi) Sum payable must be legal tender
The order must be to pay money and money only.

- (vii) Sum Payable must be certain
It is essential that sum of money ordered to be payable must be certain and definite. However, it may include future interest or return in any other form or is payable at an indicated rate of exchange, or is payable at the current rate of exchange or the sum payable being subject to adjustment for profit or loss of the business of the maker.
 - (viii) Time for payment
The time for payment may be on demand or at a fixed or determinable future time.
 - (ix) It must be delivered:
A bill of exchange is incomplete until it is delivered to the payee
- 11 A person is called holder of a negotiable instrument if he satisfies the following two conditions:
- He must be entitled to the possession of the instrument in his own name and
 - He must be entitled to receive / recover the amount due on the instrument from the parties liable under the instrument Thus a holder is a bearer of the bearer instrument and the endorsee or payee of the order instrument.

Explanation:

Where the note, bill or cheque is lost and not found again, or is destroyed, the person in possession of it or the bearer thereof at the time of such loss or destruction shall be deemed to continue to be its holder.

Holder in due course:

Holder in due course means any person who for consideration becomes the possessor of a promissory note, bill of exchange or cheque if payable to bearer, or the payee or indorsee thereof, if payable to order, before it became overdue, without notice that the title of the person from whom he derived his own title was defective.

Explanation:

The title of a person to a promissory note, bill of exchange or cheque is defective when he is not entitled to receive the amount due thereon.

Payment in due course:

Payment in due course means payment in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment of the amount therein mentioned.

- 12 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 on demand or at a fixed or determinable future time a certain sum of money to a certain person or to his order or to the bearer of the instrument.
- 13 X can claim the amount from A being the principal debtor. On A's refusal or inability to pay, he can claim the same from all intervening parties in the order of acceptance/ transfers/ endorsements.
- 14 (i) Payment in due course
- The payment is in accordance with the apparent tenor of the instrument.
 - The payment is made in good faith and without negligence.
 - The payment is made to a person in possession of the instrument
 - The payment is honestly made in the bonafide belief that the person demanding payment is legally entitled to it.

(ii) Holder

The 'holder' of a negotiable instrument means any person entitled to the possession of the instrument in his own name and to receive or recover the amount due thereon from the parties liable thereto.

(iii) Holder in due course

Holder in due course means any person who for consideration becomes the possessor of a promissory note, bill of exchange or cheque if payable to bearer, or the payee or indorsee thereof, if payable to order, before it becomes overdue, without notice that the title of the person from whom he derived his own title was defective.

- 15 No, B's contention is not justified against C who is a holder of the bill for value, even if C knew that B is an accommodation party. Absence of consideration can be taken as a defense to avoid liability only towards parties who stand in immediate relation to each other.
- 16 The liabilities incurred by the drawer of a bill are as follows:
- (i) on due presentment, the bill shall be accepted. and paid according to its tenor, and that
 - (ii) if the bill is dishonored, the drawer shall compensate the holder or any indorser who is compelled to pay it, provided that due notice of dishonor of bill is given to or received by drawer.
 - (iii) Until acceptance, the drawer is liable thereon as principal debtor.
- 17 If Salman has authority only to draw bill of exchange, he cannot accept or endorse it so as to bind his principal and shall then be personally liable to Ghani. If Salman normally signs the bill of exchange in the ordinary course of business, he has a right to be indemnified by Malik or else, Salman can recover the amount from the estate of /amount due to Malik.
- 18
- (i) It is not a promissory note as promise to pay is not "unconditional".
 - (ii) It is a valid promissory note containing all the essential elements.
 - (iii) It is not a promissory note as the payment is not in terms of money only.
 - (iv) It is not a promissory note as the amount payable under it is not certain.
 - (v) It is not a promissory note as the payee in the instrument is not certain.
 - (vi) It is a valid promissory note. It is not considered to be conditional, for it is certain that Salik will die, though the exact time of his death is uncertain.
 - (vii) It is not a promissory note as it lacks unconditional undertaking. There is only an acknowledgement of indebtedness.

Chapter 15 – Provisions relating to Cheques

- 1 **(a)** Following are the types of crossing of a cheque:
 - (i) **General crossing:**

A cheque is said to be crossed generally where it bears across its face an addition of the words “and company” or any abbreviation of it between two parallel transverse lines.

Effect of crossing:
The banker on whom cheque is drawn shall not pay it otherwise than to a banker.
 - (ii) **Special crossing:**

A cheque is said to be crossed especially where it bears across its face an addition of the name of the banker, either with or without the words “not negotiable”, that addition shall be deemed a crossing, and the cheque shall be deemed to be crossed specially. Parallel lines are not necessary.

Effect of crossing:
The banker on whom cheque is drawn shall not pay it otherwise than to a banker to whom it is crossed or his agent for collection.
 - (iii) **Restrictive crossing:**

Restrictive crossing may be added with general crossing by adding the words “A/c Payee” or “A/c Payee only”.

Effect of crossing:
The cheque shall cease to be negotiable. The amount collected by the banker on the cheque must be credited only to the account of payee named in the cheque.
 - (iv) **Not Negotiable crossing:**

The addition of the words ‘not negotiable’ does not restrict the further transferability of the cheque. It only takes away the main feature of negotiability, which is transferability free from defects.

Effect of crossing:
The effect of the words ‘not negotiable’ on a crossed cheque is that the title of the transferee of such a cheque cannot be better than that of its transferor.
- 2 **Effect(s) of the words ‘Not negotiable’ on a cheque crossed generally**

The effect of the words “not negotiable” on a crossed cheque is that the title of the transferee of such a cheque cannot be better than that of its transferor. The addition of the words not negotiable does not restrict the further transferability of the cheque. It only takes away the main feature of negotiability, which is transferability, free from defects.
- 3 **Effect(s) of the words ‘Not negotiable’ on a cheque crossed specially.**

The effect of the words “not negotiable” on a crossed cheque is that the title of the transferee of such a cheque cannot be better than that of its transferor. The addition of the words not negotiable does not restrict the further transferability of the cheque. It only takes away the main feature of negotiability, which is transferability free from defects.
- 4 **Purpose of crossing a cheque:**

The purpose of crossing a cheque is to direct the drawee (banker) to pay the amount of the cheque only to a banker so that the party who receives the payment can easily be traced.

Can a Cheque be Crossed Specially more than Once:
Yes. It is allowed when a banker in whose favor a crossing is made, once again crosses it specially in favor of his agent (another banker) for collection.
- 5 **Crossing after issue**
 - Where a cheque is uncrossed, the holder may cross it generally or specially.
 - Where a cheque is crossed generally, the holder may cross it specially.

- Where a cheque is crossed generally or specially, the holder may add the words “not negotiable”.
 - Where a cheque is crossed specially, the banker to whom it is crossed may again cross it specially to another banker, his agent, for collection.
 - When an uncrossed cheque, or a cheque crossed generally, is sent to a banker for collection, he may cross it specially to himself.
- 6 A “cheque” is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand. General crossing:
A cheque is said to be crossed generally when it bears across its face an addition of:-
(i) the words “and company” or any abbreviation thereof, between two parallel transverse lines, either with or without the words “not negotiable”; or
(ii) two parallel transverse lines simply, either with or without the words “not negotiable”.

- 7 Payment in due course of a cheque crossed generally:
In order that payment of a cheque crossed generally may be considered a payment in due course it is necessary that the banker on whom it is drawn should pay it in good faith without negligence to a banker.

Consequences of payment of a cheque, crossed generally, in due course:

If a banker pays a cheque crossed generally in due course, he can debit his customer, the drawer, with the amount so paid even though the amount of the cheque does not reach the true owner and is entitled to and be placed in the same position in all respects as if the amount of the cheque had been paid to and received by the true owner thereof

Payment out of due course of a cheque crossed generally:

If a banker pays a cheque crossed generally otherwise than to a banker, in contravention of the direction of the cheque, is said to have paid it out of due course.

Consequences of payment of a cheque, crossed generally, out of due course:

If a banker pays a cheque crossed generally in contravention of the direction of the crossing he is liable to compensate the true owner of the cheque for any loss sustained by him owing to the cheque having been so paid.

- 8 A “cheque” is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand.

Essential elements of a valid cheque:

Following are the essential elements of a valid cheque.

- (i) It must be in writing,
 - (ii) It must contain an unconditional order to pay,
 - (iii) It must contain an order to pay in terms of money,
 - (iv) It must contain an order to pay a definite amount of money,
 - (v) The parties to the cheque must be certain (real),
 - (vi) It must be signed by the drawer,
 - (vii) It must be drawn on a specified banker,
 - (viii) It must be payable on demand.
- 9 Who can cross the cheque after issue
Following persons can cross the cheque:
- (i) Holder
 - (ii) Banker

Crossing of cheque after issue

- (i) Where a cheque is uncrossed, the holder may cross it generally or specially.
- (ii) Where a cheque is crossed generally, the holder may cross it specially.
- (iii) Where a cheque is crossed generally or specially, the holder may add the words "not negotiable".
- (iv) Where a cheque is crossed specially, the banker to whom it is crossed may again cross it specially to another banker, his agent, for collection.
- (v) When an uncrossed cheque, or a cheque crossed generally, is sent to a banker for collection, he may cross it specially to himself

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Talib e Doa: Atif Abidi

CH # 1**INTRODUCTION TO THE LEGAL SYSTEM**

1. The President is the head of the state and he is elected for a five-year term by
 - (a) Senate and National Assembly
 - (b) National Assembly and the members of Provincial Assemblies
 - (c) Senate and the members of Provincial Assemblies
 - (d) Senate, National Assembly and the members of Provincial Assemblies
2. In a criminal case, what is the normal burden of proof place upon the prosecution?
 - (a) Beyond any doubt
 - (b) Beyond all reasonable doubt
 - (c) Beyond any reasonable doubt
 - (d) Balance of probabilities
3. In a civil case of Talal vs Kashif where a case is brought to the civil court by Mr. Talal who is filing a suit against Mr. Kashif. State the legal position
 - (a) Mr. Talal is plaintiff and Mr. Kashif is the defendant
 - (b) Mr. Talal is defendant and Mr. Kashif is the plaintiff
 - (c) Mr. Talal is accused and Mr. Kashif is the complainant
 - (d) Mr. Talal is complainant and Mr. Kashif is the accused
4. The criminal law aims to:
 - (a) Compensate injured parties
 - (b) Recover property which has been taken from the true owner
 - (c) Enforce legal obligations
 - (d) Penalize wrongdoers
5. Those rules and principles that govern and regulate social conduct and observance of which can be enforced in courts of law, is known as:
 - (a) Law
 - (b) Rules
 - (c) Policies
 - (d) Customs
6. Property disputes, work related disputes, copyright disputes and claims by consumer against manufacturer are examples of
 - (a) Administrative law
 - (b) Labour law
 - (c) Constitutional law
 - (d) Civil law
7. Person found guilty of a crime is the
 - (a) Plaintiff
 - (b) Respondent
 - (c) Convict
 - (d) Defendant
8. Pakistan has a Federal Parliamentary system of government. The federal legislature is a bicameral Majlis e Shoora (Parliament), composed of
 - (a) President, Governor and Prime Minister
 - (b) President, National Assembly and Provincial Assembly

- (c) President, National Assembly and Senate
 - (d) President, Prime Minister and National Assembly
9. The Prime Minister is assisted by a Federal Cabinet. A council of ministers whose members are appointed by the President on the advice of the
- (a) Chief Justice
 - (b) Governor
 - (c) Attorney General
 - (d) Prime Minister
10. If the Ordinance is not presented or passed by the National Assembly in case of money bill and by both houses if it is other than money bill, it shall stand repealed after
- (a) One hundred and twenty days
 - (b) Ninety days
 - (c) Sixty days
 - (d) One hundred days
11. All statutes passed by the National Assembly are also approved by the Senate before proceeding to the President for his assent with the exception of
- (a) Treasury bill
 - (b) Money bill
 - (c) Social security bill
 - (d) Industrial relation bill
12. The Senate is the permanent legislative body with equal representation from each of the four Provinces with representative elected by the members of their respective
- (a) Chief Minister
 - (b) Governor
 - (c) High Court
 - (d) Provincial Assembly
13. A money bill shall originate in the National Assembly after it has been passed by the National Assembly it shall (without being transmitted to the Senate) be presented to the
- (a) President of Pakistan
 - (b) Chief Justice of Pakistan
 - (c) Chief of the Army Staff
 - (d) Governor of the Province
14. In Pakistan main sources of law are:
- (a) Legislation
 - (b) Precedent
 - (c) Customs or Agreements
 - (d) All of the Above
15. The Purpose of Criminal law is:
- (a) Regulation of Society
 - (b) Punishment to the people
 - (c) Compensation
 - (d) Injuring to the parties
16. Burden of Proof in Criminal Law:
- (a) Beyond the all reasonable Doubt
 - (b) Balance of probabilities

- (c) Opinions of Lawyer
 - (d) None of the above
17. Punishments in Criminal law are:
- (a) Fine
 - (b) Imprisonment
 - (c) Both of the above
 - (d) None of the Above
18. Purpose of the Civil law;
- (a) Regulation of Society
 - (b) Punishment to the people
 - (c) Compensation
 - (d) Injuring to the parties
19. Burden of Proof in Civil Law:
- (a) Beyond the all reasonable Doubt
 - (b) Balance of probabilities
 - (c) Opinions of Lawyer
 - (d) None of the above
20. Constitution of Islamic republic of Pakistan was Approved by
- (a) National Assembly
 - (b) Senate
 - (c) Parliament
 - (d) President
21. Constitution of Islamic republic of Pakistan was approved on
- (a) 10 April 1972
 - (b) 10 March 1992
 - (c) 10 August 1990
 - (d) 10 April, 1973
22. Constitution is the _____ and sets the governing principles of the country
- (a) Supreme law
 - (b) Legislation
 - (c) Civil law
 - (d) Court law
23. This Constitution contains _____ schedules
- (a) 4
 - (b) 5
 - (c) 6
 - (d) 3
24. Eligibility Certain of President, terms of Office, powers and removal of President, is explained under;
- (a) Provinces
 - (b) Preamble
 - (c) Introductory
 - (d) The Federation of Pakistan

-
25. Composition of Provisional Government and Governor is explained under
 - (a) The Federation of Pakistan
 - (b) Provinces
 - (c) Relations between Federation and Provinces
 - (d) Elections
 26. Formation and duties of Chief Election Commission is explained under
 - (a) The Judicature
 - (b) Finance, Property, Contracts and Suits
 - (c) Elections
 - (d) Islamic Provisions
 27. Provisions relating to Holy Quran and Sunnah along with composition and functions of the Islamic council is dealt with which part of the constitution
 - (a) The Judicature
 - (b) Finance, Property, Contracts and Suits
 - (c) Elections
 - (d) Islamic Provisions
 28. Elections of President is explained under
 - (a) Schedule 1
 - (b) Schedule 2
 - (c) Schedule 3
 - (d) Schedule 4
 29. Remuneration and Terms etc. of Service of Judges
 - (a) Schedule 1
 - (b) Schedule 2
 - (c) Schedule 5
 - (d) Schedule 4
 30. President is;
 - (a) Head of State'
 - (b) Head of Government
 - (c) Head of Country
 - (d) Head of Military
 31. Prime Minister is
 - (a) Head of State'
 - (b) Head of Government
 - (c) Head of Country
 - (d) Head of Military
 32. Tenure of President is:
 - (a) 3 years
 - (b) 5 years
 - (c) 6 years
 - (d) 2 years
 33. President shall approve a bill within _____ Days
 - (a) 5
 - (b) 4

- (c) 3
(d) 10
34. Money Bill is approved by_____
- (a) Parliament
 - (b) Senate and National Assembly
 - (c) Senate and President
 - (d) National Assembly and President
35. Validity of Ordinance is _____ If it is not approved by National Assembly and Senate
- (a) 120 days
 - (b) 100 days
 - (c) 80 days
 - (d) 70 days
36. Giving power to make legislation for Specified purpose is called _____
- (a) Delegated Legislation
 - (b) Precedent
 - (c) Legislation
 - (d) Civil Law
37. Which of the following undertaking can be assigned the law making under Delegated Legislation
- (a) PCB
 - (b) FBR
 - (c) ICAP
 - (d) All of the above
38. Which one of the Following is an advantage of delegated legislation?
- (a) Flexibility
 - (b) Out dated
 - (c) Non-supervision
 - (d) Volume
39. What system of the government was recognized by the original constitution of 1973?
- a) Presidential form of government
 - b) Unitary form of government
 - c) Parliamentary form of government
 - d) All of them
40. Who is the head of government in view of constitution of Pakistan 1973?
- (a) President
 - (b) Prime Minister
 - (c) Speaker
 - (d) All of them
41. How many article contained by the constitution of Pakistan 1973?
- (a) 220
 - (b) 280
 - (c) 145
 - (d) 344

-
42. Which schedule of the constitution of Pakistan 1973 explain the legislative list
- (a) Four
 - (b) Three
 - (c) Two
 - (d) Seven
43. _____ is appointed by the national assembly according to the constitution of Pakistan 1973.
- (a) President
 - (b) Speaker
 - (c) Prime minister
 - (d) All of them
44. How many schedules are contained by the constitution of Pakistan 1973?
- (a) Seven
 - (b) Nine
 - (c) Five
 - (d) Three
45. An ordinance promulgated by the _____ of Pakistan shall stand repealed at the expiration of four months from its promulgation ?
- (a) Chief
 - (b) Prime Minister
 - (c) President
 - (d) Chief justice
46. The nature of the Pakistani Parliament is _____. it consist on two houses.
- (a) Bicameral
 - (b) Unicameral
 - (c) Both a & b
 - (d) Not any of them
47. It is constitution requirement for the candidate of president that he must be a _____.
- (a) Muslim
 - (b) Non- Muslim
 - (c) Any other
 - (d) Not any of them

Sr. No.	Answer	Sr. No.	Answer
1	D	31	B
2	B	32	B
3	A	33	D
4	D	34	D
5	A	35	A
6	D	36	A
7	C	37	D
8	C	38	A
9	D	39	C
10	A	40	B
11	B	41	B
12	D	42	A
13	A	43	C
14	D	44	C
15	A	45	C
16	A	46	A
17	C	47	A
18	C		
19	B		
20	C		
21	D		
22	A		
23	B		
24	D		
25	B		
26	C		
27	D		
28	B		
29	C		
30	A		

CH # 2**OFFER, ACCEPTANCE AND REVOCATION**

1. The Law of Contract is
 - (a) Whole law of obligations
 - (b) Law of only contractual obligations
 - (c) Law of judgements of the courts
 - (d) Law of quasi-contracts
2. The Law of Contract is
 - (a) Law of agreements
 - (b) Law of agreements which creates legal obligation
 - (c) Law of all agreements
 - (d) Law of personal and social agreement
3. Legal relationship, in relation to law of contract, means
 - (a) Lawful relationship
 - (b) Relationship permissible by law
 - (c) Legal rights and obligations
 - (d) All rights and obligations
4. Which of the following statement is true
 - (a) Agreements between husband and wife constitute a contract
 - (b) Agreement between friends cannot be enforced
 - (c) Agreements between friends creating legal relationship can be enforced
 - (d) All agreements are contract
5. An agreement to be enforced in the court must have
 - (a) Legal enforceability
 - (b) Mutual consent between the parties
 - (c) Lawful consideration
 - (d) All of the above
6. Lawful offer is
 - (a) Promise
 - (b) Legal relation
 - (c) Proposal
 - (d) Presentation
7. Which of the following result/results in an offer?
 - (a) A declaration of intention
 - (b) An invitation to offer
 - (c) An advertisement offering reward to anyone who finds the lost dog of the advertiser
 - (d) An offer made in a joke
8. An offer is not different from
 - (a) Advertisement
 - (b) Price list
 - (c) Proposal for doing or not doing something
 - (d) Display of the goods

-
9. A makes an offer to B on 10th by a letter which reaches B on 12th. B posts letter of acceptance on 14th which reaches A on 16th. The communication of acceptance is complete as against A on
 - (a) 12th
 - (b) 14th
 - (c) 16th
 - (d) 10th

 10. Offer is simply a
 - (a) Mere expression of willingness to do or not to do some thing
 - (b) Intention to create legal relationship
 - (c) Intention to get assent of other party for offered act or abstinence
 - (d) All of the above

 11. An offer cannot be made
 - (a) By the words of mouth
 - (b) By the conduct of party
 - (c) By the circumstances
 - (d) To the offeror himself

 12. An offer is said to be revoked
 - (a) By non-fulfilment of condition precedent to acceptance
 - (b) Acceptance is not in prescribed mode, but offeror does not reject it
 - (c) Acceptance is not given within reasonable period of time, but offeror does not object
 - (d) Misunderstanding has arisen between offeror and offeree

 13. Acceptance must be given in:
 - (a) Usual manner
 - (b) Prescribed manner
 - (c) Any manner suitable to the offeree
 - (d) More effective manner

 14. Which of the following statements is true
 - (a) A proposal may be revoked at any time before the communication of its acceptance is complete as against the offeree.
 - (b) Acceptance may be revoked at any time, before the communication of acceptance is complete as against the acceptor
 - (c) An offer initially rejected may subsequently be accepted
 - (d) Letter of offer may be sent after letter of acceptance

 15. A person cannot make an offer
 - (a) To a person of sound mind
 - (b) To his friend
 - (c) To himself
 - (d) To the citizen of a foreign country

 16. An offer gets legal consequences
 - (a) As soon as it is made
 - (b) As soon as it is communicated
 - (c) As soon as it is revoked
 - (d) As soon as it is accepted

17. Implied acceptance is inferred
 - (a) From the silence of offeree
 - (b) From the conduct of the offeree
 - (c) From the written statement of the offeree
 - (d) From the oral statement of the offeree
18. Abdullah offered by letter to sell Karim his motorbike for Rs. 5,000. Karim wrote back saying he accepted the offer and would pay in two instalments at the end of the two following months. Is there a contract?
 - (a) No, because Karim is trying to amend the contractual terms. Abdullah can be assumed to revoke the offer
 - (b) Yes, there has been an offer and acceptance and a binding contract applies
 - (c) No, Karim's response constitutes a counteroffer and is effectively a rejection of Abdullah's offer
 - (d) Yes, Karim's response is merely a clarification of contractual terms.
19. Every promise and every set of promise forming the consideration for each other is a/an
 - (a) Contract
 - (b) Agreement
 - (c) Offer
 - (d) Acceptance
20. A promise to deliver his watch to B and, in return, B promises to pay a sum of Rs 2,000. This is a/an
 - (a) Agreement
 - (b) Proposal
 - (c) Acceptance
 - (d) Offer
21. Agreements that do not give rise to contractual obligations are not contracts.
 - (a) True
 - (b) Partly True
 - (c) False
 - (d) None of these
22. Where a meaningless term is used in an agreement, the effect is?
 - (a) The entire contract will be held unenforceable
 - (b) It has no practical effect on the contract – the whole contract is enforceable
 - (c) That this term, rather than the entire contract, maybe held unenforceable
 - (d) Void agreement
23. A invites B for coffee in coffee-day restaurant and B accepts the invitation. On the appointed date, B goes there but A is not found. In this case
 - (a) B has no remedy against A
 - (b) B has to wait for another invitation from A
 - (c) B has the right to sue A for not honoring his words
 - (d) A has to invite B again, to perform the promise
24. A contract creates
 - (a) Rights and obligations of the parties to it
 - (b) Obligations of the parties to it
 - (c) Mutual understanding between the parties to it
 - (d) Mutual lawful rights and obligations of the parties to it

-
25. _____ is made by words spoken.
- (a) Express Contract
 - (b) Implied Contract
 - (c) Tacit Contract
 - (d) Unlawful Contract
26. _____ is made by words written.
- (a) Express Contract
 - (b) Implied Contract
 - (c) Tacit Contract
 - (d) Unlawful Contract
27. An agreement is:
- (a) Enforceable by law if it meets the requirements of the law of the land
 - (b) Enforceable by law if any one party want it
 - (c) Enforceable against the law
 - (d) Enforceable by law if it is made by competent parties
28. In social agreements, the usual presumption is
- (a) That parties do not intend to create social relations
 - (b) That parties intend to perform them
 - (c) That parties do not intend to make legal and social relations
 - (d) That the parties do not intend to create legal relations between them
29. An implied contract is the one which comes into existence on account of
- (a) Conduct of the parties
 - (b) Non-availability of a paper for writing
 - (c) Inability of the parties to write or speak
 - (d) Directions given by a court
30. When is the communication of a proposal complete:
- (a) When it comes to the knowledge of the person to whom it is made
 - (b) Only when the proposal, acceptance or revocation of the proposal is recorded in writing
 - (c) When the other party gives his assent or dissent to the proposal
 - (d) Only when a clear verbal communication of such proposal is made
31. When can a proposal be revoked:
- (a) Once a proposal is made, it cannot be revoked
 - (b) Any time before or after the communication of acceptance is complete
 - (c) Any time before the communication of its acceptance is complete as against the proposer, but not afterwards
 - (d) Any time before the proposal comes to the knowledge of the other party, but not afterwards
32. A proposal cannot be revoked:
- (a) By the communication of notice of revocation by the proposer to the other party
 - (b) By the failure of the acceptor to fulfil a condition precedent to acceptance
 - (c) By the lapse of the time prescribed in such proposal for its acceptance
 - (d) By an act involving moral turpitude of the proposer, whether related to the proposal or otherwise

33. Which of the following is not a necessary feature to convert a proposal into a promise?
- (a) The acceptance must be absolute
 - (b) The acceptance must be within the prescribed time limit
 - (c) The acceptance must be unqualified
 - (d) All of the options
34. Which of the following statements is incorrect?
- (a) There is no difference in law between an offer and an invitation to offer
 - (b) An offer is a set of terms by which the offeror is willing to be bound
 - (c) In bilateral contracts the parties exchange promises
 - (d) Acceptance in contract may take effect through conduct and need not be communicated through words.
35. Which of the following is NOT effective communication of acceptance of an offer?
- (a) Deviation (which is a quicker form) from the method stipulated in the offer
 - (b) Silence
 - (c) Conduct of the contract
 - (d) Outward evidence of the offeree's intention to accept
36. An implied offer means an offer made
- (a) By spoken words
 - (b) By SMS
 - (c) By body language
 - (d) By both spoken words and body language
37. An offer may be made
- (a) By words
 - (b) By conduct
 - (c) Either by words or by conduct
 - (d) Neither of these
38. B makes to memorize a proposal to his parrot and sends him to A to recite the proposal. The parrot does so. The proposal is
- (a) Valid
 - (b) Void
 - (c) Unlawful
 - (d) Illegal
39. If A say to B "I offer to sell my car to you for Rs. 2 Lakhs and B accepts the offer by saying clearly "I accept your offer". It is an
- (a) Implied offer
 - (b) Express offer
 - (c) General offer
 - (d) Counter offer
40. An offer may be
- (a) conditional
 - (b) Unconditional
 - (c) Conditional and unconditional at the same time
 - (d) Either conditional or unconditional

41. A offers B to sell his house for Rs. 1.5 million and directs him to send his acceptance only by e-mail. B sends A letter of acceptance by post. This is
 - (a) valid acceptance
 - (b) invalid acceptance
 - (c) valid acceptance if A does not reject
 - (d) no acceptance at all
42. Communication of a proposal is complete when it comes to the knowledge of
 - (a) The person to whom it is made
 - (b) The proposer
 - (c) Either of the proposer or offeree
 - (d) The central government
43. A proposes by letter, to sell his horse to B at Rs 10,000. Communication of the proposal is complete when
 - (a) A post the letter
 - (b) B receives the letter
 - (c) B acknowledges to A that he has received the letter
 - (d) B replies the letter
44. Offer should not contain a term, the non-compliance of which would amount to acceptance.
 - (a) True
 - (b) Partly True
 - (c) False
 - (d) None of the above
45. Which of the following conditions is not necessary for a valid offer?
 - (a) Intention to create legal relation
 - (b) Unconditional terms
 - (c) Certainty of terms
 - (d) Communication to the person to whom it is made
46. Which of the following results in an offer?
 - (a) A declaration of intention
 - (b) An invitation to offer
 - (c) An advertisement offering reward to anyone who finds the lost dog of the advertiser
 - (d) An offer made in a joke
47. Which of the following is an invitation to offer?
 - (a) A tender to supply goods at a certain time
 - (b) A request for a loan
 - (c) Bids in an auction sale
 - (d) A catalogue of goods for sale
48. When a person invites the other party to make an offer, he is said to make a/an
 - (a) Proposal
 - (b) Offer
 - (c) Invitation to offer
 - (d) Acceptance
49. Price Lists and Catalogues, Advertisements in newspapers, and enquiries from customers are
 - (a) Offers
 - (b) Invitations to offer

- (c) Acceptances
 - (d) Cross-offers
50. Goods displayed in a shop with a price label is
- (a) An offer
 - (b) An Invitation to offer
 - (c) A Counter offer
 - (d) A General offer
51. Application filled in by a prospective applicant to the Company is an example of
- (a) Invitation to offer
 - (b) Offer
 - (c) Bid
 - (d) Acceptance
52. There is a Counter- offer when
- (a) The offeree gives conditional acceptance
 - (b) The Offeree makes fresh offer of any other thing instead of accepting original offer.
 - (c) The offeree makes some query
 - (d) The offeree accepts it
53. An offer comes to an end after the expiry of
- (a) Time stipulated for acceptance
 - (b) A reasonable time
 - (c) Either of these
 - (d) Neither of these
54. An offer lapses to an end when the Offeree
- (a) Fails to fulfill a condition precedent to acceptance
 - (b) Does not accept the condition
 - (c) Either of these
 - (d) Neither of these
55. A offer to sell his car for Rs. 50,000 to B. B says he would buy it for Rs. 40,000. This is a case of
- (a) Counter offers
 - (b) Implied offers
 - (c) Direct offers
 - (d) Express offers
56. A proposal is revoked by the death of the Proposer, if the fact of his death comes to the Knowledge of the Acceptor
- (a) Before acceptance
 - (b) After acceptance
 - (c) During acceptance
 - (d) Any of the above
57. A sends a letter to B Proposing to sell his Land. B Sends his acceptance by post. A can revoke the offer at any time before B posts his letter of acceptance, but not afterwards.
- (a) True
 - (b) Partly True
 - (c) False
 - (d) None of the above

58. In which of the following circumstances, does the offer come to an end?
- (a) Lapse of time
 - (b) Counter offer
 - (c) Death of offeror or offeree before acceptance
 - (d) All of these
59. An applied for 1000 shares in a Company on 1st May. The Company accepted and allotted shares on 1st November of that year A refused the Shares. Is A's action valid?
- (a) Yes, Shares Cannot be allotted on the faith of letter Written by A
 - (b) Yes, Shares Cannot be allotted in the second half of a calendar year
 - (c) Yes, offer lapsed as it was not accepted within a reasonable time
 - (d) No, A has to accept and pay for the shares of revocation of offer have been
60. An offer can be accepted by
- (a) Notice of acceptance
 - (b) Performance of condition specified in the offer
 - (c) Acceptance of consideration for a reciprocal promise
 - (d) All of these
61. A offered a reward to anyone who could fetch his lost dog back. B brought the dog to A without having heard of the offer which of the following statements is correct?
- (a) B is entitled to the reward
 - (b) B was not entitled to the reward
 - (c) A has to find the dog himself
 - (d) No reward can be given for return of lost dog
62. An acceptance containing additions, limitations or other modifications shall amount to
- (a) Rejection of the offer
 - (b) A counter offer
 - (c) A valid acceptance
 - (d) Both rejection and counter offer
63. An acceptance is valid
- (a) When offeree adds his conditions with acceptance
 - (b) When offeree accepts all the conditions of the offer
 - (c) When it is not against the interest of any person
 - (d) When acceptance is caused by coercion
64. Acceptance to an offer may be given by
- (a) Any person
 - (b) Competent person
 - (c) Authorized person
 - (d) Both competent and authorised persons
65. When is the communication of proposals, the acceptance of proposals and the revocation of proposals deemed to be made:
- (a) Only on clear verbal communication of such proposal, acceptance or revocation
 - (b) By words or any act or omission of the party by which he intends to communicate such proposal, acceptance or revocation or has the effect of communicating it
 - (c) Only when the proposal, acceptance or revocation of the proposal is recorded in writing
 - (d) Only when the proposal, acceptance or revocation of the proposal is received and understood by the other party receiving the information

66. A legal binding agreement between _____ or more persons by which rights are acquired by one or more to act or forbearance on the part of others.
- (a) 2
 - (b) 5
 - (c) 4
 - (d) 6
67. Thus an agreement is _____ promise or set of promises. A promise comes into existence when one party makes a _____ to other party and that other party signifies his assent thereto.
- (a) Acceptance
 - (b) Proposal of offer
 - (c) Invitation to offer
 - (d) All of the above
68. A contract is an agreement enforceable by _____
- (a) Third party
 - (b) Law
 - (c) One party
 - (d) Both parties
69. Law of contract covers _____
- (a) Personal obligation
 - (b) Private obligation
 - (c) Contractual obligation
 - (d) Obligation imposed by third parties
70. A proposal, when accepted, becomes a _____
- (a) Offer
 - (b) Agreement
 - (c) Contract
 - (d) Promise
71. Contract = Agreement + _____
- (a) Enforceability by law
 - (b) Enforceability by parties
 - (c) Enforceability by Parliament
 - (d) All of above
72. Mr. A Invites Mr. B for his son's wedding. Mr. B accepts the invitation. In this case, there is _____
- (a) Legal agreement
 - (b) Social agreement
 - (c) Legal obligation on the part of Mr. B to attend wedding ceremony
 - (d) (a) & (c)
73. Mr. A invites Mr. B for coffee in a restaurant and Mr. B accepts the invitation. On the appointed date, Mr. B goes there but Mr. A is not found. In this case:
- (a) Mr. B has no remedy against Mr. A
 - (b) Mr. B has to wait for another invitation from Mr. A
 - (c) Mr. B can sue Mr. A for honoring his words
 - (d) Mr. A has to invite Mr. B again, to perform the promise.

74. Every contract is an agreement but every agreement is not a contract.
- (a) True
 - (b) False
 - (c) Partly true
 - (d) None of above
75. A husband promised to pay his wife a household allowance of Rs2,500 every month. Later parties separated and the husband failed to pay the amount. This is _____
- (a) Contract
 - (b) Not a contract
 - (c) Agreement enforceable by law
 - (d) None of above
76. The term "Proposal" used in Contract Act, 1872 is synonymous with term _____
- (a) Contract
 - (b) Offer
 - (c) Agreement
 - (d) None of above
77. Mr. A says to Mr. B, "will you purchase my car for Rs.500,000?" In this case Mr. A is making _____
- (a) Offer
 - (b) Acceptance
 - (c) Asking question to B
 - (d) None of above
78. An offer inferred from the circumstances or conduct of the parties is known as _____
- (a) Express offer
 - (b) Implied offer
 - (c) (a) or (b)
 - (d) None of above
79. Which of the following is implied offer?
- (a) A says to B will you purchase my car for Rs.20,000
 - (b) A advertises in newspaper offering Rs.500 to anyone who returns his lost dog.
 - (c) Transport Company runs a bus on particular route.
 - (d) Husband promises to wife to pay Rs.500 per month
80. An offer may be distinguished from _____
- (a) An invitation to make an offer
 - (b) To do business
 - (c) Both (a) & (b)
 - (d) None of above
81. Which of the following is / are example of invitation to make an offer?
- (a) Distribution of price list by a seller
 - (b) Menu card of a restaurant showing the rates of food items
 - (c) Employment advertisement
 - (d) All of above

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82. Which of the following is / are example of invitation to make an offer?
- (a) Railway time table showing the timing of trains and respective fares.
 - (b) Issue of prospectus by a public company inviting the public to subscribe for share or debenture
 - (c) Distribution of price list by a seller
 - (d) All of above
83. Consider following agreements
- i. A agrees to sell to B " a 100 tons of oil"
 - ii. A who is dealer in coconut oil only agrees to sell to B"100 tons.
 - iii. A agrees to sell to B "100 tons of oil rice at a price to be fixed by C"
 - iv. A agrees to sell to B, "My white horse for Rs.15,000 or Rs.10, 000
- Which of the above agreements are valid?
- (a) 1 & 2
 - (b) 2 & 3
 - (c) 3 & 4
 - (d) 4 & 1

Sr. No.	Answer	Sr. No.	Answer	Sr. No.	Answer
1	B	31	C	61	B
2	B	32	D	62	D
3	C	33	D	63	B
4	C	34	A	64	D
5	D	35	B	65	B
6	C	36	C	66	A
7	C	37	C	67	B
8	C	38	A	68	B
9	B	39	B	69	C
10	C	40	D	70	B
11	D	41	C	71	A
12	A	42	A	72	B
13	B	43	B	73	B
14	B	44	A	74	A
15	C	45	B	75	B
16	D	46	C	76	B
17	B	47	D	77	A
18	C	48	C	78	B
19	B	49	B	79	C
20	A	50	D	80	A
21	A	51	B	81	D
22	C	52	A	82	D
23	A	53	C	83	A
24	D	54	C		
25	A	55	A		
26	A	56	A		
27	A	57	A		
28	D	58	D		
29	A	59	C		
30	A	60	D		

CH # 3**VALIDITY OF CONTRACTS AND AGREEMENTS**

1. The Law of Contract is
 - (a) Whole law of obligations
 - (b) Law of only contractual obligations
 - (c) Law of judgements of the courts
 - (d) Law of quasi-contracts
2. The Law of Contract is
 - (a) Law of agreements
 - (b) Law of agreements which creates legal obligation
 - (c) Law of all agreements
 - (d) Law of personal and social agreement
3. Voidable contract is voidable at the option of
 - (a) Both parties of contract
 - (b) One party of the contract
 - (c) None of the parties of the contract
 - (d) Aggrieved party of a contract
4. Which of the following statements is true:
 - (a) Voidable contract is valid at the time of making it
 - (b) Contract is void if an essential of free consent is missing in it
 - (c) All void agreements are illegal
 - (d) All illegal agreements are not necessarily void
5. Which of the following statement is true
 - (a) Void agreement and void contract are one and same
 - (b) Void agreement creates legal rights and obligation between parties
 - (c) Void contracts remain valid until they are declared void
 - (d) Any transaction based on void contract will also be void
6. Void agreement can be enforced
 - (a) By one of the parties
 - (b) By aggrieved party
 - (c) By none of the parties
 - (d) By the party entitled to do so
7. An agreement is a voidable contract when it is
 - (a) Enforceable if certain conditions are fulfilled
 - (b) Enforceable by law at the option of the aggrieved party
 - (c) Enforceable by both the parties
 - (d) Not enforceable at all
8. An agreement not enforceable by law is said to be
 - (a) Void
 - (b) Voidable
 - (c) Valid
 - (d) Unenforceable

9. A Contract
 - (a) May be void as originally entered into
 - (b) May become void subsequent to its formation
 - (c) Cannot become void under any circumstances
 - (d) May become void at the will of a party
10. Which of the following statement is true
 - (a) Valid contract is always valid
 - (b) Valid contract is not valid from the time it was made
 - (c) Valid contract may become void later on
 - (d) Valid contract is necessarily void agreement
11. Agreement to murder a person
 - (a) Cannot be enforceable by law
 - (b) Is valid in law
 - (c) In invalid for want of consideration
 - (d) Has no consensus ad idem?
12. Which of the following feature is essential for a contract:
 - (a) free consent of parties competent to contract
 - (b) lawful consideration and with a lawful object
 - (c) It should not be declared void expressly
 - (d) All of these
13. The adequacy of the consideration provided in an agreement in establishing an enforceable contract is:
 - (a) Assessed by reference to the reasonable man
 - (b) Assessed in relation to the consideration provided and an independent assessment of the value of the item being contracted for
 - (c) What the court considers is adequate
 - (d) A matter for the parties to consider at the time of making the agreement
14. All the agreements are contracts if they are made by free consent of the parties competent to contract for a ____ consideration and object
 - (a) Any
 - (b) Lawful
 - (c) Unlawful
 - (d) None of the above
15. Voidable contract is one
 - (a) Which is lawful
 - (b) Which is invalid
 - (c) Which is valid as long as it is not avoided by the party entitled to do so
 - (d) Which is unlawful
16. A Contracts with B to beat his business competitor. This is an example of
 - (a) Valid Contract
 - (b) Illegal agreement
 - (c) Voidable Contract
 - (d) Unenforceable Contract

17. According to provisions of Contract Act, 1872 void agreement and void contract is the same.
 - (a) True
 - (b) False
 - (c) Partly True
 - (d) Partly False
18. All illegal agreements are void; but all void agreements are not illegal.
 - (a) True
 - (b) Partly True
 - (c) False
 - (d) None of the above
19. According to enforceability, the contracts may be classified as
 - (a) Valid Contracts
 - (b) Void Contracts
 - (c) Voidable contracts
 - (d) All of the above
20. Which of the following is essential element of valid contract _____?
 - (a) There must be offer and acceptance
 - (b) There must be intention to create legal relationship
 - (c) There must lawful consideration
 - (d) All of above
21. Any lawful act will constitute consideration if it is done
 - (a) At the desire of promisee
 - (b) Voluntarily
 - (c) At the desire of promisor
 - (d) At the desire of third party
22. Consideration in order to be legally valid
 - (a) Must be adequate
 - (b) Need not be adequate
 - (c) Must be equal in terms of value
 - (d) Must be in-equal to promise
23. Agreements made on account of natural love and affection without consideration will be valid if it fulfils following conditions
 - (a) Expressed in writing
 - (b) Registered under the law
 - (c) Between parties standing in a near relation to each other
 - (d) All of the above
24. Consideration which is moved simultaneously with the promise is known as
 - (a) Present consideration
 - (b) Past consideration
 - (c) Future consideration
 - (d) Instant consideration
25. Which of the following statement is true
 - (a) Consideration must always be given by the promisee
 - (b) Consideration must be given by third party on behalf of promisee

- (c) Consideration must be given by the agent of promisee
 - (d) Consideration may be given by promisee or any other person on his behalf
26. Which of the following statement is true
- (a) Act done at the request of the third party will form consideration for the promisor
 - (b) Act done by the promisee voluntarily constitutes consideration for the promisor
 - (c) Act done by third party will constitute consideration
 - (d) Act done at the request of promisor will constitute consideration for the promisee
27. Agreement made without consideration is
- (a) Void
 - (b) Unlawful
 - (c) Unenforceable
 - (d) Voidable
28. Akram makes an agreement for buying raw material from Bilal on 1st January. The raw material is to be supplied by Bilal on 20th January and Payment is to be made by Akram on 15th March. What is the legal status of this contract?
- (a) This contract is not valid as consideration has not being supplied
 - (b) This contract is valid as consideration is present consideration
 - (c) This contract is not valid because past consideration is not recognized by law
 - (d) This contract is valid as consideration is future consideration
29. According to the Contract Act which consideration is not valid
- (a) Past consideration
 - (b) Present consideration
 - (c) Future consideration
 - (d) Illusory consideration
30. Consideration must be given at the desire of
- (a) Promisee
 - (b) Promisor
 - (c) Both of them
 - (d) Third party
31. Consideration must be something which the promisor
- (a) Is already bound to do
 - (b) Is not already bound to do
 - (c) May voluntarily do
 - (d) Must not do
32. A promise to compensate, wholly or in part, a person who has voluntarily done something for the promisor is
- (a) Enforceable
 - (b) Not enforceable
 - (c) Void
 - (d) Voidable
33. Consideration
- (a) Must move from the promisee
 - (b) May move from the promisee or any other person

- (c) Must move from the third party
 - (d) May move from the promisor
34. It is necessary that in a valid contract
- (a) Consideration must be lawful
 - (b) Object must be lawful
 - (c) Both of these must be lawful
 - (d) Anyone of these may be lawful
35. An agreement is immoral if
- (a) Court regards it immoral
 - (b) People thinks it immoral
 - (c) Society does not recognize it as moral
 - (d) It is below the standard of moral
36. Which of the following statement is true
- (a) No action is allowed in illegal agreement
 - (b) Partial action is allowed in illegal agreement
 - (c) One party of illegal agreement may be allowed to take action on it
 - (d) Law may allow action on such agreement
37. Agreement made with alien-enemy during the period of war is
- (a) Void agreement
 - (b) Illegal agreement
 - (c) Voidable agreement
 - (d) Unenforceable agreement
38. Object of an agreement is said to be unlawful if it is
- (a) Not Punishable by law
 - (b) Forbidden by law
 - (c) Not prohibited by special legislation
 - (d) All of the above
39. Every contract is made for a lawful object or lawful purpose. The object of a contract is form on the basis of promises made by the parties. The contract to be legally valid must contain lawful object which includes
- (a) If it is not forbidden by law
 - (b) If it is not defeating the provisions of any law
 - (c) If it is not fraudulent
 - (d) All of the above
40. Mr. A, in consideration of Rs. 100,000/- from Mr. B agrees to publish defamatory material against Mr. Talal, a famous lawyer, in order to damage his goodwill and reputation. This agreement is void because
- (a) It is fraudulent
 - (b) It is immoral and against public policy
 - (c) It involves an injury to a person
 - (d) It defeats the provision of any law

41. Mr. T agrees to buy share at premium in a joint stock company through a broker Mr. S who has given the false impression to the public that shares were useful of being purchased at a premium. Later on he found that broker has sold his own shares to him and not purchased any shares from the market. What is the status of this agreement?
 - (a) The agreement is valid as it is a business transaction
 - (b) The agreement is void because the consent is obtained by coercion
 - (c) The agreement is valid because it is in the favour of Mr. T
 - (d) The agreement is void because it was aimed at cheating the public

42. Due to unlawful object agreement is
 - (a) Enforceable
 - (b) Voidable
 - (c) Unenforceable
 - (d) Void

43. An agreement by an idiot is
 - (a) Voidable
 - (b) Enforceable
 - (c) Invalid
 - (d) Void ab-initio

44. An agreement made with a minor is:
 - (a) Void
 - (b) Void ab-initio
 - (c) Voidable
 - (d) Unenforceable

45. There are some disqualifications imposed on certain persons in respect of their capacity to contract. Choose the incorrect one from the following
 - (a) Convict
 - (b) Alien enemy
 - (c) Solvent
 - (d) Foreign sovereign

46. A person is said to be of sound mind if
 - (a) He is mentally fit for making decisions
 - (b) He is capable of understanding contract and forming rational judgement about it
 - (c) He has been declared as of a sound mind by the Doctor
 - (d) He can make contract and can obtain benefit

47. Alien enemy cannot make agreement with Pakistani citizen because
 - (a) He is not allowed to do so, by the Government of his country
 - (b) Agreement made by him may not be in his interest
 - (c) He is legally disqualified from making contract
 - (d) Agreement may not be in the interest of citizen of Pakistan

48. A convict may be debarred from making agreement
 - (a) For one month only
 - (b) For ever
 - (c) For a particular period of time
 - (d) When he was convicted of an offence

49. Contractual capacity of the person is affected by
 - (a) His age
 - (b) His soundness of mind
 - (c) By law to which he is subject
 - (d) By all above factors
50. Which of the following statement is true
 - (a) Corporation or company can enter into a contract
 - (b) Foreign Ambassador can be sued in by Pakistani citizen for enforcing rights of agreement
 - (c) Married woman can make agreement regarding joint property of husband and wife
 - (d) Lunatic has no contractual capacity at all
51. Which of the following statement is true
 - (a) Minor cannot be appointed as an agent
 - (b) Minor is not allowed to plead his minority always
 - (c) An agreement with a minor is void
 - (d) Minor can ratify void agreement, when he becomes major
52. A person is usually of unsound mind, but occasionally of sound mind
 - (a) He may enter into a contract when he is of sound mind
 - (b) He may not make a contract even when he is of sound mind
 - (c) He cannot enter into a contract at all
 - (d) None of the above
53. Contract entered before the declaration of war are
 - (a) Either suspended or terminated during the period of war
 - (b) Executory contract
 - (c) Voidable
 - (d) Void ab initio
54. A written and a registered agreement made between a husband and wife out of natural love and affection does not require consideration. As per the provisions of the Contract Act, 1872:
 - (a) Such an agreement is void
 - (b) Such an agreement is enforceable even without consideration
 - (c) Such an agreement is a quasi contract
 - (d) Husband and wife cannot enter into such an agreement
55. Consideration in a contract
 - (a) May be anything
 - (b) Have nothing in return
 - (c) Is something in return
 - (d) May be illusory
56. "Consideration" means a reasonable equivalent or other valuable benefit passed on
 - (a) By the Promisor to the beneficiary
 - (b) By the Promisee to the Promisor
 - (c) By the promisor to the promisee
 - (d) Any of these
57. past consideration is -----
 - (a) Valid consideration
 - (b) No consideration

- (c) Illegal consideration
 - (d) Unlawful consideration
58. Which of the following is correct?
- (a) Consideration is essential for a contract
 - (b) Consideration is required for a contract when parties intend to
 - (c) All of the 2 options are valid
 - (d) None of 2 options is valid
59. Consideration must be something which the Promisor
- (a) Is already bound to do
 - (b) Is not already bound to do
 - (c) May voluntarily do
 - (d) Must not do
60. An essential feature of consideration is that
- (a) It must be cash
 - (b) It must be given by the promisee alone
 - (c) It must be at the request of the Promisor
 - (d) It must be in kind
61. If A renders some service to B at B's desire and after a Month B promises to compensate A for the service rendered to him, it is a
- (a) Present consideration
 - (b) Past consideration
 - (c) Future consideration
 - (d) Not a consideration at all
62. Past consideration means
- (a) Voluntary services rendered in the past
 - (b) Something given by a party to another at the request of the Promisor and contract is made thereafter
 - (c) Something done at the time of making a contract
 - (d) Something to be given after formation of the contract
63. Consideration may be
- (a) past
 - (b) present
 - (c) future
 - (d) either of the 3
64. A promise to pay an existing debt on time if, B, the creditor, gives him a discount. Is this consideration valid?
- (a) Yes, it is genuine consideration
 - (b) No, Promisor is already bound to pay punctually on time
 - (c) No, inadequate consideration
 - (d) Yes, enforceable consideration
65. A for natural love and affection, promises to give his son B Rs 1,000. A puts his promise to B into writing and registers it. This is a
- (a) Contract
 - (b) Agreement

- (c) Promise
 - (d) Offer
66. A husband, by a registered written agreement promised to pay wife Rs. 5,000 per month. There was no consideration moving from the wife to the husband. This contract is
- (a) Void
 - (b) Illegal
 - (c) Valid
 - (d) Unenforceable
67. The consideration _____ benefit the promise himself
- (a) Must
 - (b) Need not
 - (c) Must always
 - (d) Must never
68. A supported B's infant Son. B Promises to Pay A's expense. The contract is
- (a) Void
 - (b) Illegal
 - (c) Valid
 - (d) Unenforceable
69. A owes B Rs 1,000 but the debt is barred by Limitation Act. A sign a written promise to pay B Rs 500 on Account of this debt. The contract is
- (a) Void
 - (b) Illegal
 - (c) Valid
 - (d) Unenforceable
70. 'No Consideration No Contract' does not apply to completed gifts.
- (a) True
 - (b) Partly True
 - (c) False
 - (d) None of these
71. Consideration must move at the desire of
- (a) Promisor
 - (b) Promisee
 - (c) Stranger
 - (d) Either of promisor or stranger
72. Which of the following is incorrect?
- (a) Consideration must be something which the promisee is already under a duty to do
 - (b) Consideration must be something only In cash
 - (c) Consideration must be which the promisee wants to do voluntarily
 - (d) All of these
73. A promise to pay Rs. 1,000 to B if he brings a star from sky to earth and B agrees to bring the star to earth. In this case, contract is
- (a) Valid
 - (b) Void as consideration is illusory
 - (c) Illegal
 - (d) Contingent

-
74. A promise to pay for past services is valid and binding even though it is without consideration. However, for the validity of such promise, the past services should have been rendered
- Voluntarily
 - At promisor's request
 - Under compulsion
 - Under some contract
75. For the enforcement of promise to pay a time -barred debt without consideration, which of the following conditions is not required?
- It must be in writing
 - It must be express
 - It must be signed by the promisor
 - It must be registered in a Court of law
76. If any part of a single consideration for one or more objects, or any one or any part of any one of several consideration of a single object is unlawful, then:
- Only that object shall be held void but the agreement shall be valid
 - The agreement shall be void
 - The agreement shall be voidable at the option of either party to the agreement
 - The agreement is still considered valid
77. Consideration and object of an agreement is unlawful if it
- is forbidden by law
 - would defeat the provisions of any law
 - Either of these
 - Neither of these
78. Consideration and object of an agreement is unlawful if it
- would defeat the provisions of any law
 - creates injury to the person
 - is fraudulent
 - All of these
79. Which of the following is incorrect?
- All agreements are unlawful if court consider it as immoral
 - All agreements are unlawful if court consider it opposed to the public policy
 - Either of these
 - Both of these
80. An agreement is void if the court considers it as
- Immoral
 - Within moral standards
 - Either of these
 - Neither of these
81. Consideration and object of an agreement is unlawful if it
- is fraudulent
 - creates injury to property of any other person
 - against public policy
 - all of these

82. A, B and C enter into an agreement for sharing the money obtained by fraud. This agreement is
- (a) Valid
 - (b) Wagering
 - (c) Void
 - (d) Voidable
83. A borrows money from B to purchase smuggled cameras from C. B knows the purpose. The agreement between A and B is
- (a) illegal
 - (b) void
 - (c) legal
 - (d) voidable
84. Consideration and object of an agreement is unlawful if it
- (a) is fraudulent
 - (b) is possible
 - (c) is impossible
 - (d) all of these
85. All void agreements may not be illegal but all illegal agreements are always void.
- (a) True
 - (b) False
 - (c) Partly True
 - (d) Partly False
86. A agrees with B to sell all his 1000 Kg goods stored in warehouse at Sialkot for Rs 50,000. The agreement is
- (a) Valid
 - (b) Void
 - (c) illegal
 - (d) contingent
87. All illegal agreements are
- (a) void ab – initio
 - (b) valid
 - (c) voidable
 - (d) enforceable
88. Agreement intended to defraud Income Tax Authorities is
- (a) Contrary to public policy
 - (b) void
 - (c) both of these
 - (d) neither of these
89. An agreement for lawful consideration but with an unlawful object, is _____
- (a) Void
 - (b) Wager
 - (c) Voidable
 - (d) Partially Illegal
90. A agrees to pay Rs 20,000 to B if he produces false evidence in his favor. This agreement is
- (a) Valid
 - (b) Void

- (c) Enforceable
 - (d) Voidable
91. Who among the following is not competent to contract?
- (a) Person who has acquired the age of 18
 - (b) Person who has acquired the age of 16
 - (c) Person who is of sound mind
 - (d) Person who is not disqualified from contracting by any law
92. Capacity to contract means
- (a) The parties are mentally sound to make contract
 - (b) The parties are physically able to enter into contract
 - (c) The parties are legally competent to enter into contracts
 - (d) All of the options
93. Competence to contract means
- (a) Age of the parties
 - (b) Soundness of mind of the parties
 - (c) Both age and soundness
 - (d) Intelligence of the parties
94. Only the official Receiver can enter into contracts on behalf of the insolvent.
- (a) True
 - (b) Partly True
 - (c) False
 - (d) None of the options.
95. These two persons can enter into a valid contract
- (a) One minor and a major person
 - (b) One minor and a person of sound mind
 - (c) Husband and Wife
 - (d) One major person and an insolvent person
96. A convict when undergoing imprisonment
- (a) Is capable of entering into a contract
 - (b) Is incapable of entering into a contract
 - (c) Is capable of entering into a contract, if it is permitted by the court or when he is on a bail
 - (d) Is capable of passing the consideration
97. A convict can enter into contract when
- (a) He is on bail
 - (b) He is released from imprisonment
 - (c) All of the options
 - (d) None of the options
98. On attaining the age of majority, a Minor's agreement
- (a) Is void
 - (b) Cannot be ratified
 - (c) Becomes void
 - (d) Can be ratified

99. Contracts with an alien friend, subject to certain restrictions are
 - (a) Void
 - (b) Unenforceable
 - (c) Valid
 - (d) Invalid
100. A contract to take a loan by boy of 17 years of age from a money lender of 34 years is
 - (a) Valid contract
 - (b) Void contract
 - (c) Quasi Contract
 - (d) Void agreement
101. A, a Minor, entered into a contract for borrowing a sum of Rs 40,000 out of which lender paid him a sum of Rs.18,000 A executed mortgage of property in favor of the lender. The mortgage is
 - (a) Valid for any amount
 - (b) Valid to the extent of Rs. 40,000
 - (c) Invalid
 - (d) Validated on attaining majority
102. Which of these has not been held as a "Necessity"?
 - (a) Food
 - (b) Clothing
 - (c) Shelter
 - (d) Mobile Phone
103. Which of these has been held as a Necessary?
 - (a) Mobile Phone
 - (b) Clothing to suit the person's social status
 - (c) Intoxicating drinks
 - (d) Online classes from an expensive portal
104. A minor, by misrepresenting his age, borrows some money. He
 - (a) Can be sued for fraud
 - (b) Cannot be sued for fraud
 - (c) Is liable to return the money
 - (d) Is liable to return the money on attaining majority
105. Which of these is a not a "necessary" for a Minor?
 - (a) Provision of education
 - (b) Provision of medical and legal advice
 - (c) Provision of a house on rent for the purpose of living and Continuing his studies
 - (d) Provision of alcoholic drinks
106. A person is permanently incompetent to contract, if he is
 - (a) Lunatic
 - (b) Idiot or insolvent
 - (c) All of the options
 - (d) None of options
107. An intoxicated person is not competent to contract as he falls in the category of
 - (a) Persons disqualified by law
 - (b) Persons of unsound mind

- (c) Persons of discarded by society
 - (d) Enemies of society
108. Which of the following are the persons of unsound mind?
- (a) Idiot
 - (b) Lunatic
 - (c) Drunken
 - (d) All of the options
109. Which of the following persons are not competent to Contract being the persons disqualified by law?
- (a) Alien enemies
 - (b) Insolvents
 - (c) Convicts
 - (d) All of the options
110. A person is said to be of Sound Mind, if at the time of contracting
- (a) He is able to understand the terms of Contract
 - (b) He is capable of forming a rational judgment about contract and about his interests
 - (c) All of the options
 - (d) None of the options
111. Contracts with an alien enemy, before the declaration of war, are
- (a) Terminated
 - (b) Not affected at all
 - (c) Terminated or Suspended and revived after war
 - (d) None of the options
112. Who are not competent to make a contract?
- (a) Minor
 - (b) A person of unsound mind (i.e. lunatics, idiots, drunken / intoxicated person)
 - (c) A person who is disqualified to contract under any law.
 - (d) All of above
113. Every person is competent to contract if
- (a) He is major
 - (b) He is of sound mind
 - (c) He has not been disqualified to contract under any law
 - (d) All of above
114. An agreement by lunatic when he is of sound mind is _____
- (a) valid
 - (b) void
 - (c) voidable
 - (d) enforceable
115. A contract with an alien enemy becomes _____ in the outbreak of war.
- (a) Unenforceable
 - (b) Enforceable
 - (c) Valid
 - (d) Acceptable

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116. Atul, Bhuvan, Chinmay enter into an agreement to cheat the people and to divided the gain acquired, but letter Chinamay refuses to act, which of the following is correct?
- (a) As agreement is already entered, Chinmay must help to Atul & Bhuvan for cheating the people.
 - (b) Atul & Bhuvan can continue to cheat the people and divide the gain between them.
 - (c) Agreement can be enforced against Chinmay.
 - (d) Agreement is void and cannot be enforced, as the object is fraudulent.
117. A, a firefighter, saves B's goods from fire.
- (a) A is not entitled to get any compensation from B
 - (b) A is entitled to get compensation from B
 - (c) B must compensate A
 - (d) None of these

Sr. No.	Answer						
1	B	36	A	71	D	106	B
2	B	37	A	72	D	107	B
3	D	38	B	73	B	108	D
4	A	39	D	74	A	109	D
5	C	40	C	75	D	110	C
6	C	41	D	76	B	111	C
7	B	42	D	77	C	112	D
8	A	43	D	78	D	113	D
9	B	44	A	79	D	114	B
10	C	45	C	80	A	115	A
11	A	46	B	81	D	116	D
12	D	47	C	82	C	117	A
13	D	48	D	83	B		
14	B	49	D	84	A		
15	C	50	A	85	A		
16	B	51	C	86	A		
17	B	52	A	87	A		
18	A	53	A	88	C		
19	D	54	B	89	A		
20	D	55	C	90	B		
21	C	56	D	91	B		
22	B	57	A	92	D		
23	D	58	A	93	C		
24	A	59	B	94	A		
25	D	60	C	95	C		
26	D	61	C	96	C		
27	A	62	B	97	C		
28	D	63	D	98	B		
29	D	64	B	99	C		
30	B	65	A	100	B		
31	B	66	C	101	C		
32	A	67	B	102	D		
33	B	68	C	103	B		
34	C	69	C	104	B		
35	A	70	A	105	D		

CH # 4**FREE CONSENT AND VOID AGREEMENTS**

1. Relation between the parties must exist to use
 - (a) Fraud
 - (b) Undue influence
 - (c) Coercion
 - (d) Mistake
2. Undue influence implies
 - (a) It involves moral pressure
 - (b) Criminal liability is incurred
 - (c) Pressure of money
 - (d) Physical pressure on the party
3. Coercion may be directed upon
 - (a) The party whose consent is being caused
 - (b) Any other party
 - (c) Either (a) or (b)
 - (d) None of the above
4. Fraud exists, if it is shown that false statement has been made
 - (a) Knowingly
 - (b) Without belief in its truth
 - (c) Recklessly without caring it be true and false
 - (d) All of the above, if done, with an intention to deceive
5. Undue influence is legally not presumed in case of
 - (a) Guardian and ward
 - (b) Creditor and debtor
 - (c) Solicitor and client
 - (d) Trustee and beneficiary
6. Which of the following is not true
 - (a) Undue influence must be exercised by or against the party to a contract
 - (b) Coercion can be exercised by a stranger to the contract
 - (c) A contract is not voidable if it was caused by a mistake as to any law in force in Pakistan
 - (d) Duty to speak does not make silence as fraud
7. A person threatens to commit a suicide, if his wife and son did not contract with his brother to release certain disputed property in his favour. What is the legal status of this agreement?
 - (a) The contract was caused by coercion
 - (b) The contract was caused by undue influence
 - (c) The contract was caused by moral pressure
 - (d) None of the above
8. When party standing in fiduciary relationship make an agreement, legally it will be presumed that the party in a dominating position, must have caused the consent of other through undue influence which includes
 - (a) Father and son
 - (b) Doctor and patient
 - (c) Teacher and student
 - (d) All of the above

9. Bilal is a manufacturer of colour television sets. He gives an advertisement that in his opinion television sets manufactured by him is the best available in the market. Such statement
 - (a) Will amount to misrepresentation
 - (b) Will amount to active concealment
 - (c) Will amount to fraud
 - (d) Will not amount to fraud
10. Unlawful detaining or threatening to detain any property with an intention of causing any person to enter into a contract is
 - (a) Misrepresentation
 - (b) Bilateral mistake of fact
 - (c) Fraud
 - (d) Coercion
11. A young widow was forced to adopt the boy, under threat of preventing the dead body of her husband from being removed and getting cremated. Can widow set aside adoption deed?
 - (a) No because the adoption deed was made by her free will
 - (b) No because the adoption deed was made by fraud
 - (c) Yes because the adoption deed was made by undue influence
 - (d) Yes because the adoption deed was made by coercion
12. Coercion is the committing or threatening to commit any act which is forbidden by
 - (a) Pakistan Penal Code
 - (b) The Contract Act
 - (c) The Partnership Act
 - (d) None of the above
13. Which of the following does not affect free consent of parties
 - (a) Fraud
 - (b) Misrepresentation
 - (c) Undue influence
 - (d) Unsoundness of mind
14. Which one is not a fraud
 - (a) Non-disclosure of material facts, known to the party
 - (b) Silence maintained by the party where silence is equivalent to his speech
 - (c) Active concealment of facts having knowledge
 - (d) A promise made without any intention or performing it
15. In case of sale of goodwill, restraint to similar business for the seller of goodwill is valid if it is for
 - (a) Specified local limits
 - (b) Particular period of time
 - (c) Restriction must be reasonable
 - (d) All of the above
16. Which one of the following is not void
 - (a) Agreement to marry a particular person
 - (b) Agreement not to marry at all
 - (c) Agreement to prevent the person from getting married
 - (d) Agreement to marry in heaven

17. In case of sale of goodwill of business, the vendor of goodwill may be lawfully restricted from doing similar business
 - (a) Anywhere in that particular area
 - (b) Within specified local limits
 - (c) Within that particular district
 - (d) Within that particular province
18. Agreements in restraint of legal proceedings include
 - (a) Agreements which tend to prevent course of justice
 - (b) Agreement to refer present dispute to an arbitration
 - (c) Agreement to settle dispute out of the court
 - (d) Agreement to refer future dispute to arbitration
19. Parties of wagering agreement do not have
 - (a) Any interest in the happening or non-happening of future uncertain event
 - (b) Interest in the non-happening of the events
 - (c) Some other interest in the happening of the event
 - (d) Some other interest in the non-happening of the event
20. Which one of the following is void agreement
 - (a) Agreement to buy ticket of lottery sponsored by the Government
 - (b) Agreement to pay more than Rs. 500/- to the winner of a horse race
 - (c) Crosswords puzzle based on application of skill and talent
 - (d) Athlete competition
21. Void agreement do not create any rights and obligations between parties and cannot be enforced in the court either by the parties in addition, there are many agreement which have also expressly being declared as void by the law, which of the following is not a void agreement
 - (a) Agreement in restraint of trade
 - (b) Agreement in restraint of marriage
 - (c) Agreement in restraint of marriage of a minor
 - (d) Agreement in restraint by way of wager
22. Wagering agreement is one in which money is to be paid by one to another party or vice versa on the happening or non-happening of future uncertain event. In wagering agreement either of the party is to win or to lose. The following constitutes the essential of wagering agreement.
 - (a) Mutual gain or loss
 - (b) Uncertain event
 - (c) No control of the parties, on the happening of the event.
 - (d) All of the above
23. According to the relevant section of the Contract Act, agreement by way of wager is void. Which of the following transaction is not included in wagering agreement?
 - (a) Transactions of lotteries
 - (b) Gambling transaction
 - (c) Purchase of shares and debentures
 - (d) None of the above
24. What is consent under the Contract Act, 1872?
 - (a) When acceptance of proposal is made by the party to whom the proposal is made
 - (b) When the acceptance is made by another person other than the person to whom the proposal is made

- (c) When they agree upon the same thing in the same sense
 - (d) When both the parties agree upon a thing in the way it is understood by them
25. Which of the following is not a necessary feature for free consent?
- (a) When the consent is not caused by coercion
 - (b) When the consent is not caused by undue influence
 - (c) When the consent is not caused by mistake
 - (d) When the consent is not caused by misunderstanding
26. Which of the following statement regarding coercion is not true?
- (a) Coercion involves unlawful detaining or threatening to detain any property
 - (b) The act of coercion may be directed at any person and not necessarily at the other party to the agreement
 - (c) Coercion gives one person an advantage of a position of power over another person
 - (d) The act of coercion must be done with the object of inducing or compelling any person to enter into an agreement
27. In which of the following circumstances is undue influence not exercised:
- (a) Where one person holds a real or apparent authority over the other
 - (b) Where he stands in a fiduciary relation with the other
 - (c) Where he makes a contract with a person whose mental capacity is temporarily or permanently affected by reason of age, illness, or mental or bodily distress
 - (d) When something is said or done in a dishonest way to trick people
28. Which of the following act does not constitute fraud?
- (a) where a person stands in a fiduciary relation with the other and induces the other person to act on his directions
 - (b) the active concealment of a fact by one having knowledge or belief of the fact
 - (c) a promise made without any intention of performing it
 - (d) the suggestion as a fact, of that which is not true, by one who does not believe it to be true
29. Which of the following does not constitute misrepresentation?
- (a) any breach of duty which, without an intent to deceive, gains an advantage to the person committing it
 - (b) the positive assertion, in a manner not warranted by the information of the person making it, of that which is not true, though he believes it to be true
 - (c) causing, however innocently, a party to an agreement, to make a mistake as to the substance of the thing which is subject of the agreement
 - (d) any act fitted to deceive the other party willfully
30. In which of the following cases is a contract not voidable at the option of the party whose consent was so caused:
- (a) When the consent was caused by coercion
 - (b) When the consent was caused by misrepresentation
 - (c) When the consent was caused by silence but the party had the means of discovering the truth
 - (d) When the consent was caused by fraud
31. Where both the parties to a contract are under the mistake as to matter of fact \ essential to the agreement, the agreement is:
- (a) Voidable at the option of the party making the proposal
 - (b) Voidable at the option of the party accepting the proposal
 - (c) Considered valid
 - (d) Void

32. Which of the following is NOT a type of mistake in contract law?
 - (a) Frustrated mistake
 - (b) Mistake of law
 - (c) Bilateral mistake
 - (d) Unilateral mistake

33. Which of the following elements is incorrect in establishing an actionable misrepresentation?
 - (a) A statement of material fact that induces the other party into the contract
 - (b) A false representation
 - (c) The innocent party did or did not believe the statement to be true
 - (d) The representation induced the party into the contract

34. Where undue influence has been used to form the contract, the effect is that the contract is:
 - (a) Void
 - (b) A valid contract that binds both parties
 - (c) Illegal
 - (d) Voidable

35. A intending to deceive B, falsely represents that five hundred muds of indigo are made annually at A's factory and they're by induces B to buy the factory
 - (a) The contract is voidable on the part of A
 - (b) The contract is voidable on the part of B
 - (c) The contract is voidable on both A and B part
 - (d) None of these

36. The suggestion as a fact of that which is not true by one who does not believe it to be true and the active concealment of a fact by one having knowledge or believe of the fact is called
 - (a) Cheating
 - (b) Fraud
 - (c) Misrepresentation
 - (d) None of above

37. A man enfeebled by disease or age is included by B's influence over him as his medical abundant to agree to pay B, an unreasonable sum for his professional services
 - (a) B employs nothing
 - (b) B employs undue influence
 - (c) Both of these
 - (d) None of these

38. The committing or threatening to commit any act forbidden by the Pakistan Penal Code, or the unlawful detaining or threatening to detain any property to the prejudice of any person whatever with intention of causing any person to enter into an agreement is called
 - (a) Free consent
 - (b) Coercion
 - (c) Both of these
 - (d) None of these

39. The Term "Consent" means
 - (a) Voluntary accordance with or concurrence in what is done or proposed by another
 - (b) Free mind
 - (c) Free will
 - (d) All of these

40. The act amount to coercion is
 - (a) Threat to sue
 - (b) Threat to strike
 - (c) Threat to kill
 - (d) Threat to detain property under mortgage
41. A contract is said to be caused by undue influence
 - (a) When one party is a dominant party
 - (b) When one party uses its dominant position to get unfair advantage over the other in a contract
 - (c) When parties to contract are close friends
 - (d) When parties to a contract are cousins
42. A threatens to kill B, if B does not agree to sell his property to A. B's Consent is obtained by
 - (a) Fraud
 - (b) Undue Influence
 - (c) Coercion
 - (d) Misrepresentation
43. Two persons are said to be in consent
 - (a) When they agree on any things
 - (b) When they agree upon the same thing in the same sense
 - (c) When they agree upon the same thing in different sense
 - (d) When they agree up to the different thing in same sense
44. D threatens to kill A if he does not sell his house to B at a very low price. Even if D is a stranger to the transaction between A and B, the agreement is caused by
 - (a) Undue Influence
 - (b) Coercion
 - (c) Fraud
 - (d) Misrepresentation
45. _____ means forcibly compelling a person to enter into a contract.
 - (a) Intimidation
 - (b) Fraud
 - (c) Mistake
 - (d) Coercion
46. To make a contract voidable, coercion must have been exercised against
 - (a) promisor
 - (b) Any other person
 - (c) Either of these
 - (d) Neither of these
47. A person is deemed to be in a position to dominate the will of another if
 - (a) He stands in a fiduciary relation to the other
 - (b) He makes a contract with a person whose mental capacity is temporarily or permanently affected by reason of age, illness or mental or bodily distress
 - (c) All of the above
 - (d) None of the above

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48. _____ means unfair use of one's superior power in order to obtain the consent of a person who is in a weaker position.
- (a) Coercion
 - (b) Undue influence
 - (c) Fraud
 - (d) Misrepresentation
49. Which of the following relationships raise presumption of undue influence?
- (a) Doctor and Patient
 - (b) Solicitor and Client
 - (c) Trustee and Beneficiary
 - (d) All of these
50. undue influence is not presumed when the relationship between the parties is
- (a) master- Servant
 - (b) doctor-patient
 - (c) husband-wife
 - (d) shopkeeper-buyer
51. An illiterate old woman made a gift deed of her entire property to her nephew who managed her affairs. The gift can be set aside on the grounds of
- (a) Mistake
 - (b) Coercion
 - (c) Fraud
 - (d) Undue Influence
52. Coercion and Under Influence, involve physical force or threat.
- (a) True
 - (b) Partly True
 - (c) False
 - (d) None of these
53. A applies to a Banker for a loan when the money market is very stringent Banker says that loan could be provided only at much high interest. A's consent is
- (a) Not obtained by undue Influence
 - (b) Obtained by undue influence
 - (c) Not obtained by coercion
 - (d) Obtained by fraud
54. To employ "coercion", relationship between the parties is
- (a) Necessary
 - (b) Not necessary
 - (c) Required
 - (d) Presumed
55. To employ "undue Influence", relationship between the parties is
- (a) Necessary
 - (b) Not necessary
 - (c) Required
 - (d) Presumed

56. Which of the following relationships raise presumption of undue influence?
- (a) Parent and Child
 - (b) Guardian and Ward
 - (c) Spiritual Guru and Disciple
 - (d) All of these
57. Fraud means
- (a) Suggestion as a Fact, of something which is not true, by a person who does not believe it to be true
 - (b) Active concealment of a fact
 - (c) Promise made without any intention of performing it
 - (d) All of these
58. Which of these constitute essential elements of Fraud?
- (a) Representation should relate to a material fact
 - (b) Representation should be False
 - (c) The intention must be to induce the other party to act upon it
 - (d) All of these
59. If A sells, by auction to his brother B a horse which A Knows to be unsound and A says nothing to B about the horse's unsoundness, this amount to
- (a) Fraud
 - (b) Not fraud
 - (c) Unlawful
 - (d) Illegal
60. Which of these does not constitute Fraud?
- (a) Suggestion as a fact, of something which is not true, by a person who does not believe it to be true
 - (b) Active concealment of a Fact
 - (c) Innocent statement, honestly believing the same to be true.
 - (d) Promise made without any intention of performing it
61. The important element which distinguishes misrepresentation from fraud is that the misrepresentation is an
- (a) intentional statement
 - (b) innocent statement
 - (c) important statement
 - (d) irrelevant statement
62. A bought share in a Company on the faith of a prospectus that contained an untrue statement as to the directorship of B. A had never heard of B and hence such statement was immaterial from his view point. A claim damages for fraud. His claim will be dismissed on the ground that
- (a) There was no fraud
 - (b) It is a subject matter covered under Companies Act
 - (c) The untrue statement had not induced him to buy the shares
 - (d) All of these
63. In cases of silence amounting to fraud where the other party had the means of discovering truth with ordinary diligence, the contract is
- (a) Void
 - (b) Voidable

- (c) Not voidable
 - (d) Conditional
64. When the contract is entered into under misrepresentation, it is
- (a) void
 - (b) valid
 - (c) invalid
 - (d) voidable
65. Which of these are features of Misrepresentation, not treated as Fraud?
- (a) Innocent and Unintentional
 - (b) Believes the representation to be true
 - (c) No intention to deceive or defraud the other party.
 - (d) All of these
66. _____ Is an erroneous belief about something?
- (a) Representation
 - (b) Mistake
 - (c) Fraud
 - (d) Misrepresentation
67. Fraud results not only from misstatement of facts, but also from suppression of material facts.
- (a) True
 - (b) Partly True
 - (c) False
 - (d) None of the above
68. Erroneous opinion as to value of subject matter is not a Mistake of Fact.
- (a) True
 - (b) Partly True
 - (c) False
 - (d) None of the above
69. An old illiterate man was made to sign a bill of exchange, by means of a false representation that it was a guarantee. The contract is
- (a) illegal
 - (b) Valid
 - (c) Void
 - (d) Voidable
70. A wrote to B inquiring price of Rifles suggesting that he might buy as many as 50. On receipt of information he telegraphed, "Send three rifles" Due to telegraphic mistake, message was transmitted as "Send the rifles". B dispatched 50 rifles. In this case
- (a) There is no contract
 - (b) There is a valid contract
 - (c) A has to accept the loss on 50 rifles
 - (d) A has to accept the loss on 3 rifles
71. In which of the following cases, of mistake of both the parties, the contract is void ab initio because of complete absence of consent
- (a) Where there is error as to the nature of the contract
 - (b) Where there is error as to the identity of the parties

- (c) Where there is error as to the subject matter of the contract
 - (d) All of these
72. Which of the following agreement is void?
- (a) Agreement in restraint of marriage
 - (b) Agreement which is expressed in writing and registered under the law for the time being in force for the registration of documents, and is made on account of natural love and affection between parties standing in a near relation to each other
 - (c) Agreement to compensate, wholly or in part, a person who has already voluntarily done something for the promisor, or something which the promisor was legally compellable to do
 - (d) Agreement made in writing and signed by the person to be charged therewith or by his agent generally or specially authorized in that behalf, to pay wholly or in part debt of which the creditor might have enforced payment but for the law for the limitation of suits
73. Which of the following agreements are valid?
- (a) Uncertain agreements
 - (b) Wagering agreements
 - (c) Agreements to do impossible events
 - (d) None of these
74. Which of the following agreements are void?
- (a) Agreements to do impossible acts
 - (b) Illegal agreements
 - (c) Both of these
 - (d) Neither of these
75. Agreement to do an impossible act is:
- (a) Voidable at the option of the promisor
 - (b) Void
 - (c) Valid
 - (d) Voidable at the option of the promise
76. Every agreement, by which any party thereto is restricted absolutely from enforcing his rights under or in respect of any contract by the usual legal proceeding in the ordinary tribunal or which limits the time within which he may thus enforce his right
- (a) Valid agreement
 - (b) Void agreement
 - (c) Both of these
 - (d) None of these
77. Where a Seller of Goodwill of a business agrees not to carry on similar business, the limits and conditions imposed have to be _____ having regard to the nature of the business.
- (a) Considerable
 - (b) Understandable
 - (c) Reasonable
 - (d) Suitable
78. Which one of the following is a void agreement?
- (a) An agreement without consideration
 - (b) An agreement in restraint of marriage
 - (c) An agreement in restraint of trade
 - (d) All of these

79. Of the following agreements, which one is not void?
(a) Agreement without consideration
(b) Agreement in restraint of marriage
(c) Wagering agreement
(d) Agreement with physically disabled person
80. An agreement among the members of a co-operative society to deliver all crops grown by them to the society. The society sells it and divides the profit amongst its member is
(a) Void
(b) Unenforceable
(c) Valid
(d) Voidable
81. "Agreements in restraint of Legal proceedings" is?
(a) Void
(b) Valid
(c) Unenforceable
(d) voidable
82. Which of the following agreements is valid?
(a) Restricting person from enforcing his rights under any contract, by the court
(b) Limiting the time within which any party may enforce his rights by order of court
(c) Waiver the rights of any party to the agreement
(d) All of these
83. An agreement not to enforce any legal remedy or enforce the right is
(a) Valid
(b) Void
(c) Voidable
(d) Unenforceable
84. An agreement between two parties to refer to arbitration for any dispute between them is valid
(a) If parties wish so
(b) If it is in writing
(c) Either of these
(d) Neither of these
85. Uncertain agreement is
(a) Voidable
(b) Void
(c) Valid
(d) Illegal
86. An agreement is void, if the meaning of such agreement is
(a) not certain
(b) not capable of being made certain
(c) either of these
(d) neither of these
87. A says to B " I shall sell my house; will you buy?" B says, "yes, I will buy". Agreement is void due to
(a) Uncertainty of meaning
(b) Uncertainty of price

- (c) Uncertainty of subject matter
 - (d) Uncertainty about the quality
88. Illegal agreements may be punishable with
- (a) Fine
 - (b) Imprisonment
 - (c) None of these
 - (d) Any of these
89. A promised to pay an extra Rs 5,000 to B if the horse he purchased from B proved to be lucky. The promise is
- (a) Valid
 - (b) Void
 - (c) Voidable
 - (d) Enforceable
90. An Agreement to murder a person is an example of
- (a) Voidable Agreement
 - (b) Illegal Agreement
 - (c) Either of these
 - (d) Both of these
91. An agreed to pay a certain sum, when he wishes to pay. The agreement is void on grounds of
- (a) inadequacy of consideration
 - (b) agreement to agree in future
 - (c) Uncertainty
 - (d) any of these
92. An agreement which restrains the seller of a goodwill from carrying on a similar business within specified local limits, is
- (a) Void
 - (b) voidable
 - (c) Valid
 - (d) Contingent
93. An agreement which in restraint of marriage is void if the restraint is
- (a) Complete only
 - (b) Partial only
 - (c) Complete or partial
 - (d) Approved by parties
94. An agreement which restrains a continuing partner of a firm from carrying on any business, other than the business of the firm, is
- (a) Void
 - (b) Voidable
 - (c) valid
 - (d) Unlawful
95. An agreement to remain unmarried is
- (a) Valid
 - (b) Void
 - (c) Voidable
 - (d) Enforceable

96. An agreement which restricts a person's freedom to marry person of his choice is against public policy and is
- (a) Lawful
 - (b) Illegal
 - (c) Void
 - (d) Enforceable
97. Where both parties believe the subject matter of the contract to be in existence but in fact, it is not in existence at the time of making the contract, there is _____
- (a) Mistake as to quantity of the subject matter
 - (b) Mistake as to existence of the subject matter
 - (c) Mistake as to quality of the subject matter
 - (d) Mistake as to Identify of particular person
98. _____ Is a false statement which the person making it honestly believes to be true.
- (a) Fraud
 - (b) Misrepresentation
 - (c) Coercion
 - (d) Undue influence
99. Which of the following acts committed by a party to a contract with intent to deceive other party or induce him to enter into the contract will be treated as fraud?
- (a) Knowingly making a false statement
 - (b) Actively concealing a material fact
 - (c) Making a promise without any intention of performing it
 - (d) All of above
100. When one of the party to contract commits a misrepresentation or fraud, contract is _____ at the option of party misrepresented or defrauded.
- (a) Voidable
 - (b) Void
 - (c) Illegal
 - (d) Unlawful
101. K, who is-trying to sell an unsound horse, forges a Veterinary Surgeon's certificate stating the horse to be sound and pins it on the stable door. P comes to examine the horse but the certificate goes unnoticed by him. P buys the horse and finds later on the horse to be unsound. P wants to avoid the agreement. Will he succeed?
- (a) Yes. P will succeed as P was influenced by it.
 - (b) No. P will not succeed for though K attempted to defraud by putting up the surgeon's forged certificate as to the soundness of the horse, P was not influenced by it.
 - (c) Both (a) & (b)
 - (d) None of above
102. In which of following case silence amounts to fraud?
- (a) If having regard to the circumstances of the case, it is the duty of the person keeping silence to speak
 - (b) Where silence is, in itself, equivalent to speech
 - (c) If seller fails to inform the buyer as to a latent defect his silence amounts to fraud
 - (d) All of above

103. Consent is not said to be free when it is not caused by _____
 - (a) Coercion
 - (b) Undue influence
 - (c) Fraud
 - (d) All of above
104. When a person is compelled to enter into a contract by the use of force _____ Is said to be employed.
 - (a) Fraud
 - (b) Undue influence
 - (c) Coercion
 - (d) Mistake
105. Which of the following relationship does not raise presumption of undue influence?
 - (a) Religious adviser & disciple
 - (b) Doctor & patient
 - (c) Solicitor & client
 - (d) All of above
106. Every agreement by which any one is restrained from exercising a lawful _____ Of any kind, is, to that extent, void.
 - (a) Profession
 - (b) Trade
 - (c) Business
 - (d) All of above
107. A gave a loan to the guardian of a Minor to celebrate the Minor's marriage. The agreement is
 - (a) Valid
 - (b) Valid at the option of Minor
 - (c) not enforceable
 - (d) voidable
108. A agrees to pay Rs 30,000 to B, a rival shopkeeper, if he closes his business in A's locality only. This agreement is
 - (a) Valid
 - (b) Voidable
 - (c) Void
 - (d) None of the above
109. A, in Bahawalpur, bets with B and loses. A applies to C for a loan in order to pay B after involving him also in this contract. C gives the loan to A to enable him to pay B. In this case C can
 - (a) recover the loan from A
 - (b) not recover the loan from A
 - (c) C can recover the loan from B
 - (d) C can either recover the loan from B or A
110. In a Wagering Agreement, the winning party cannot recover the money.
 - (a) True
 - (b) Partly True
 - (c) False
 - (d) None of the above

111. C stayed in a room in a hotel. The hotel-keeper knew that the room was in an insecure condition. While C was dining in the dining room, some articles were stolen from his room. State whether hotel-keeper was liable for the loss?
- (a) Yes. Hotel-keeper is liable for the loss as he should have taken reasonable steps to rectify the unsecured condition of the rooms
 - (b) No. Hotel-keeper is not liable for the loss even he has not taken reasonable steps to rectify the unsecured of the rooms.
 - (c) Partly yes
 - (d) None of above

Sr. No.	Answer						
1	B	31	D	61	B	91	D
2	A	32	A	62	A	92	C
3	C	33	C	63	D	93	C
4	D	34	D	64	D	94	C
5	B	35	B	65	D	95	B
6	D	36	B	66	B	96	C
7	A	37	B	67	A	97	B
8	D	38	B	68	A	98	B
9	D	39	A	69	C	99	D
10	D	40	C	70	A	100	A
11	D	41	B	71	D	101	B
12	A	42	C	72	A	102	D
13	D	43	B	73	D	103	D
14	B	44	B	74	C	104	C
15	D	45	D	75	B	105	A
16	A	46	C	76	B	106	D
17	B	47	C	77	C	107	C
18	A	48	B	78	D	108	C
19	A	49	D	79	D	109	B
20	A	50	D	80	C	110	A
21	C	51	D	81	A	111	A
22	D	52	B	82	D		
23	C	53	A	83	B		
24	C	54	B	84	A		
25	D	55	A	85	B		
26	C	56	D	86	C		
27	D	57	D	87	B		
28	A	58	D	88	D		
29	D	59	A	89	B		
30	C	60	C	90	B		

CH # 5**CONTINGENT CONTRACTS**

1. Contingent contracts are
 - (a) Always valid
 - (b) May be valid
 - (c) May be voidable
 - (d) May be unenforceable
2. Performance of contingent contract depends on
 - (a) Happening of some future event
 - (b) Non-happening of some future event
 - (c) Happening or Non-happening of some uncertain event
 - (d) Happening or Non-happening of some uncertain event collateral to such contract
3. Which of the following statement is true
 - (a) All contracts of indemnity are contingent contracts
 - (b) All contracts are contingent contract
 - (c) All quasi contracts are contingent contract
 - (d) Some of the quasi-contract are contingent contract
4. Agreement to pay money without having any other interest on the happening or non-happening of some future event is
 - (a) Contingent contract
 - (b) Insurance contract
 - (c) Wagering agreement
 - (d) Quasi contract
5. Contingent contracts are
 - (a) Absolute contracts
 - (b) Partly absolute contracts
 - (c) Conditional contracts
 - (d) None of the above
6. Which one of the following statement is true
 - (a) All contingent contracts are not wagering in nature
 - (b) Contingent contracts and wagering contracts are one and same
 - (c) Contingent contracts are absolute contracts
 - (d) Contingent contracts are not conditional contract
7. Contingent contract is based on an event
 - (a) Which is uncertain
 - (b) Which is certain to happen
 - (c) Which is partly uncertain
 - (d) Which is partly certain
8. A contract of insurance is a
 - (a) Contract of guarantee
 - (b) Contingent contract
 - (c) Wagering agreement
 - (d) Unilateral agreement

9. A contingent contract is
 - (a) Forbidden by law
 - (b) Immoral
 - (c) Opposed to public policy
 - (d) None of the above
10. Mr. X agrees to pay a certain sum to Mr. Y, if Mr. Y brings on earth a star from the sky. It is
 - (a) Valid contract
 - (b) Void agreement
 - (c) Voidable contract
 - (d) Void contract
11. Mr. A contract to pay Mr. B sum of Rs.20000. If his house gets on fire. It is
 - (a) Wagering agreement
 - (b) Contingent contract
 - (c) Unilateral agreement
 - (d) Bilateral agreement
12. Parties of a contract do not have any interest in the subject matter, in.
 - (a) Contingent contract
 - (b) Quasi contract
 - (c) Wagering agreement
 - (d) Insurance contract
13. Contingent contract means:
 - (a) A suit entrusted to any person to abide by the result of any game or other uncertain event on which may wager is made
 - (b) A contract to do or not to do something, if some event, collateral to such contract, does or does not happen
 - (c) Agreements which are not certain, or capable of being made certain
 - (d) Every agreement, by which any party thereto is restricted absolutely from enforcing his rights under or in respect of any contract
14. Contingent contract to do or not to do anything on the happening of an uncertain future event:
 - (a) Is never enforceable
 - (b) Is enforceable since the time of making it
 - (c) Becomes enforceable in the immediate possibility of happening of that event
 - (d) Becomes enforceable only on the happening/non happening of that event
15. Which of the following is not a feature of a Wagering Agreement?
 - (a) Chances of gain or loss
 - (b) Uncertainty of future event
 - (c) Neither party have control over future event
 - (d) Neither parties should have an interest in the event
16. "Wagering Agreements cover Insurance Contracts also". This statement is
 - (a) True
 - (b) Partly True
 - (c) False
 - (d) None of the above

17. Prize Competitions which involve skill are
 - (a) Wagering Agreements
 - (b) Not Wagering Agreements
 - (c) Void Agreements
 - (d) Voidable Agreements
18. Any agreements to solve picture puzzles are
 - (a) Wagering Agreements
 - (b) Not Wagering Agreements
 - (c) Void Agreements
 - (d) Voidable Agreements
19. Contingent Contracts are
 - (a) Valid contract
 - (b) Illegal agreement
 - (c) Voidable contracts
 - (d) None of the above
20. A contract based on the happening or non-happening of a future event is called
 - (a) a wagering contracts
 - (b) uncertain agreement
 - (c) a contingent contract
 - (d) voidable contract
21. A Contingent Contract is a contract to do or not to do something, if some event, collateral to such contract
 - (a) happens
 - (b) does not happen
 - (c) Neither of these
 - (d) Either happen or does not happen
22. Which of the following is a Contingent Contract?
 - (a) Contract of Insurance
 - (b) Contract for doing impossible acts
 - (c) Marriage Contracts
 - (d) Wagering Agreements
23. The collateral event to a Contingent Contract should be a/an
 - (a) Uncertain Event
 - (b) Certain Event
 - (c) Either of the 2 other options
 - (d) Neither of the 2 other options
24. A contract is not contingent contract
 - (a) If the event is bound to happen
 - (b) If the promisor has control over the event
 - (c) If the event is a part of the promise of the contract
 - (d) All of these
25. Unconditional Contracts are called _____ Contracts.
 - (a) Unenforceable
 - (b) Contingent

- (c) Quasi
 - (d) None of these
26. Conditional Contracts are called contracts.
- (a) Absolute
 - (b) Contingent
 - (c) Quasi
 - (d) Illegal
27. A contingent contract to do or not to do anything on the happening of an uncertain future event
- (a) Is never enforceable
 - (b) Is enforceable only at the time of making it
 - (c) Becomes enforceable immediately when event becomes impossible
 - (d) Becomes enforceable only on the happening of that event
28. A agrees to pay B Rs 50 if two parallel straight lines intersect each other. The agreement is
- (a) Void
 - (b) Voidable
 - (c) Valid
 - (d) Illegal
29. Wagering Agreements
- (a) is a valid contract
 - (b) is a game of chance
 - (c) is a voidable contract
 - (d) is a quasi-contract
30. A agrees to pay B Rs 50,000 if a Titanic ship does not return. The ship is sunk. The contract can be enforced
- (a) When the ship sinks
 - (b) before the ship sinks
 - (c) when the ship returns
 - (d) when ship does not start its journey
31. A promise to pay B Rs 10,000 if a "Titanic" ship returns within a year. The contract
- (a) may be an enforced if the ship returns within the year
 - (b) becomes void, if the ship is burnt within the year
 - (c) Both of the 2 other options
 - (d) either of the 2 other options
32. The performance of contingent contract depends upon
- (a) main event
 - (b) collateral event
 - (c) both of these 2options
 - (d) either of these 2 options
33. Which of the following is not an essential requirement of a valid contingent contract?
- (a) The performance must be conditional
 - (b) The event must be uncertain
 - (c) The event must from a part of the contract
 - (d) The event must be independent to the parties

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34. A agrees to purchase B's horse for Rs 5,000. if the house proved lucky. It is
- A contingent contract
 - Not contingent contract
 - Void agreement
 - voidable agreement
35. Difference between contingent contract and wagering agreement are as follows
- A wagering agreement, consists of reciprocal promises whereas a contingent contract may not contain reciprocal promises
 - In wagering agreement, the uncertain event is the sole determining factor while in a contingent contract the event is only collateral
 - Wagering agreement consists of reciprocal promises whereas a contingent contract may not contain such promises
 - All of these
36. A agrees to pay Rs 50,000 to B if she brings a Dinosaur from forest.
- This is void agreement
 - This is a quasi-contract
 - This is an implied contract
 - This is a wagering conduct
37. Which of the following is correct?
- A wagering agreement is void
 - A contingent contract is valid
 - A contract of insurance is not a wagering agreement
 - All of these
38. A agrees to construct a swimming pool for B for Rs.800,000. The payment is to be made by B only on the completion of the pool. This is _____
- Contingent contract
 - Absolute contract
 - Wagering agreement
 - Quasi contract
39. A agrees with B to bring back the life of dead patient for Rs 50,000. The agreement is
- Void
 - Voidable
 - Unenforceable
 - Illegal

Sr. No.	Answer	Sr. No.	Answer
1	B	21	D
2	D	22	A
3	A	23	A
4	C	24	D
5	C	25	D
6	A	26	B
7	A	27	D
8	B	28	A
9	D	29	B
10	B	30	A
11	B	31	D
12	C	32	B
13	B	33	D
14	D	34	C
15	D	35	D
16	C	36	A
17	B	37	D
18	B	38	A
19	A	39	A
20	C		

CH # 6**PERFORMANCE OF CONTRACTS I**

1. Contract is said to be performed when
 - (a) One party fulfils his promise
 - (b) Both promisors perform their respective promises
 - (c) Law dispenses with performance
 - (d) One of the promisor makes attempted performance
2. Valid tender requires
 - (a) To be unconditional
 - (b) To be made at proper place and time
 - (c) To be made for whole quantity / obligation
 - (d) All of the above factors
3. Mr. A agrees to supply 100 bags of tea to Mr. B @ Rs.1000/- per Bag on a particular date. Mr. B was to pay subsequently after the supply of tea. On due date Mr. A supplies tea and Mr. B makes payment. But, if on due date, Mr. A takes the contracted quantity of tea to Mr. B's godown and Mr. B refuses to accept the delivery. State the legal position.
 - (a) 1st case is attempted performance and 2nd is voidable contract
 - (b) 1st case is voidable contract and 2nd is attempted performance
 - (c) 1st case is actual performance and 2nd is attempted performance
 - (d) 1st case is attempted performance and 2nd is actual performance
4. Payment received by the creditor must be appropriated for discharging debt
 - (a) Which has been borrowed at last
 - (b) According to instruction given by the debtor
 - (c) In a logical sequence of the debts
 - (d) Which has been borrowed at first
5. Mr. X promises to sell standing timber to Mr. Y. As per the terms of a contract Mr. X will cut and cord the timber, whereupon Mr. Y will take it away and pay for it. Mr. X cord's only a part of timber and neglects to cord the rest. Mr. Y wants to initiate legal proceedings. Suggest him the legal action.
 - (a) Mr. Y may avoid contract
 - (b) Mr. Y may claim compensation from Mr. X
 - (c) Mr. Y does not have any legal remedy
 - (d) Mr. Y may avoid the contract and claim compensation from Mr. X
6. Mr. Karam owes several debts to Mr. Karim, which are of distinct amount and payable on different dates. One of the debts has become time-barred which Mr. Karim cannot legally recover from Mr. Karam. On a particular date Mr. Karam makes a payment, but does not give any instruction. State the legal position with regard to the appropriation of payment.
 - (a) Mr. Karim has no right to apply this payment for time-barred debt
 - (b) Mr. Karam's instruction has to be followed
 - (c) Mr. Karim has to obtain court's advice
 - (d) Mr. Karim has a right to apply this payment for time-barred debt
7. Mr. B owes to Mr. A Rs.10,000. Mr. A ask Mr. B to deposit this amount in Mr. A's Bank account. Mr. B deposits the amount in Mr. A's account. After sometime bank has stopped functioning and Mr. A has no information regarding transfer of money to his account. Mr. A is claiming that Mr. B is still liable to pay him the amount. Is Mr. B liable?
 - (a) Mr. B has followed instruction of Mr. A so he is discharged from his obligation
 - (b) Mr. B has committed fraud so he is not discharged from his obligation

- (c) Mr. B has committed negligence so he is not discharged from his obligation
(d) Mr. B is liable because he failed to perform reasonable care
8. Where a promisor has made an offer of performance to the promisee and the offer has not been accepted:
- (a) The promisor is responsible for non-performance, but he does not lose his rights under the contract
 - (b) The promisor is not responsible for non-performance, nor does he thereby lose his rights under the contract
 - (c) The promisor is not responsible for non-performance, but he loses his rights under the contract
 - (d) The promisor can enforce the performance of the promise
9. Drugs Limited contracts with Supermarket Limited to manufacture and supply 50 cases of a drug called SuperX. Supermarket Limited pay the contract money, Rs.5.0 million to Drugs Limited but before delivery takes place the Government introduces a law banning the manufacture and supply of SuperX. Can Supermarket Limited enforce the contract?
- (a) No, the contract is discharged.
 - (b) No, there is a breach of contract.
 - (c) Yes, because Supermarket Ltd has already paid the contract price of Rs.5.0 million.
 - (d) Yes, the contract was legal when it was made.
10. Performance of a contract may be in the form of
- (a) actual
 - (b) attempted
 - (c) either of these
 - (d) none of these
11. Performance of contract means
- (a) fulfilling all the obligations by a promisee
 - (b) fulfilling all the obligations by the promisor
 - (c) performing all the promises and fulfilling all the obligations by all the parties
 - (d) None of these
12. offer to perform is called
- (a) Attempted performance
 - (b) Caveat emptor
 - (c) Jus in personal
 - (d) Jus in rem
13. An attempted performance discharge the promisor from his liability
- (a) to deliver the goods
 - (b) to pay the price
 - (c) to pay the damages
 - (d) None of these
14. Which is not the essential of valid tender?
- (a) Tender must be conditional
 - (b) Tender must be made at proper place
 - (c) Tender must be for whole obligation
 - (d) Tender must be made at a proper time

15. Which are the essential of valid tender?
 - (a) Tender must be unconditional
 - (b) Tender must be made at proper place
 - (c) Tender must be to proper person
 - (d) All of these
16. The Parties to a Contract must
 - (a) perform their respective promises
 - (b) offer to perform their respective promises
 - (c) either of these
 - (d) neither of these
17. The parties to a contract need not perform when the performance is
 - (a) dispensed with
 - (b) excused under the provisions of any law
 - (c) either of these
 - (d) neither of these
18. In which of the following cases, the Promisor is at fault?
 - (a) None of these
 - (b) Promisor has disabled himself from performing his promise in entirety
 - (c) Promisor has refused to perform his promise
 - (d) Both of these
19. A promises to paint a picture for B. A dies before painting picture. Which one of the following is the correct legal position?
 - (a) The agreement becomes unlawful
 - (b) The agreement becomes impossible
 - (c) The agreement becomes voidable
 - (d) The agreement is void ab initio
20. Where the Promisor offers to perform to the Promisee, the Promisee is bound
 - (a) to provide reasonable facilities for the performance
 - (b) to provide unreasonable opportunity
 - (c) both of these
 - (d) neither of these
21. A contracts to repair B's house. B does not show him the places that require repairs. In this case
 - (a) A must request B to show the required places
 - (b) A is excused from non-performance where it is so caused by B's neglect
 - (c) B can sue A for non-performance
 - (d) A can sue B for non-co-operation
22. A entered into contract with B to deliver certain goods to B. A offered the goods to B at proper time and place, but B refused to accept the goods. In this case,
 - (a) A does not have any right against B
 - (b) A can sue B for breach of contract, but not discharged from his liability
 - (c) A is discharged from his liability and can also sue B for breach of contract
 - (d) B is not liable for breach of contract

23. A owes B total of Rs 25,000. He sends a cheque for Rs 10,000 stating that it shall be appropriated towards the first sum of Rs 10,000 he took from B. B shall appropriate it
- towards any debt due from A
 - towards any time barred debt due from A
 - towards any disputed debt due from A
 - towards that debt as indicated by A
24. A desires B, who owes him Rs 100, to send him a note for Rs 100 by post. B puts into the post a letter containing the note duly addressed to A.
- The debt is discharged as soon as B posts a letter addressed to A
 - The debt is not discharged even if B posts the letter containing the note duly addressed to A
 - The debt is discharged as soon as B posts the letter containing the note duly addressed to A
 - None of these
25. A promise B to sell him 100 bales of cotton, to be delivered next day and B promises A to pay for them within a month. A does not deliver according to promise.
- B's promises to pay need not be performed. and A must make compensation
 - A's promise to deliver must be performed
 - B's must clam compensation
 - B's promises to pay need not be performed, and A must make compensation
26. A contract to act at a theatre for six months in a consideration of a sum paid in advance by B. On several occasions, A is too ill to act
- The contract becomes void
 - The contract becomes voidable
 - The contract becomes illegal
 - Any one of the options
27. A owes B Rs 10,000. A enters into a contract with B and gives his estate to B as mortgage for Rs 5,000 in place of the earlier debt of Rs 10,000.
- This is a new contract and extinguishes the old one
 - This is a new contract but does not extinguish the old one
 - Both are independent contracts
 - None of these
28. A hired a music hall to B for performing concerts. The hall accidentally burnt before beginning of the concert. The contract becomes
- void
 - voidable
 - illegal
 - Any of the above
29. Contract is said to be discharged by mutual agreement when:
- Change in a contract is made without free consent of the parties
 - Change in a contract is made by one of the parties
 - Old contract is substituted by new contract
 - New contract is substituted by old one
30. Mr. A agreed to supply 100 tonnes of iron-ore to Mr. B on 1st January. On the due date of supply he took stipulated quantity of iron-ore to Mr. B's Residence at 12:00 am. This is the case of attempted performance. This offer of performance or attempted performance is
- Valid because the promisor is fulfilling the terms of the contract
 - Invalid because the place and time of supply is not reasonable

- (c) Valid because the performance is unconditional
(d) Invalid because the time of supply is not reasonable
31. Acceptance of lesser performance by promisee is
(a) Void
(b) Invalid
(c) Valid
(d) Not allowed
32. Mr. X borrows sum of Rs.10,000/- from Mr. Y on promissory note for six months. On the due date Mr. X is unable to pay and makes out another promissory note along with the amount of interest. Existing promissory note is terminated and now how much Mr. X amount is liable to pay to Mr. Y?
(a) It amounts to novation and Mr. X is liable to pay Rs.10000/-
(b) It amounts to novation and Mr. X is liable to pay Rs.10000 + Interest
(c) It amounts to alteration and Mr. X is liable to pay Rs.10000/-
(d) It amounts to alteration and Mr. X is liable to pay Rs.10000 + Interest
33. Remission means
(a) Giving up some rights in favour of promisor
(b) Acceptance of a lesser performance than due in contract
(c) Avoidance of contract by one party
(d) Avoidance of contract by both the parties
34. Attempted performance is equal to actual performance
(a) In case of payment of money
(b) In other cases except payment of money
(c) In case of supply of goods only
(d) In all above cases
35. Mr. A entered to an agreement with Mr. B for selling 100 tonnes of wheat at specified price to him on 15th March. But, before the due date of delivery the President of Pakistan has passed an Ordinance, debarring the individuals from supplying more than 5 tonnes of wheat. State the legal position of the contract between Mr. A and Mr. B.
(a) The contract between Mr. A and Mr. B comes to an end because its performance has becomes unlawful.
(b) The contract between Mr. A and Mr. B comes to an end because the subject matter of the contract is destroyed.
(c) The contract between Mr. A and Mr. B comes to an end because of the personal incapacity of the party.
(d) The contract between Mr. A and Mr. B comes to an end because certain state of things gets changed.
36. Contract will not be discharged on account of supervening impossibility in case of:
(a) Change in law
(b) Death of promisor in the contract of personal nature
(c) Failure of third party relied upon by the promisor
(d) Non-existence of particular state of thing essential for the performance of a contract
37. Supervening impossibility means
(a) Subsequent impossibility
(b) Initial impossibility
(c) Irrelevant impossibility
(d) Relevant impossibility

38. Which of the following statement is true
- Partial impossibility does not invalidate a contract
 - Impossibilities due to conduct of third party will discharge contract
 - Commercial impossibility affects validity of a contract
 - Difficulty in performance is a valid ground of supervening impossibility
39. Hanzhalah hired a room in some hotel of Lahore to witness PSL Final Match on 22nd March but due to the emergency declared by government in the wake of Pandemic Coronavirus, the match was cancelled. Examine the legality of this contract
- Hanzhalah is liable to pay the rent to the hotel
 - Hanzhalah is excused from the obligation of paying rent to the hotel
 - Hanzhalah is liable to pay the rent along with interest
 - Hanzhalah is excused from the obligation due to the personal incapacity
40. The contract is a mutual exchange of promises between two parties when both the promisor do what they have promised to do, the contract is set to be performed and contract comes to an end. Performance of contract may be of two types
- Legal performance and illegal performance
 - Conditional performance and unconditional performance
 - Attempted performance and offer of performance
 - Actual performance and attempted performance
41. Mr. B chartered Mr. A's ship and agreed to load it with a cargo at Karachi within 45 days. On the arrival of the ship at Karachi, Mr. B was unable to supply cargo. Mr. A did not accept the refusal and continued demanding the cargo. Before the expiry of 45 days war was broken and performance of the contract became impossible. State the legal position.
- Contract is not discharged and Mr. A can demand the performance of the contract
 - Contract is discharged and Mr. A is not entitled to claim compensation
 - Contract is discharged and Mr. A is entitled to claim compensation
 - Contract is not discharged and Mr. A cannot demand anything
42. What is the meaning of novation?
- Rescinding of a contract
 - Alteration of a contract
 - Change in provisions of a contract
 - Substituting an old contract for a new one
43. X owes Rs. 10,000 to Y under a contract. It is agreed between X, Y & Z that Y shall henceforth accept Z as his debtor instead of X for the same amount. Old debt of X is discharged and a new debt from Z to Y is contracted. This is:
- Alteration of contract
 - Rescission of contract
 - Novation of contract
 - Change in contract
44. Which one of the following is not a method by which a contract can be discharged?
- Discharge by misrepresentation
 - Discharge by performance
 - Discharge by breach
 - Discharge by agreement

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45. In relation to discharge by agreement, which one of the following statements is untrue?
- (a) If both parties wish to discharge a contract, they must create a written agreement stating that the contract has been discharged.
 - (b) Generally, both parties will need to provide consideration for the other's agreement to discharge.
 - (c) Under the common law, a contract made by deed can only be discharged via a deed.
 - (d) A partial discharge of a contract that must be made in writing will usually only be valid if the agreement to discharge is made in writing.
46. Which of the following is correct?
- (a) Performance of contract means contract becomes void
 - (b) Cancellation of contract cannot discharge a contract
 - (c) Alteration with the consent of party discharges the contract
 - (d) None of these
47. Which of the following is incorrect?
- (a) Impossibility to perform promise discharges the contract
 - (b) merger discharges the contract
 - (c) Initial impossibility discharges the contract
 - (d) All of these
48. A entered into a contract with B for supply of 100 bicycles. A is planning to get the bicycles to be manufactured by C. C did not manufacture it. In this case
- (a) A is not discharged
 - (b) A is discharged
 - (c) Contract becomes void
 - (d) Contract becomes voidable
49. A contract with Pakistani Cricket Board to play for PSL-2 at Dubai. A fall ill and is advised by doctor to rest. The contract
- (a) is valid
 - (b) is void ab initio
 - (c) becomes void
 - (d) is voidable at A's option
50. A contract is not considered void by some commercial impossibility.
- (a) True
 - (b) Partly True
 - (c) False
 - (d) None of these
51. Which of the following is correct?
- (a) Novation means making a new contract in place of an old contract
 - (b) Alteration means making a new contract in place of an existing one
 - (c) Performance of contract is not a method of discharge of contract
 - (d) All of these
52. If the subject matter of a contract is destroyed after formation of the contract, without fault of either party, the contract
- (a) is rendered voidable
 - (b) becomes void
 - (c) continues to be valid
 - (d) becomes unlawful

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53. A musical hall was agreed to be let out on certain dates, but before those dates the hall was destroyed by fire. The contract becomes void on the ground of
- impossibility of performance
 - illegality of object
 - unlawful consideration
 - All of these
54. When the contract is made for several purposes, failure of one of them
- terminates the entire contract
 - does not terminate the entire contract
 - makes the contract unlawful
 - renders the object illegal
55. An obligation under a contract stands discharged by
- dispensing with the performance
 - impossibility of performance
 - death of the party and contract is personal in nature
 - All of these
56. A agreed to supply certain goods to B. As a result of an increase in raw material costs, it is no longer profitable for A to supply them at the agreed rate. In this case
- Contract becomes void
 - Contract is discharged
 - A cannot be excused for non performance
 - none of these
57. _____ indicates that the parties are not further bound under the contract,
- Waiver of a Contract
 - Breach of a Contract
 - Rescission of a Contract
 - Discharge of a Contract
58. A contract to sell his scooter to B for Rs 50,000 and B agrees to pay on delivery. Both parties performed their respective promises. This is called
- Waiver
 - Breach of a Contract
 - Attempted performance of contract
 - Actual performance of a Contract
59. A took a house on rent from B. during tenancy, A purchase that house. The earlier contract of tenancy is
- Void
 - Discharged
 - Rescinded
 - Voidable
60. In discharge of contract by novation, the consideration for the new contract is
- the discharge of the old contract
 - separately supplied
 - decided by the parties
 - all of these

61. In which of the ways can a contract be discharged by agreement between parties?
 - (a) Remission
 - (b) Waiver
 - (c) Either of these
 - (d) Neither of these

62. If a new contract is substituted in place of an existing contract, it is called
 - (a) Alteration
 - (b) Rescission
 - (c) Novation
 - (d) Waiver

63. A owes B Rs 50,000, Due date for payment is 25th March. A pay to B Rs 30,000 on 25th March who accepts it in full satisfaction of the debt. The debt is discharged on account of
 - (a) remission
 - (b) extension time of performance
 - (c) novation
 - (d) All of these

64. If a person accepts a lesser sum of money than what was contracted for in discharge of the whole debt, it is known as
 - (a) Remission
 - (b) Breach
 - (c) Rescission
 - (d) Alteration

65. In case of Alteration, there is
 - (a) change to some of the terms and conditions of the original contract
 - (b) substitution of an existing contract with new one
 - (c) either of these
 - (d) neither of these

66. Novation can be made by
 - (a) change in the terms of the contract
 - (b) change in the contracting Parties
 - (c) either of these
 - (d) neither of these

67. A agreed to supply certain goods to B which were to be imported by C, but it was not known to A. C failed to import the goods. In this case, the contract is
 - (a) Discharged
 - (b) Not discharged
 - (c) Voidable
 - (d) Impossible to perform

68. In case the performance of a contract becomes more difficult due to some unexpected events, than the contract
 - (a) Becomes void on account of impossibility
 - (b) Becomes voidable on account difficulty
 - (c) is discharged on account of impossibility
 - (d) is not discharged on account of impossibility

69. An agreement is void on the ground of initial possibility
- Only where it is unknown to the parties
 - Only where it is known to the parties
 - Whether it is known or unknown to the parties at the time of agreement
 - When it is known to the third parties
70. Discharge of contract means ____ of contractual relationship between the parties.
- Beginning
 - Termination
 - Beginning of ending
 - (a) and (c) of above
71. When Ram accept Rs.20, 000 in discharge of whole debt of Rs.22, 000. It is known as _____
- Rescission
 - Novation
 - Alternation
 - Remission
72. When all or some of the terms of the contract are cancelled. It is known as _____
- Rescission
 - Novation
 - Alternation
 - Remission
73. Which of the following may be treated as supervening impossibility?
- Outbreak of war
 - Non-occurrence of a particular state of things.
 - Destruction of subject matter
 - All of above
74. Which of the following cannot be treated as supervening impossibility?
- Difficult of performance
 - Commercial impossibility
 - Impossibility arising due to failure of third person
 - All of above
75. Gajodhar hired a shop from Shridhar for 2 years and paid the rent of 2 years in advance. After 1 year the shop was destroyed by fire. Which of the following is correct?
- Destruction of shop by fire cannot be treated as supervening impossibility and contract is still alive
 - Shridhar should arrange same quality of shop in other area.
 - Contract is discharged due to supervening impossibility and Gajodhar can claim rent for un-expired part of term
 - None of above
76. C, an owner of a magazine, engaged P to write a book to be published by installments in his magazine. After a few installments were published, the magazine was abandoned. In this case ____
- P does not have any remedy against C
 - P can claim payment on quantum meruit for the part already published
 - P has to complete the book through his own magazine
 - P should not complete the book at all

Sr. No.	Answer	Sr. No.	Answer	Sr. No.	Answer
1	B	31	C	61	C
2	D	32	B	62	C
3	C	33	B	63	A
4	B	34	B	64	A
5	D	35	A	65	A
6	D	36	C	66	C
7	A	37	A	67	B
8	B	38	A	68	D
9	A	39	B	69	C
10	C	40	D	70	B
11	C	41	B	71	D
12	A	42	D	72	C
13	A	43	C	73	D
14	A	44	A	74	D
15	D	45	A	75	C
16	C	46	C	76	B
17	C	47	C		
18	D	48	A		
19	B	49	C		
20	A	50	A		
21	B	51	A		
22	C	52	B		
23	D	53	A		
24	C	54	B		
25	D	55	D		
26	A	56	C		
27	A	57	D		
28	A	58	D		
29	C	59	B		
30	B	60	A		

CH # 7**PERFORMANCE OF CONTRACTS II**

1. Which one of the following is not a joint promise:
 - (a) Several joint promisors with a single promisee
 - (b) Single promisor with several joint promisees
 - (c) Several joint promisors with several joint promisees
 - (d) Single promisor with single promisee

2. Mr. X borrowed sum of Rs. 100,000/- from Mr. Y for two years. After one year Mr. X dies and Mr. Z, who is a legal representative inherits property of Rs. 60,000/- from him. On the due date of repayment Mr. Y will call upon Mr. Z to repay. But the capacity of Mr. Z is limited up to the value of Rs. 60,000/-. State the legal position.
 - (a) Mr. Z is liable to pay only Rs.60,000/-
 - (b) Mr. Z is liable to pay only Rs.100,000/-
 - (c) Mr. Z is liable to pay only Rs.40,000/-
 - (d) Mr. Z is liable to pay only Rs.160,000/-

3. For the performance of joint promise
 - (a) All joint promisors are jointly liable
 - (b) All of them are severally liable
 - (c) All joint promisors are individually liable
 - (d) All joint promisors are jointly and severally liable

4. Contract should be performed
 - (a) By promisor
 - (b) By his legal representative
 - (c) By the agent of promisor
 - (d) Any of the above

5. Mr. A and Mr. B have borrowed sum of Rs.10,000/- from Mr. C. On due date both parties i.e. Mr. A and Mr. B are jointly liable to pay. If before the payment Mr. A dies, who will be liable to pay Rs.10,000/-?
 - (a) Mr. B is liable to pay Rs.10,000/-
 - (b) Mr. B is liable to pay Rs.15,000/-
 - (c) The legal representative of Mr. A along with Mr. B is liable to pay Rs.10,000/-
 - (d) The legal representative of Mr. A is liable to pay Rs.10,000/-

6. When the time is an essence of a contract, promisor fails to perform his promise on time,
 - (a) Contract becomes voidable at the option of promisee
 - (b) Contract becomes void
 - (c) Contract becomes unenforceable
 - (d) Promisor must pay compensation to the promisee

7. When two or more persons have made a joint promise, then, unless a contrary intention appears from the contract, all such persons must fulfil the promise:
 - (a) Jointly
 - (b) Severally
 - (c) Jointly or severally
 - (d) Jointly and severally

8. Where two or more persons have made a joint promise, a release of one of such joint promisors by the promise:
 - (a) does not discharge the other joint promisor, neither does it free the joint promisor so released from responsibility to the other joint promisor(s)
 - (b) discharges the other joint promisor but it does not free the joint promisor so released from responsibility to the other joint promisor or joint promisors
 - (c) discharges the other joint promisor also frees the joint promisor so released from responsibility to the other joint promisor or joint promisors
 - (d) release of one of such joint promisors is not possible

9. Where a contract consists of reciprocal promises and such reciprocal promises are to be simultaneously performed:
 - (a) Promisor need not perform his part of promise at all
 - (b) Promisor need not perform his part of promise unless promisee is ready and willing to perform his reciprocal promise
 - (c) Promisor has to compel promisee to perform his promise first
 - (d) There is no valid contract at all

10. When a party to a contract fails to perform a contract within the fixed time:
 - (a) Such contract remains valid provided the promise is fulfilled whether at the time of performance or later
 - (b) Such a contract becomes void
 - (c) Such contract becomes voidable at the option of the promisee, if the intention of the parties were that time should be of essence of the contract
 - (d) Such a contract becomes voidable at the option of the promisor or promisee and the intention of the parties does not matter

11. Where a contract does not stipulate an expiry date, it will remain open:
 - (a) Forever, until accepted by the offeree
 - (b) Until expressly revoked by the offeree
 - (c) Until a counter-offer is made
 - (d) For a reasonable time, after which it will automatically expire

12. Regarding the time of performance, which one of the following statements is untrue?
 - (a) Where time is of the essence of a contract, a slight delay will not allow the non-breaching party to terminate the contract.
 - (b) Where a contract does not provide that performance must be completed by a certain date, the parties to the contract must perform their obligations within a reasonable time.
 - (c) Where the time of performance is not 'of the essence of the contract,' then a party to the contract can give notice that it has become of the essence of the contract if the other party also give consent to it.
 - (d) Time will be of the essence where the subject matter of the contract indicates that time shall be of the essence.

13. A promise to deliver goods to B for Rs 20,000. A die before performance of promises
 - (a) The contract becomes void
 - (b) The contract becomes impossible
 - (c) The contract can be enforced against A's representatives and B is bound to pay Rs 20,000 to A's representatives
 - (d) The contract is void

14. The Offer to perform must be made to
 - (a) the Promisee
 - (b) anyone of the Joint Promises
 - (c) Authorized of Promisee
 - (d) Any of these
15. Who cannot demand performance of a Promise (unless expressly agreed between parties) ?
 - (a) Promisee
 - (b) Any of the Joint Promisees
 - (c) Legal representative on death of Promisee
 - (d) Stranger to the Contract
16. "A" promises to act in a movie for "B". In this case
 - (a) Legal representative of A can perform the promise
 - (b) A's agent can perform the promise
 - (c) A's employer can perform the promise
 - (d) A must perform this promise personally
17. It is not always required of the parties to perform the contract
 - (a) in time
 - (b) before time
 - (c) personally
 - (d) after the time
18. A contract to marry a person shall be performed by
 - (a) Promisor
 - (b) Representative of the Promisor
 - (c) Relative of promisor
 - (d) Any of them
19. The liability of Joint Promisors is
 - (a) Joint
 - (b) Several
 - (c) Joint or several
 - (d) Joint and several
20. A, B, and C Jointly promise to pay Rs 1000 to D. D files a suit to recover the amount against
 - (a) D must sue all of them
 - (b) D can recover Rs 1000 only from A
 - (c) D can recover the amount from any one of them
 - (d) D cannot sue any of them
21. When two or more persons have made a joint promise, then, unless a contrary intention appears from the contract, the promise shall be performed, during their joint lives
 - (a) By any one of them
 - (b) By a majority of the Joint Promisors
 - (c) By all of the Joint Promisors
 - (d) All of the options
22. If any one of Joint Promisors makes default in such contribution, remaining Joint Promisors must share the loss arising from such default
 - (a) Equally
 - (b) Not equally

- (c) In the ratio of their properties
 - (d) Not liable to share
23. In case of a Joint Promise, release of one of Joint Promisors by the Promisee
- (a) discharges all Promisors
 - (b) discharges the other Joint Promisors
 - (c) does not discharge the other Joint Promisors
 - (d) discharge the Promisee
24. Where time for performance is specified in a contract
- (a) the Promisor has to perform without application by the Promisee
 - (b) the Promisor shall perform after specified time in contract
 - (c) either of these
 - (d) both of these
25. Where place of performance is not specified, the Promisor shall
- (a) Asks Promisee as to where performance of promise made
 - (b) performs the promise at any place
 - (c) not perform the promise
 - (d) none of these
26. Whether time is the essence of the contract depends on
- (a) the intention of the parties
 - (b) the facts and circumstances of each case
 - (c) the provisions of law
 - (d) all of the options
27. In a contract where time is not specified for performance, the Promisor can perform the contract
- (a) at any time he wishes
 - (b) within the shortest time
 - (c) within a reasonable time
 - (d) within the latest time
28. Where time is the essence of the contract and the Promisor fails to perform within specified time, the contract is
- (a) voidable at the option of the Promisee
 - (b) voidable at the option of the promisor
 - (c) not voidable
 - (d) valid
29. If time is the essence of the contract and the Promisor fails to perform the contract within the specified time, the contract
- (a) becomes void
 - (b) is valid
 - (c) becomes voidable at the instance of the Promisee
 - (d) voidable at the instance of the promisor
30. Where time fixed for performance of promise was extended by the Promisee and the object of the contract is not a commercial one
- (a) Time is not the essence of the contract
 - (b) Time is the essence of the contract
 - (c) No presumption can be made
 - (d) None of the above

31. In a contract for sale and purchase of goods, the prices of which fluctuate in the market, time is
 - (a) not presumed to be the essence of the contract
 - (b) presumed to be the essence of the contract
 - (c) no presumption as to time can be made
 - (d) All of these
32. Where reciprocal promises are to be simultaneously performed
 - (a) Promisor need not perform his part of promise at all
 - (b) Promisor need not perform his part of promise unless Promisee is ready and willing to perform his reciprocal promise
 - (c) Promisor has to compel Promisee to perform his promise first
 - (d) Promises are not valid at all
33. A owes Rs 60,000 to B. Before clearing his liability, A dies leaving behind an estate worth Rs.40,000. In this case, A's legal representatives are liable for
 - (a) Rs 20,000
 - (b) Rs 40,000
 - (c) Rs 60,000
 - (d) None of these
34. A and B promise to marry each other. It is an example of
 - (a) Reciprocal promise
 - (b) A's promise is the consideration for B's promise
 - (c) B's promise is the consideration for A's promise
 - (d) All of these
35. A, B, and C jointly promise to pay D the sum of Rs 6,000. C is compelled to pay the whole. A is insolvent, but his assets are sufficient to pay one-half of his debts.
 - (a) C is entitled to receive Rs 1000 from A's estate, and Rs 2,500 from B
 - (b) C is entitled to receive Rs 1,000 from A's estate, and Rs 2,000 from B
 - (c) C is entitled to receive Rs 1,000 from A's estate, and Rs 3,000 from B
 - (d) None of these
36. If in a contract where promises are separable from other, one promise is legal and the other promise is illegal, the legal promise is _____
 - (a) enforceable
 - (b) unenforceable
 - (c) unlawful
 - (d) void
37. if in a contract where promises are inseparable from other, one promise is legal and other promise is illegal, the illegal promise is _____
 - (a) enforceable
 - (b) unenforceable
 - (c) unlawful
 - (d) none of the above
38. Where persons reciprocally promise, firstly to do certain things which are legal and secondly under specified circumstances, to do certain other things which are illegal:
 - (a) the first set of promise is a contract, but the second is a void agreement
 - (b) The entire contract is void

- (c) The entire contract is valid
 - (d) The entire contract is voidable
39. A and B jointly owe Rs 1.00 million to C. A pays the amount to C and B, not knowing this fact, pays Rs 1.00 million over again to C.
- (a) C is bound to repay the amount to B
 - (b) C is bound to repay the amount to B and A jointly
 - (c) C is bound to repay the amount to A and B equally
 - (d) C is not bound to repay the amounts to B

Sr. No.	Answer	Sr. No.	Answer
1	D	31	B
2	A	32	B
3	D	33	B
4	D	34	D
5	C	35	A
6	A	36	A
7	D	37	B
8	A	38	A
9	B	39	A
10	C		
11	D		
12	A		
13	C		
14	D		
15	D		
16	D		
17	C		
18	A		
19	D		
20	C		
21	D		
22	A		
23	C		
24	A		
25	A		
26	D		
27	C		
28	A		
29	C		
30	A		

CH # 8**CERTAIN RELATIONS RESEMBLING
THOSE CREATED BY CONTRACT**

1. Agreement made with a minor for basic necessities is
 - (a) Valid
 - (b) Voidable
 - (c) Unenforceable
 - (d) Void, but money involved is recoverable from estate of minor

2. In relation to minors, which of the following types of contract is not voidable but binds the minor?
 - (a) Contracts involving the sale of shares
 - (b) Leasing property
 - (c) Contracts of partnership
 - (d) A contract for supply of necessities

3. A minor enters into a contract for the purchase of certain necessities. In such a case
 - (a) He is liable to return the necessities
 - (b) He is liable to pay
 - (c) His estate is liable to pay
 - (d) His guardian is liable to pay

4. A, a minor borrowed Rs. 30,000 from B as an education loan to complete his education. B can _____
 - (a) Recover amount from A
 - (b) Recover amount from A's guardian
 - (c) Recover amount from A's property
 - (d) Not recover at all

5. In case of supply of necessary goods or services, a minor is
 - (a) Personally liable
 - (b) Liable through his guardian
 - (c) Liable to pay out of his property
 - (d) All of above

6. Teji, a minor, broke his right leg in a football match. He engaged Curewell, a doctor, to set it. In relation to this case which of the following statement is correct?
 - (a) Doctor cannot have valid claim for his service
 - (b) Doctor can recover the expenses from Teji's parents
 - (c) Contract with minor for rendering necessary service are valid and hence Teji's property will be liable to compensate doctor's services.
 - (d) None of above

7. Quasi-contract means
 - (a) Obligations imposed by law resembling those created by contract
 - (b) Obligation partly created by contract and partly by law
 - (c) Obligation partially enforceable by the law
 - (d) Obligation imposed by contract

8. Quasi-contract are based on
 - (a) Surrounding circumstances
 - (b) Naturally created rights and obligation

- (c) Principal of equity and justice
 - (d) Principal of reasonableness and fairness
9. In case, articles of necessaries are supplied to the person having no contractual capacity or to his dependent, the supplier is entitled to be reimbursed
- (a) From the property of that incapable person
 - (b) From the property of dependent
 - (c) Personal liability of that capable person
 - (d) From none of these
10. Compensation for non-gratuitous act is valid provided
- (a) Party doing act has an intention to get compensation
 - (b) The person for whom the act is done must have got benefit
 - (c) Act done by the party is lawful
 - (d) All of the above
11. In case, necessaries are supplied to the person having no contractual capacity, which of the following is recoverable from his property
- (a) Market price
 - (b) Contracted price
 - (c) Reasonable price
 - (d) Cost plus price
12. Finder of goods is under legal obligation for taking
- (a) Reasonable care of the goods
 - (b) Required care of the goods
 - (c) Little care of the goods
 - (d) That much care, which he can take
13. When one party under a mistake of fact or mistake of law pays money to another party, which is not due by contract, then
- (a) Another party should refuse to repay it
 - (b) Another party must repay it to the party paying it
 - (c) Another party may repay it to the party paying it
 - (d) Another party may refuse to repay it
14. Quasi-contract implies creation of legal rights and obligations between parties without making any formal contract which one of the following is not the type of Quasi-contract
- (a) Supply of necessaries to the person having no contractual capacity
 - (b) Supply of necessaries to the person having no contractual capacity or to his dependent
 - (c) Obligation to pay for non-gratuitous act or service
 - (d) Obligation to pay for gratuitous act or service
15. Mr. A has lost his pet dog. Not being able to find it out he announces that whosoever finds it and returns it back to him, he will suitably reward him. Mr. D found that dog and took custody of it. On tracing Mr. A, Mr. D claimed expenses which he incurred for the maintenance of dog and reward. State the legal position
- (a) Mr. A is bound to pay only reward to Mr. D
 - (b) Mr. A is bound to pay only expenses to Mr. D
 - (c) Mr. A is bound to pay both reward and expenses to Mr. D
 - (d) Mr. A is bound to pay nothing to Mr. D

16. Mr. X supplied rice and wheat worth Rs.20000/-, Mr. Y supplied a mobile phone worth Rs. 30000/- and Mr. Z lent Rs.50000/- for the purchase of necessaries to the wife and children of Mr. M, a lunatic. Mr. M has assets worth Rs. 100000/-. Can Mr. X, Mr. Y and Mr. Z recover anything from Mr. M?
 - (a) Mr. X, Mr. Y and Mr. Z can recover their full money.
 - (b) Mr. X, Mr. Y and Mr. Z cannot recover their full money.
 - (c) Mr. X and Mr. Y can recover their full money.
 - (d) Mr. X and Mr. Z can recover their full money.
17. In case of non-gratuitous act or service, the obligation to pay arises if the following condition is satisfied.
 - (a) The thing must have been done or delivered lawfully
 - (b) The person who had done or delivered the thing must not have intended to do so gratuitously
 - (c) The person for whom the act is done must have enjoyed the benefit of the act
 - (d) All of the above
18. In Quasi-contract, there are
 - (a) Legal formalities
 - (b) Legal obligations
 - (c) Contractual obligations
 - (d) None of these
19. If a person who is incapable of entering into a contract is supplied with necessaries by another person, then the latter shall:
 - (a) Be reimbursed for such supplies by a relative of the incapable person and that relative must be capable of contracting
 - (b) Be reimbursed for such supplies from such incapable person, directly
 - (c) Be reimbursed for such supplies from the property of such incapable person
 - (d) Not entitled to be reimbursed at all
20. Which of the following is correct?
 - (a) Quasi contracts are intentionally made by the parties
 - (b) Quasi contracts are imposed by law
 - (c) Quasi contracts are based on implied intentions of the parties
 - (d) Both Imposed by Law and Intention of parties
21. A person enjoying the benefits of a lawful non-gratuitous act of another
 - (a) is not liable to compensate that another
 - (b) that another cannot claim any compensation
 - (c) is liable to compensate for that
 - (d) has to perform the same non-gratuitous act in return
22. In case of necessaries supplied to a person incompetent to contract, which of the following is true?
 - (a) Property of the incapable person shall be liable
 - (b) The incapable person is not liable personally
 - (c) Where the incapable person does not own any property, nothing shall be payable
 - (d) All of these
23. Obligation of a person enjoying benefit of non-gratuitous act arises in respect of
 - (a) Lawful acts only
 - (b) Illegal acts only
 - (c) Either lawful or illegal
 - (d) Both lawful and illegal

24. Which of the following is correct?
 - (a) A quasi contract is not based on the ground of natural justice
 - (b) Quasi contract are based on express intentions of the parties
 - (c) Quasi contract give rise to obligations similar to that of a true contract
 - (d) All of these
25. A who supplies the wife and children of B, a lunatic, with necessaries suitable to their condition in life, is entitled to be reimbursed from
 - (a) B's property
 - (b) B's personally
 - (c) B's wife and children
 - (d) As directed by Court
26. A quasi contract is not a _____ Contract.
 - (a) Real
 - (b) Valid
 - (c) Real and valid
 - (d) Voidable
27. A Quasi- contract arises from
 - (a) the intention of parties
 - (b) compliance of all legal formalities
 - (c) from a true contract
 - (d) from the principle of natural justice
28. Which of the following statements is correct with reference to quasi-contractual obligations?
 - (a) There is no real contract in existence
 - (b) There is no offer and acceptance
 - (c) There is no intention to make a contract
 - (d) All of the above
29. Which of the following is quasi-contract?
 - (a) Supply of necessaries to persons incapable of contracting
 - (b) Reimbursement of person paying money due by another, in payment of which he is interested.
 - (c) Obligation of a person enjoying benefits of non-gratuitous act.
 - (d) All of these
30. Which of the following is quasi contract?
 - (a) Liability for money paid or thing delivered by mistake or under coercion
 - (b) Responsibility of finder of goods.
 - (c) Supply of necessities to person incapable of contracting
 - (d) All of these
31. If necessaries are supplied to persons incapable of contracting like minor or a person of unsound mind then _____
 - (a) Person supplying such necessaries is entitled to be reimburse from the property of such incapable person
 - (b) Minor or a person of unsound mind is personally liable to pay for it.
 - (c) Such contracts are voidable at the option of minor or a person of unsound mind.
 - (d) All of these

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32. A person who is interested in the payment of money which another is bound by law to pay, and who therefore pays it, is entitled to be reimbursed by the other.
- (a) True
 - (b) False
 - (c) Partly true
 - (d) None
33. A person to whom money has been paid, or anything delivered, by mistake or under coercion is not required to repay or return it.
- (a) True
 - (b) False
 - (c) Partly true
 - (d) None
34. A, a tradesman, leaves goods at B's house by mistake and B treats the goods as his own, he is not bound to pay A for them.
- (a) False
 - (b) True
 - (c) Partly false
 - (d) None of these
35. Which of the following is quasi- contract?
- (a) Supply of necessaries to persons incapable of contracting
 - (b) Reimbursement of person paying money due by another, in payment of which he is interested.
 - (c) Obligation of a person enjoying benefits of non-gratuitous act.
 - (d) All of above

Sr. No.	Answer	Sr. No.	Answer
1	D	21	C
2	D	22	D
3	C	23	A
4	C	24	C
5	C	25	A
6	C	26	A
7	A	27	D
8	C	28	D
9	A	29	D
10	D	30	D
11	C	31	A
12	A	32	A
13	B	33	B
14	D	34	A
15	C	35	A
16	D		
17	D		
18	B		
19	C		
20	B		

CH # 9**CONSEQUENCES FOR BREACH OF CONTRACT**

1. The main object of awarding damages is
 - (a) To compensate monetary losses of aggrieved party
 - (b) To punish the party responsible for breach of contract
 - (c) To honour the petition of aggrieved party
 - (d) To put aggrieved party in a better position

2. In a breach of contract of sale, general rule for measuring damage is
 - (a) Difference between contract price and market price
 - (b) Difference between purchase price and selling price
 - (c) Difference between selling price and market price
 - (d) Difference between cost price and selling price

3. Breach of contract occurs, when
 - (a) Promisor does not perform his promise
 - (b) Promisor refuses to perform his promise
 - (c) Promisor disabled himself from performing promise
 - (d) All of the above

4. Mr. B agreed to supply spare parts of machine to Mr. A on 5th September at particular price. Mr. B fails to deliver spare parts on due date. There is a breach of contract and Mr. A filed a suit against Mr. B for the compensation of losses. Mr. A claimed that due to non-availability of spare parts, the machine could not function, so Mr. A claimed (i) depreciation on machine (ii) fixed expenses such as salary and (iii) loss of profit due to non-function of machine. State the legal position.
 - (a) Mr. A can only claim depreciation on machine
 - (b) Mr. A can only claim fixed expenses such as salary
 - (c) Mr. A cannot claim any amount
 - (d) Mr. A can claim depreciation on machine and fixed expenses only such as salary

5. Mr. A agrees to sell 200 bags of sugar to Mr. B on 11th November at Rs.500/- per bag. Mr. B is to make payment on the delivery of sugar bags. Before the due date the price of sugar has increased to Rs. 600/- per bag. Mr. A refuse to supply sugar to Mr. B. There is a breach of contract Mr. B is
 - (a) Not entitled to claim any amount
 - (b) Entitled to claim Rs. 600/- per bag of sugar
 - (c) Entitled to claim Rs. 100/- per bag of sugar
 - (d) Not entitled to claim Rs.100/- per bag of sugar

6. Mr. A entered into an agreement for constructing house for Mr. B and to give complete possession on 1st January. Mr. B makes an agreement with Mr. C for renting out that house to him from 2nd January. This fact is in the knowledge of Mr. A. The house was badly constructed and collapsed before 1st January. Mr. B is entitled to get compensation for
 - (a) Cost of reconstructing the house
 - (b) Loss of rent
 - (c) Compensation, which Mr. B was to pay Mr. C for not renting out the house
 - (d) All of the above

7. Actual losses include
 - (a) Direct and natural losses arising out of breach
 - (b) Only direct losses

- (c) Only reasonable loses
 - (d) Usual loses
8. When a contract is breached, the party who suffers such breach shall:
- (a) Be indemnified for the loss or damage caused to him
 - (b) Receive compensation for any loss or damage caused to him
 - (c) Be remunerated for the loss or damage caused to him
 - (d) Not have any right under this Act
9. If a non-breaching party validly terminates the contract, a number of consequences may follow. Which one of the following is not a valid consequence of termination?
- (a) Termination always discharges the entire contract.
 - (b) If there has been a total failure of consideration, the non-breaching party can recover any monies paid.
 - (c) The party that terminated the contract is released from performing any obligations that remain to be performed.
 - (d) A party that exercises the right to terminate cannot subsequently change his mind and demand performance.
10. A contract is discharged by breach when a party to a contract
- (a) refuses to perform his promise
 - (b) fails to perform his promise
 - (c) disables himself from performing his part of the promise
 - (d) all of these
11. Where a party under a voidable contract, decides to rescind the same, the other party is
- (a) guilty of breach of contract
 - (b) discharged from his promise
 - (c) entitled for damages
 - (d) All of these
12. Rescission of a voidable contract shall be communicated or revoked in the same manner as the communication or revocation of
- (a) Breach
 - (b) Acceptance
 - (c) Proposal
 - (d) Impossibility
13. What is the aim of an award of damages for breach of contract?
- (a) To punish the party who has broken the contract.
 - (b) To restore the innocent party to the position he was in before the contract was made.
 - (c) To ensure the party who has broken the contract suffers a reasonable penalty.
 - (d) To put the innocent party in the same financial position he would have been in if the contract had been carried out.
14. The contract may be rescinding by
- (a) Aggrieved party
 - (b) Court
 - (c) Either of the aggrieved party or Court
 - (d) None of these

15. The Court may grant rescission where the contract is
 - (a) unlawful
 - (b) void
 - (c) unenforceable
 - (d) All of the above
16. The aggrieved party is entitled to claim monetary compensation for the loss caused due to non-performance of promise. This is called
 - (a) Damages
 - (b) Restitution
 - (c) Quantum Meruit
 - (d) Injunction
17. The measure of damages in case of breach of a contract is the difference between the
 - (a) contract price and the market price at the date of breach
 - (b) contract price and the maximum market price during last 6 months
 - (c) contract price and the price at which the plaintiff might have sold the goods
 - (d) contract price and the price fixed by Court
18. H's mill stopped due to breakdown of a shaft, which was delivered to B, a common carrier to be taken to the manufacturer for repairs. H did not communicate to B, that delay in delivery would cause loss of profits. For some reason, the delivery was delayed by B beyond reasonable time. Here
 - (a) H can rescind the contract
 - (b) H cannot claim loss of profits from B
 - (c) H can claim loss of profits from B
 - (d) H can claim loss of profits from the manufacturer
19. A contracts to deliver 1,000 bags of rice at Rs 100 per bag on a future date. On the due date he refuses to deliver. Market Price on that day is Rs 120 per bag. Which Damages can be granted by court?
 - (a) Ordinary damage
 - (b) Special damages
 - (c) Remote damages
 - (d) Vindicative damages
20. A contract to deliver 1,000 bags of rice at Rs 100 per bag on a future date. On due date he refuses to deliver. Market price on that day is Rs 120 per bag. The ordinary Damages will be
 - (a) Rs 20,000
 - (b) Rs 1,20,000
 - (c) Rs 1,00,000
 - (d) Rs 20
21. When there is breach of contract, special damages are awarded
 - (a) Only when there are special circumstances
 - (b) Only when there is special loss
 - (c) When there is a notice of the likely special loss
 - (d) All of these
22. Ordinary damages arises
 - (a) Naturally in the usual course from the breach of contract itself
 - (b) In the unusual circumstance from the breach of contract

- (c) In the special circumstance from breach of contract
(d) When special loss from breach of contract
23. Penalty for breach of contract are estimated _____ a contract
(a) at the time of making
(b) after making
(c) at the time of performance of
(d) all of these
24. A stipulation for increased interest from the date of default is known as
(a) compensation
(b) penalty
(c) Liquidated damages
(d) Damages
25. If parties make no attempt to estimate the loss but in advance, fix an amount payable on non-performance of the contract, such amount is called
(a) Exemplary Damages
(b) Special damages
(c) Ordinary Damages
(d) Penalty
26. A contracts to repair B's house and receive payment in advance. A repair the house, but not according to contract.
(a) B is entitled to recover from A the additional cost of making the repairs as per the contract
(b) B is not entitled to recover any cost from A
(c) B is entitled to recover penalty from A for non-performance of the contract
(d) None of these
27. A give B a bond for the repayment of Rs 1,000 with interest at 12 percent at the end of six months, with a stipulation that, in case of default, interest shall be payable at the rate of 15 percent from the date of default.
(a) B is entitled to recover from A, a reasonable compensation
(b) B is not entitled to recover from an any compensation
(c) B is entitled to recover from A, compensation and interest
(d) Any of these
28. A agreed to decorate B's flat for a lump sum of Rs.300,000. A did the work but B complained of faulty workmanship. It cost B Rs.50, 000 to remedy the defect. A can recover from B _____
(a) Rs. 300,000
(b) Rs.50, 000
(c) Rs.250,000
(d) Rs.350,000
29. The object of awarding damages for breach of contract is _____
(a) To punish guilty party
(b) To teach a lesson to defaulting party, so that he should make default in future
(c) Both (a) and (b) above
(d) To put the injured party in the same position, so far as money can do

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30. Lala contracts to Buy 100 quintal of rice from Bala at Rs.950 per quintal, no time being fixed for delivery. Price to be paid of the time of delivery. Afterward Lala informs to Bala that he will not accept the rice if supplied to him. Market price of rice when Lala informs Bala was Rs.920 per quintal. How much compensation in the form of ordinary damages can be recovered from Lala
- (a) 95, 000
 - (b) 92, 000
 - (c) 3,000
 - (d) 98, 000
31. When there exist special circumstances and their existence is communicated, party not in default can recover from party at default
- (a) Ordinary damages
 - (b) Special damages
 - (c) Ordinary as well as special damages
 - (d) Ordinary and liquidated damages
32. Gita gives Sita a price bond for the payment of Rs.1, 000 with interest at 12% at the end of six months, with a stipulation that in case of default, interest shall be payable at the rate of 75% from the date of default This is stipulation by way of _____
- (a) Liquidated damages
 - (b) Penalty
 - (c) Ordinary damages
 - (d) Special damages
33. A contract with B to pay Rs.1, 000 if he fails to pay B Rs.500. on given day. B is entitled to recover from compensation of _____
- (a) At least Rs.1, 000
 - (b) Rs.1, 000
 - (c) Rs.500
 - (d) Not exceeding Rs.1, 000 as the Court consider reasonable

Sr. No.	Answer	Sr. No.	Answer
1	A	21	D
2	A	22	A
3	D	23	A
4	D	24	D
5	C	25	D
6	D	26	A
7	A	27	A
8	B	28	B
9	C	29	D
10	D	30	C
11	B	31	B
12	C	32	A
13	D	33	D
14	C		
15	A		
16	A		
17	A		
18	B		
19	A		
20	A		

CH # 10**APPOINTMENT AND AUTHORITY OF AGENTS**

1. A Minor can
 - (a) Be an agent
 - (b) Be a principal
 - (c) Both
 - (d) None

2. An agent has authority in emergency to do all such acts as would be done by a person of ordinary prudence in his own case under similar circumstances, for the purpose of
 - (a) Securing maximum benefit for himself
 - (b) Making secret profit
 - (c) Protecting his principal from loss
 - (d) Protecting third party from loss

3. The agent acts on behalf of the principal, by negotiating with the third party. Under normal circumstance, there is no legal agreement between
 - (a) The agent and the principal
 - (b) The principal and the third party
 - (c) The agent and the third party
 - (d) The agent and the sub-agent

4. If there is no agreement regarding remuneration, an agent is
 - (a) Not entitled to any remuneration
 - (b) Entitled to a reasonable remuneration
 - (c) Entitled to remuneration which he thinks is reasonable
 - (d) Entitled to remuneration which the principal think is reasonable

5. If the remuneration is not fixed by principal, then he has _____
 - (a) No right to receive any remuneration
 - (b) The right to recover such remuneration as is usual and customary in such business
 - (c) The right to receive such remuneration as is decided by the court
 - (d) None of these

6. A person employed to do act for another or to represent another in dealings with third parties is called
 - (a) the manager
 - (b) the secretary
 - (c) the agent
 - (d) none of these

7. Jani appointed Ata to do act for him or to represent in dealings with third parties. Since Ata is an agent and Jani will be:
 - (a) the Boss
 - (b) the master
 - (c) the principal
 - (d) none of these

8. The relationship between the principal and the agent is called:
 - (a) master and servant relationship
 - (b) boss and secretary relationship

- (c) agency relationship
 - (d) none of these
9. An agency cannot be established in the absence of one of the following.
- (a) agent must be an educated man
 - (b) principal must be an educated man
 - (c) agreement between principal and agent
 - (d) none of these
10. If the principal is not competent to contract, he:
- (a) can even that make agency
 - (b) cannot make an agency
 - (c) can appoint someone else to make an agency
 - (d) none of these
11. Afzal appointed Imran as his agent. Now the acts of Imran are:
- (a) binding for Afzal
 - (b) binding for both
 - (c) not binding for Afzal
 - (d) none of these
12. Amir telling Talib within Nasir's hearing that Amir is Talib's agent: Here Agency:
- (a) is created between Amir and Talib
 - (b) is not created between Amir & Talib
 - (c) cannot be created
 - (d) none of these
13. Afzal appointed Bashir as his agent and told the people about the acts he can do on his behalf. If Bashir also does something which has not been authorized than:
- (a) it will be binding for Afzal
 - (b) it will not bound Afzal
 - (c) Afzal is bound for all the acts of Bashir
 - (d) none of these
14. What is the minimum consideration required to create an agency?
- (a) Minimum of Rupees One Lakh
 - (b) Minimum of Rupees One Thousand
 - (c) No consideration at all is required
 - (d) Minimum of Rupees Ten Thousand
15. What are the essentials for a person to employ an agent?
- (a) The person should not be of sound mind
 - (b) The person should be a major, according to the law to which the agent is subject
 - (c) The person should be a major, according to the law to which he is subject and should also be of sound mind
 - (d) The person should have executed a contract of indemnity before employing an agent
16. An Agent's authority can be created
- (a) Only by expressly writing the terms thereof
 - (b) Only by implication
 - (c) Only by expressly writing the terms thereof and registering the same with sub-registrar
 - (d) either expressly or impliedly

17. Out of the following, who can appoint an Agent?
 - (a) Minor
 - (b) Person of sound mind
 - (c) Person of unsound mind
 - (d) None of these
18. When an authority of agent is said to be implied:
 - (a) given by words
 - (b) spoken
 - (c) inferred from the circumstances of the case
 - (d) written
19. An 'agent' is a person employed to _____
 - (a) Do any act for another
 - (b) Represent another in dealing with third persons
 - (c) Either of these
 - (d) None of these
20. Any person is eligible to employ an agent if _____
 - (a) He is of the age of majority
 - (b) He is of sound mind
 - (c) Either of these
 - (d) Both of these
21. A minor or a person of unsound mind _____
 - (a) Can become an agent or principal
 - (b) Cannot become an agent or principal
 - (c) Can become an agent but cannot become a principal
 - (d) Can become a principal but cannot become an agent
22. An agent is not liable to the principal if _____.
 - (a) He is a minor
 - (b) He is of unsound mind
 - (c) Either of these
 - (d) None of these
23. In a contract of agency, _____
 - (a) No consideration is required
 - (b) Consideration received by the principal is sufficient for the agent
 - (c) Consideration must be present
 - (d) None of these
24. In the case of unforeseen emergencies, an agent can go beyond his authority
 - (a) True
 - (b) False
25. Ali consigns provisions to Karachi to Baber with directions to send them immediately to Lahore. After that Ali met with an accident. Now if Baber feels that provisions will not bear the journey of Lahore.
 - (a) he may sell the things at Karachi
 - (b) he is bound to work as directed
 - (c) he is not entitled to take his own decision
 - (d) none of these

26. Najma the wife of Zahid is entitled to buy the articles of household necessity in the credit of her husbands This will be called.
- (a) implied authority of the wife
 - (b) influence of the wife
 - (c) express authority of the wife
 - (d) none of these
27. Naila being the wife of Munir has no implied authority to bind her husband if:
- (a) Munir does not like her
 - (b) They are not living together and it is publically known
 - (c) both of these
 - (d) none of these
28. Aslam and Amir centered in a contract of agency for a specific job. When this job is over:
- (a) the agency will remain there
 - (b) the agency will automatically terminate
 - (c) the agency has no concern with it
 - (d) none of these

Sr. No.	Answer	Sr. No.	Answer
1	A	21	C
2	C	22	D
3	C	23	A
4	B	24	A
5	B	25	A
6	C	26	A
7	C	27	B
8	C	28	B
9	C		
10	B		
11	A		
12	A		
13	B		
14	C		
15	C		
16	D		
17	B		
18	C		
19	C		
20	D		

CH # 11**THE NATURE OF PARTNERSHIP**

1. Relation of partnership
 - (a) Arises by legal status of the persons.
 - (b) Arises out of business dealings
 - (c) Arises out of a contract between persons
 - (d) Arises out of legal implications
2. Partner is
 - (a) Only an agent of the firm
 - (b) Only principal to other partners
 - (c) An agent as well as principal
 - (d) None of these
3. Partnership firm has
 - (a) Separate legal entity from partners, if the firm is registered
 - (b) No separate legal entity
 - (c) Separate legal entity
 - (d) Separate legal entity distinct from the partner
4. Partnership is the relation between persons who have agreed to share the profits of a business carried on by _____ acting for all.
 - (a) All
 - (b) Any of them
 - (c) All or any of them
 - (d) None of above
5. In order that persons may become partners, it is essential that _____
 - (a) There must be at least two persons
 - (b) There must be a relationship arising out of an agreement between two or more person
 - (c) The agreement must be to share the profits of a business
 - (d) All of above
6. Which of the following are the essentials of partnership?
 - (a) Association of two or more persons
 - (b) Agreement/ contract
 - (c) Carrying on business
 - (d) All of above
7. Persons who have entered into partnership with one another are called individually _____
 - (a) Firm
 - (b) Co-owner
 - (c) Firm name
 - (d) Partner
8. The name under which partnership business in carried on is called _____
 - (a) Firm name
 - (b) Firm
 - (c) Business name
 - (d) Owners name

9. Partnership firm is separate legal entity apart of its partners.
 - (a) True
 - (b) False
 - (c) Partly true
 - (d) Partly false
10. An agreement between the partners may be _____
 - (a) Express
 - (b) Implied
 - (c) Express or implied
 - (d) Neither ((a) nor ((b)
11. Partnership agreement must be _____
 - (a) A valid agreement
 - (b) For a lawful object
 - (c) Between the persons competent to contract
 - (d) All of above
12. Which of the following purpose is permissible in a partnership?
 - (a) Business purpose
 - (b) Social purpose
 - (c) Religious purpose
 - (d) Charitable purpose
13. Sharing of profits implies sharing of losses as well, unless agreed otherwise.
 - (a) True
 - (b) False
 - (c) Partly true
 - (d) Partly false
14. Which of this arrangement indicates a partnership?
 - (a) Ram agrees with Shyam a goldsmith, to buy and furnish gold to Shyam to be worked upon by him and sold, and that they shall share the resulting profit or loss.
 - (b) Ram and Shyam agree to work together as carpenters but Ram shall receive all profit and shall pay wages to Shyam.
 - (c) Ram and shyam are joint owners of a ship.
 - (d) Ram, a publisher, agrees to publish at his own expense a book written by Shyam and to pay Shyam half the net profit
15. Sharing of profits is a _____ evidence of the existence of partnership.
 - (a) Conclusive
 - (b) Prima facie
 - (c) Not acceptable
 - (d) Collaborative
16. N and Z, the co-owners of a house, use the house as a hotel managed either by themselves or by a duly appointed mänge for their common profit. Is there a partnership relation between the parties?
 - (a) Yes
 - (b) No
 - (c) Partly yes
 - (d) Can't say

17. The sharing of profits arising from property, by persons holding a joint or common interest in that property, does not of itself make such those persons, Partner.
 - (a) True
 - (b) False
 - (c) Partly true
 - (d) Partly false

18. As per mutual agency principal each partner is _____
 - (a) Agent for other partner
 - (b) Principal for other partner
 - (c) Agent and principal for other partner
 - (d) None of above

19. A particular partnership _____
 - (a) Is void
 - (b) Is voidable
 - (c) Will stand dissolved when the adventure is completed.
 - (d) Should be entered into only between three persons.

20. Where no provision is made by contract between the partners for the duration of their partnership or for the determination of their partnership, the partnership is called _____
 - (a) Partnership at will
 - (b) Particular partnership
 - (c) Partnership for fixed duration
 - (d) None of above

21. A partnership is deemed to be a partnership at will when _____
 - (a) No fixed period has been agreed upon for the duration of partnership
 - (b) There is no provision made as to the determination of partnership in any other way.
 - (c) Both ((a) & ((b)
 - (d) None of above

22. Where the partnership is at will, the firm may be dissolved by _____ giving notice in writing to all the other partners of his intention to dissolve the firm.
 - (a) Any partner
 - (b) Two partners
 - (c) Three partners
 - (d) Four partners

23. A partnership may be _____
 - (a) For particular adventure
 - (b) For fixed period
 - (c) A partnership at will
 - (d) Any of the above

24. _____ are those who invest money in the firm's business and take their share of profits but do not participate in the functioning and management of the business.
 - (a) Active partner
 - (b) Sleeping or dormant partner
 - (c) Nominal partner
 - (d) Partner in profit only

-
25. Personal who do not invest or participate in the management of the firm but only give their name to the business or firm are known as _____
- (a) Active partner
 - (b) Sleeping or dormant partner
 - (c) Nominal partner
 - (d) Partner in profits only
26. Which of the following partner can retire without giving public notice?
- (a) Active partner
 - (b) Sleeping or dormant partner
 - (c) Nominal partner
 - (d) Partner in profits only
27. When a partner of a firm agrees to share his own share of profit with an outside, it called _____
- (a) Co-partnership
 - (b) Undisclosed partnership
 - (c) Profit sharing scheme
 - (d) Sub-partnership
28. _____ are the ordinary types of partners who invest money into the business of the firm, actively participate in the functioning and management of the business and share its profits or losses.
- (a) Active partner
 - (b) Sleeping or dormant partner
 - (c) Nominal partner
 - (d) Partner in profits only
29. A sub-partner can bind the firm or other partners by his acts.
- (a) False
 - (b) Partly false
 - (c) Partly true
30. A person, who, by words spoken or written or conduct represents himself or knowingly permits himself to be represented as a partner in the firm is called _____
- (a) Sleeping partner
 - (b) Working partner
 - (c) Sub-partner
 - (d) Partner by estoppels
31. A introduces B to C as a partner in his business. B, in fact, was not a partner but he did not deny the statement. C advanced a loan to A. A could not repay the loan. C can hold B responsible for the repayment of loan because _____
- (a) B is a sleeping Partner
 - (b) B is a Sub-partner
 - (c) B is a Dormant Partner
 - (d) B is a Partner By Estoppel
32. A partner who has not entered into a partnership agreement and conducts or represents himself as a partner in a firm is called _____
- (a) Sleeping partner
 - (b) Working partner
 - (c) Sub-partner
 - (d) Partner by holding out

33. If the behavior of a person arouses misunderstanding that he is a partner in a firm (when actually he is not), such a person is stopped from later on denying the liabilities for the acts of the firm. Such person is called _____ and is liable to all third parties.
- (a) Sleeping partner
 - (b) Partner by estoppels
 - (c) Working partner
 - (d) Sub-partner
34. Which of the following partners are not liable in relation to the firm?
- (a) Partner by holding out
 - (b) Working partner
 - (c) Sub-partner
 - (d) Partner by estoppels
35. A and B entered into an agreement to carry on a business of manufacturing and selling toys. Each one of them contributed Rs. 3.5 million as their capital with a condition that A and B will share the profits equally, but the loss, if any is to be borne by A alone. Referring to the provisions of the Partnership Act, 1932 decide whether there exists a partnership between A and B.
- (a) There is no partnership between A and B.
 - (b) A is sub-partner of B
 - (c) There is partnership by holding out
 - (d) There is partnership between A and B. A is partner in profit only.
36. Every partner is an agent of the firm and of other partners for
- (a) The purpose of the management of the firm.
 - (b) The purpose of other partners.
 - (c) The purpose of liability to third parties
 - (d) The purpose of the business of the firm
37. X and Y formed a partnership firm to undertake construction of a shopping plaza. Such a partnership is called:
- (a) limited partnership
 - (b) particular partnership
 - (c) partnership at will
 - (d) implied partnership
38. The conclusive evidence of a partnership is:
- (a) mutual agency
 - (b) sharing of profit and loss
 - (c) mutual understanding
 - (d) capital contribution
39. Partnership is:
- (a) the relationship between persons who have agreed to share the profits of jointly owned property managed by all or any of them acting for all
 - (b) the relationship created by an agreement between a banking company and person(s) providing for sharing of profit and loss arising from the finance provided to such person(s)
 - (c) both of the above
 - (d) the relation between persons arising from a contract who have agreed to share the profits of a business carried on by all or any of them acting for all

40. Relation of partnership
 - (a) Arises by legal status of the persons.
 - (b) Arises out of business dealings
 - (c) Arises out of a contract between persons
 - (d) Arises out of legal implications
41. Partnership firm has:
 - (a) Separate legal entity from partners if the firm is registered
 - (b) No separate legal entity
 - (c) Separate legal entity
 - (d) Separate legal entity distinct from the partner
42. The persons who have entered into partnership with one another are collectively called:
 - (a) Co-owners
 - (b) Company
 - (c) Partnership
 - (d) Firm
43. The relation of partnership arises from:
 - (a) Status
 - (b) Birth
 - (c) Contract
 - (d) Inheritance
44. Which of the following statement is correct?
 - (a) A partnership contract must be expressed in writing only.
 - (b) A partnership contract must be expressed either in writing or orally.
 - (c) A partnership contract may be expressed (in writing only) or implied.
 - (d) A partnership contract may be expressed (either in writing or orally) or implied.
45. In order to form a partnership, the parties contact to share:
 - (a) Only losses
 - (b) Only profits
 - (c) Both profits and losses
 - (d) Profits and losses but some partners may share in profits only
46. Where the partnership is at will, the firm may be dissolved by any partner giving notice, of his intention to dissolve the firm, in writing to
 - (a) Any one of the partners
 - (b) All the other partners
 - (c) Two partners
 - (d) Three partners

Sr. No.	Answer	Sr. No.	Answer
1	C	31	D
2	C	32	C
3	B	33	B
4	C	34	C
5	D	35	D
6	D	36	D
7	D	37	B
8	A	38	A
9	B	39	D
10	C	40	C
11	D	41	B
12	B	42	D
13	A	43	C
14	A	44	D
15	A	45	D
16	B	46	B
17	B		
18	C		
19	C		
20	A		
21	C		
22	A		
23	D		
24	B		
25	C		
26	B		
27	D		
28	A		
29	A		
30	D		

CH # 12**RELATIONS OF PARTNERS TO ONE ANOTHER**

1. Mr. X, Mr. Y and Mr. Z are partners in a firm. By an agreement, they decided that no partner would have authority to sell goods of the firm above the value of Rs. 50,000/- without the consent of other partners. Owing to the sudden slump in the market, the prices crashed. One partner sold all the stock worth Rs. 500,000/- without consulting other partners. Is the partner liable for this breach of partnership agreement?
 - (a) The partner is liable as he is in breach of agreement
 - (b) The partner is liable because he is acting without the consent of other partners
 - (c) The partner is not liable as he is acting in order to save the firm from loss
 - (d) The partner is not liable as he has express authority to do so

2. Mr. A, a partner in the firm, buys shares of a company in his own name. Without the authority of the other partners, but with the money and on account of the firm. State the legal position.
 - (a) The shares are the property of Mr. A
 - (b) The shares are the property of active partners of the firm
 - (c) The shares are the property of the legal representatives of Mr. A
 - (d) The shares are the property of the partnership firm

3. For the debts of the firm, partners are liable
 - (a) Jointly
 - (b) Jointly and severally
 - (c) Severally
 - (d) Individually

4. The property of the firm must be used
 - (a) For the exclusive benefit of the active partner
 - (b) For personal benefits of the all the partner
 - (c) For the purpose of business of the firm
 - (d) (a) & (b)

5. Restrictions on the partner by partnership deed is binding on third party provided
 - (a) Such restrictions are valid
 - (b) Are according to the provisions of the partnership Act
 - (c) Such restrictions have been imposed by mutual agreement.
 - (d) Such restrictions are in the knowledge of third party

6. Partner giving advances to the firm is entitled
 - (a) Not to claim any such interest on that amount
 - (b) To claim interest @ 6% or as agreed upon
 - (c) To claim interest @ 12% per annum
 - (d) To claim interest as decided by the third party

7. In the absence of any such agreement, express or implied, the property of the firm is deemed to include _____
 - (a) All property, rights and interests which have been brought into the common stock for the purposes of the partnership by individual partners, whether at the commencement of the business or subsequently added thereto
 - (b) Those acquired in the course of the business with money belonging to the firm
 - (c) The goodwill of the business
 - (d) All of above

8. The property of the firm belongs to the firm and not to the individual partner or partners.
 - (a) True
 - (b) Partly true
 - (c) False
 - (d) Partly false

9. _____ has a right to take part in the conduct and management of the business.
 - (a) Every partner
 - (b) Sub-partner
 - (c) Partner by holding out
 - (d) Substituted partner

10. _____ has a right of free access to all records, books and account of the business and also to examine and copy them.
 - (a) Every partner
 - (b) Sub-partner
 - (c) Partner by holding out
 - (d) Substituted partner

11. Every partner whether active or dormant, has a right of free access to all _____. Of the business and also to examine and copy them.
 - (a) Records
 - (b) Books
 - (c) Records, books and account
 - (d) None of above

12. Every partner is entitled to share in the profits _____ unless different proportions are stipulated.
 - (a) In proportion to capital
 - (b) Equally
 - (c) In proportion to balance in current accounts
 - (d) None of above

13. Partner shall indemnify the firm for any loss caused to it by his _____ in the conduct of the firm's business.
 - (a) Negligence
 - (b) Interference
 - (c) Willful neglect
 - (d) None of the above

14. Where a partner has advanced any loan to the firm and the agreement provides for interest, but does not specify any rate, the rate shall be _____.
 - (a) 6%
 - (b) 8%
 - (c) 9%
 - (d) 5%

15. Subject to contract between the partners, where a partner is entitled to interest on his capital, such interest shall be payable.
 - (a) Only out of profits
 - (b) Only out of capital

- (c) First out of profits and then out of capital
(d) First out of capital and then out of profit
16. Which of the following is not a right of partner?
(a) Every partner has a right to continue in the partnership and not to be expelled from it.
(b) A partner has power to act in an emergency for protecting the firm from loss.
(c) Every partner is entitled to share in the profits equally
(d) Every partner is entitled to the introduction of a new partner into the firm without consent of other partner.
17. Every partner is bound to carry on the business of the firm to the _____
(a) To the advantage of the working partner.
(b) For reasonable advantage
(c) For the advantage of society
(d) To the greatest common advantage
18. Which of the following is not covered by general duties of partners?
(a) To carry on the business of the firm to the greatest common advantage of the firm.
(b) To be just and faithful to each other.
(c) To arrange for audit of accounts of the firm.
(d) To keep and render true, proper and correct accounts of the partnership.
19. Every partner must account for any benefits derived from the partnership business without the consent of the other partners.
(a) True
(b) Partly true
(c) False
(d) None of the above
20. Which of the following statement is incorrect?
(a) Every partner must be just and faithful to other partners.
(b) A partner is bound to keep and render true, proper and correct accounts of the partnership.
(c) A partner can compete with the firm, without the consent of the other partners.
(d) To carry on the business of the firm to the greatest common advantage
21. In the absence of an agreement to the contrary, every partner is bound to share losses _____
(a) Equally
(b) In proportion to capital
(c) In proportion to their private assets
(d) None of above
22. Property of the firm shall be held by use of the partners _____
(a) Exclusively for business purposes.
(b) For business purposes as well as private purposes of the partners.
(c) For the private purposes of the partners.
(d) None of the above
23. A and B, who work in partnership, deal in purchase and sale of cloth. B starts cloth manufacturing business individually. A files a suit against B for sharing of profits of cloth manufacturing business with him. Will he succeed?
(a) A partner cannot carry on business which is of the same nature as and competing with that of the firm. Hence, A will succeed.

- (b) A can also separately start cloth manufacturing business and he can earn the profit. Hence, he cannot recover.
- (c) A partner shall not carry on business which is of the same nature as and competing with that of the firm, he shall account for the same and pay all such profits to the firm. Cloth manufacturing is different activity and not similar to purchase and sale of cloth. Hence, A will not succeed.
- (d) None of above
24. Choose the INCORRECT statement:
In the absence of a contract to the contrary,
- (a) a partner is not entitled to receive remuneration for taking part in the conduct of the business
- (b) the partners are entitled to share profits equally
- (c) the partners are entitled to interest on capital subscribed by them
- (d) a partner shall indemnify the firm for any loss caused to it by his wilful neglect
25. Subject to contract between the partners, a change may be made in the nature of business of the firm:
- (a) with the consent of active partners managing the business
- (b) with the consent of majority of partners
- (c) with the consent of all the partners
- (d) with the consent of all the partners and Registrar of Firms
26. Mr. A, a partner in the firm, buys shares of a company in his own name. Without the authority of the other partners, but with the money and on account of the firm. State the legal position.
- (a) The shares are the property of Mr. A
- (b) The shares are the property of active partners of the firm
- (c) The shares are the property of the legal representatives of Mr. A
- (d) The shares are the property of the partnership firm
27. The property of the firm must be used
- (a) For the exclusive benefit of the active partner
- (b) For personal benefits of the all the partner
- (c) For the purpose of business of the firm
- (d) (a) & (b)
28. Partner giving advances to the firm is entitled:
- (a) Not to claim any such interest on that amount
- (b) To claim interest @ 6% or as agreed upon
- (c) To claim interest @ 12% per annum
- (d) To claim interest as decided by the third party
29. In the absence of any such agreement, express or implied, the property of the firm is deemed to include:
- (a) All property, rights and interests which have been brought into the common stock for the purposes of the partnership by individual partners, whether at the commencement of business or subsequently added to it.
- (b) Those acquired in the course of business with the money belonging to the firm
- (c) The goodwill of the business
- (d) All of the above
30. _____ has a right to take part in the conduct and management of the business?
- (a) Every partner
- (b) Sub-partner

- (c) Partner by holding out
 - (d) Substituted partner
31. Every partner, whether active or dormant, has a right of free access to:
- (a) All accounts of the firm only.
 - (b) Full information of all things affecting the firm.
 - (c) Both of above.
 - (d) None of above.
32. A partner can claim interest on capital:
- (a) If there is loss
 - (b) If there is profit
 - (c) If there is profit and there is an agreement to pay it
 - (d) None of the above
33. Which of the following is not a right of partner(s)?
- (a) Every partner has right to continue in the partnership and not to be expelled from it.
 - (b) A partner has power to act in an emergency for protecting the firm from loss.
 - (c) Every partner is entitled to share in the profits equally.
 - (d) Every partner is entitled to introduction of new partner into the firm without consent of other partners.

Sr. No.	Answer	Sr. No.	Answer
1	C	21	A
2	D	22	B
3	B	23	C
4	C	24	C
5	D	25	C
6	B	26	D
7	D	27	C
8	C	28	B
9	A	29	D
10	A	30	A
11	C	31	C
12	B	32	C
13	C	33	D
14	A		
15	A		
16	D		
17	D		
18	C		
19	A		
20	C		

CH # 13**RELATIONS OF PARTNERS TO THIRD PARTIES**

1. A minor
 - (a) Can be a partner in the firm
 - (b) Can be held personally liable when he is admitted in the partnership
 - (c) Cannot be admitted to the benefits of the firm with the consent of all partners
 - (d) Can be admitted to the benefits of the firm with the consent of all partners.
2. A minor admitted to the benefits of the firm, towards third party
 - (a) He is personally liable
 - (b) He is liable for half of the loss
 - (c) He is liable only up to his share in the firm
 - (d) He has no liability at all
3. Mr. A, Mr. B and Mr. C are partners in an instalment sales business. Mr. A asked one of the customers to deposit a security worth Rs. 100,000/- in order to purchase goods on instalments. Subsequently, Mr. A misappropriated the security and absconded. Who will be liable for such loss?
 - (a) Mr. A and Mr. B will be liable to compensate the loss
 - (b) No one is liable to compensate the loss
 - (c) Mr. A is liable only to compensate the loss
 - (d) All the partners are liable to compensate the loss
4. Mr. A tells Mr. B (Supplier) within the hearing of Mr. C (Partner) that he (Mr. A) is a partner in the partnership firm of Mr. C. Mr. C does not object to this statement of Mr. A. Later Mr. B supplies certain goods to Mr. A who pretends to act as partner with Mr. C. State the legal position
 - (a) Mr. C will not be held liable to pay the price
 - (b) Mr. A will be held liable personally to pay the price
 - (c) Mr. B cannot claim the price from Mr. C
 - (d) Mr. C will be liable to pay the price.
5. On attaining majority, the minor partner has to decide within six months whether he shall continue in the firm or leave it. Where such minor elects to become a partner, he will be personally liable
 - (a) From the date when he attained majority
 - (b) From the date when he gives public notice
 - (c) Since the date of admission to the benefits of the firm
 - (d) After the lapse of six months
6. Under the implied authority the partner may not
 - (a) Employ servants for the business of the firm
 - (b) Pledge movable property of the firm
 - (c) Buy movable property of the firm
 - (d) Transfer immovable property of the firm
7. A minor may be admitted to the benefits of a partnership with the consent of _____
 - (a) Majority partners
 - (b) All other partners
 - (c) 75% partners
 - (d) None of above

8. A partner can transfer his interest so as to substitute the transferee in his place as the partner, without the consent of all the other partners; a member of company cannot transfer his share to any one he likes.
 - (a) False
 - (b) True
 - (c) Partly true
 - (d) Partly false
9. Within _____ period on his attaining majority or obtaining knowledge that he has been admitted to the benefits of the partnership, whichever is later, a minor may give public notice of his decision to continue or withdraw from the firm.
 - (a) Three months
 - (b) Six months
 - (c) Eight months
 - (d) Nine months
10. Failure by a minor to give public notice within 6 months will have the following effect _____
 - (a) The partnership firm stands dissolved.
 - (b) Minor automatically becomes partner.
 - (c) Minor automatically ceases to be a partner.
 - (d) The partnership becomes an illegal association
11. For admitting a minor into the benefits of the partnership, which of the following is required?
 - (a) Consent of majority partners
 - (b) Consent of parent or guardian
 - (c) Consent of all the partners
 - (d) None of above
12. When the minor elects not to become a partner, his rights and liabilities _____
 - (a) Continue to be those of a minor up to the date of giving public notice.
 - (b) Are the same as that of all other partner.
 - (c) Become ineffective since the partnership is invalid.
 - (d) After the date of dissolution of firm.
13. A partner has no power to act in an emergency for protecting the firm from loss.
 - (a) True
 - (b) Partly true
 - (c) False
 - (d) None of the above
14. _____ can assign or transfer his partnership interest to any other person, so as to make him a partner in the business.
 - (a) No partner
 - (b) Every partner
 - (c) Working partner
 - (d) Nominal partner
15. Which of the following statement is correct in relation to assignment of profit by partner?
 - (a) The assignee will have no right to ask for the accounts or to interfere in the management of the business.
 - (b) The assignee would be entitled only to share the actual profits from the partners.

- (c) On dissolution of the firm, the assignee will be entitled to the share of the assets and also to accounts but only from the date of dissolution.
- (d) All of above
16. Where authority of a partner is not conferred by mutual agreement, but acts of partner which are exercised in ordinary course of business and which bind the firm are known _____ of partner.
- (a) Implied authority
- (b) Ostensible authority
- (c) Apparent authority
- (d) (a) or (b) or (c)
17. Nitin, a partner of a firm dealing in computers gives an order for wine worth Rs. 10,000 in firm's name. Discuss the liability?
- (a) The firm is liable to pay Rs. 10,000.
- (b) The firm can sale the wine to other.
- (c) It does not relate to normal business of the firm. The firm will not be bound by it as act is not within implied authority of a partner.
- (d) None of above
18. Which of these acts are within the implied authority?
- (a) Settlement of accounts with third parties.
- (b) Open a bank account on behalf of the firm in the partner's own name.
- (c) Compromise or relinquish any claim or portion of claim by the firm.
- (d) Submit to arbitration, a dispute relating to the business of the firm
19. Which of these acts falls outside the implied authority?
- (a) Purchase goods dealt or used by the firm on behalf of the firm.
- (b) Sale of the goods of the firm.
- (c) Receiving payments of debts due to the firm and issuing receipt for it.
- (d) Withdraw any suit or proceeding filed on behalf of the firm
20. Which of these acts falls outside the implied authority?
- (a) Appointment of employees to carry on the firm's business.
- (b) Admit any liability in a suit or proceedings against the firm.
- (c) Pledging goods of the firm as security.
- (d) Borrowing money on behalf of the firm.
21. N & Z are partners in a firm dealing in stationery. N placed order in the firm's name and on the firm's letter pad for 10 bags of wheat to be supplied at his residence.
- (a) The firm is not liable for N's act
- (b) The firm is liable for N's act.
- (c) A has acted within his implied authority
- (d) None of above
22. The implied authority of a partner does NOT empower him to:
- (a) submit a business dispute to arbitration
- (b) withdraw a suit filed on behalf of the firm
- (c) open a banking account on behalf of the firm
- (d) all the above

23. A firm is liable to make good the loss of third party if:
- one of the partners acting within his apparent authority misapplies the money or property received from a third party
 - one of the partners misapplies the money or property received from a third party by the firm in the course of its business while it is in the custody of the firm
 - by the wrongful act or omission of a partner acting in the ordinary course of the business of a firm, loss or injury is caused to any third party
 - all of the above
24. Emmad and Faraz are partners in cloth trading business. In the presence of Faraz, his friend Ghalib boasted that he is also a partner in the business, in front of Haroon, a customer. Haroon gave this information to Ismail and on this belief, Ismail supplied cloth on credit to the firm. Can Ismail make Ghalib liable for the unpaid amount in this transaction?
- No, as Ghalib did not present himself as a partner, in front of Ismail
 - Yes, as Ismail gave credit to the firm on the faith of Ghalib's representation
 - No, as Ghalib is not a partner in the firm
 - Yes, as Ghalib did it intentionally to deceive others
25. Hamid and Ismail are partners and work as legal advisors. Jehangir, an old client of theirs, gave a sum of money to Hamid while he was in the firm's premises for investment in some good security which Hamid misappropriated without knowledge of Ismail. Jehangir filed a suit against the firm for recovery of his money. Can Jehangir succeed?
- Yes, as money was given to Hamid in firm's premises
 - No, as this transaction is not the ordinary business of legal advisors
 - Yes, as Hamid had previously carried out similar transactions with the knowledge of Ismail
 - Both (b) and (c)
26. Select the false statement.
- On the death of a partner his heir becomes a partner.
 - Minor partner has no right to see secret books/records of the partnership.
 - A partner has no authority to submit a dispute relating to the business of the firm to arbitration.
 - A partner has no authority to enter into partnership with other firm on behalf of the firm.
27. Partner is
- Only an agent of the firm
 - Only principal to other partners
 - An agent as well as principal
 - None of these
28. Mr. X, Mr. Y and Mr. Z are partners in a firm. By an agreement, they decided that no partner would have authority to sell goods of the firm above the value of Rs. 50,000/- without the consent of other partners. Owing to the sudden slump in the market, the prices crashed. One partner sold all the stock worth Rs. 500,000/- without consulting other partners. Is the partner liable for this breach of partnership agreement?
- The partner is liable as he is in breach of agreement
 - The partner is liable because he is acting without the consent of other partners
 - The partner is not liable as he is acting in order to save the firm from loss
 - The partner is not liable as he has express authority to do so
29. For the debts of the firm, partners are liable
- Jointly
 - Jointly and severally

- (c) Severally
 - (d) Individually
30. A minor
- (a) Can be a partner in the firm
 - (b) Can be held personally liable when he is admitted in the partnership
 - (c) Cannot be admitted to the benefits of the firm with the consent of all partners
 - (d) Can be admitted to the benefits of the firm with the consent of all partners.
31. A minor admitted to the benefits of the firm, towards third party
- (a) He is personally liable
 - (b) He is liable for half of the loss
 - (c) He is liable only up to his share in the firm
 - (d) He has no liability at all
32. Mr. A, Mr. B and Mr. C are partners in an instalment sales business. Mr. A asked one of the customers to deposit a security worth Rs. 100,000/- in order to purchase goods on instalments. Subsequently, Mr. A misappropriated the security and absconded. Who will be liable for such loss?
- (a) Mr. A and Mr. B will be liable to compensate the loss
 - (b) No one is liable to compensate the loss
 - (c) Mr. A is liable only to compensate the loss
 - (d) All the partners are liable to compensate the loss
33. Restrictions on the partner by partnership deed is binding on third party provided
- (a) Such restrictions are valid
 - (b) Are according to the provisions of the partnership Act
 - (c) Such restrictions have been imposed by mutual agreement.
 - (d) Such restrictions are in the knowledge of third party
34. Mr. A tells Mr. B (Supplier) within the hearing of Mr. C (Partner) that he (Mr. A) is a partner in the partnership firm of Mr. C. Mr. C does not object to this statement of Mr. A. Later Mr. B supplies certain goods to Mr. A who pretends to act as partner with Mr. C. State the legal position
- (a) Mr. C will not be held liable to pay the price
 - (b) Mr. A will be held liable personally to pay the price
 - (c) Mr. B cannot claim the price from Mr. C
 - (d) Mr. C will be liable to pay the price.
35. On attaining majority, the minor partner has to decide within six months whether he shall continue in the firm or leave it. Where such minor elects to become a partner, he will be personally liable
- (a) From the date when he attained majority
 - (b) From the date when he gives public notice
 - (c) Since the date of admission to the benefits of the firm
 - (d) After the lapse of six months
36. Under the implied authority the partner may not
- (a) Employ servants for the business of the firm
 - (b) Pledge movable property of the firm
 - (c) Buy movable property of the firm
 - (d) Transfer immovable property of the firm

Sr. No.	Answer	Sr. No.	Answer
1	D	21	A
2	C	22	D
3	D	23	D
4	D	24	B
5	C	25	B
6	D	26	A
7	B	27	C
8	A	28	C
9	B	29	B
10	B	30	D
11	C	31	C
12	C	32	D
13	C	33	D
14	A	34	D
15	D	35	C
16	A	36	D
17	C		
18	A		
19	D		
20	B		

CH # 14**NEGOTIABLE INSTRUMENTS**

1. A promissory note is a document in writing containing
 - (a) A conditional promise to pay
 - (b) A conditional order to pay
 - (c) An unconditional promise to pay
 - (d) An unconditional order to pay
2. If a document contains an order directing a person to pay, it is
 - (a) A promissory note
 - (b) Not a promissory note
 - (c) A bill of exchange
 - (d) A conditional promissory note
3. A promise to pay is conditional if
 - (a) It depends upon certain event i.e. death
 - (b) The promise is to pay on X's death if he leaves the maker enough to pay
 - (c) It is to pay on demand
 - (d) It is to pay after a certain period
4. In promissory note, there are
 - (a) Two parties
 - (b) Three parties
 - (c) Four parties
 - (d) Five parties
5. A holder in due course gets an instrument
 - (a) Subject to defects
 - (b) Free from defects
 - (c) Subject to certain rights
 - (d) Which cannot be further negotiated
6. A promissory note, cheque or bill of exchange is an inland instrument if it is
 - (a) Drawn in Pakistan and payable outside
 - (b) Drawn upon any person resident in Pakistan
 - (c) Drawn and payable in Pakistan
 - (d) Drawn and payable outside Pakistan
7. Mr. A sign the instruments in the following terms
 - (i) "I promise to pay Mr. B or order Rs. 500/-"
 - (ii) "I acknowledged myself to be indebted to Mr. B in Rs. 1000/- to be paid on demand, for value received".
 - (iii) Mr. A promise to pay Mr. B sum of Rs. 500/- on telephone.
 - (iv) "I am liable to pay to Mr. B Rs. 500/-"

Identify the correct one:

- (a) I & II
- (b) I & III
- (c) III & IV
- (d) II & IV

8. Person named in the instrument to whom money is directed to be paid is known as
 - (a) Drawer
 - (b) Acceptor
 - (c) Maker
 - (d) Payee
9. Maker of a bill of exchange is called as
 - (a) Drawer
 - (b) Drawee
 - (c) Acceptor
 - (d) Payee
10. Which of the following is not applicable to negotiable instruments?
 - (a) It must be in writing
 - (b) It must be transferable
 - (c) It must be registered
 - (d) It must be signed
11. 'A' signs the instrument in the following manner. State the instrument which cannot be considered as promissory note.
 - (a) I promise to pay B or order Rs.500.
 - (b) I acknowledge myself to be indebted to B for Rs. 1,000 to be paid on demand for value received
 - (c) I promise to pay B Rs. 10,000 after three months.
 - (d) I promise to pay B Rs. 500 seven days after my marriage with C
12. Person named in the instrument to whom money is directed to be paid:
 - (a) Drawer
 - (b) Acceptor
 - (c) Maker
 - (d) Payee
13. While drawing a bill of exchange, a person whose name is given in addition to the drawee who can be resorted in case of need, is called:
 - (a) Acceptor
 - (b) Acceptor for honor
 - (c) Drawee in case of need
 - (d) drawer
14. An instrument containing a promise to.....is valid promissory note.
 - (a) Pay Rs. 10 ,000
 - (b) Deliver certain goods
 - (c) Pay Rs. 10 ,000 and deliver certain goods
 - (d) Both (a) and (c)
15. The drawee of a bill of exchange, may accept it by signing on
 - (a) The face of the bill
 - (b) The face or back of the bill
 - (c) A slip of paper annexed to the bill
 - (d) Any of these
16. _____ is a negotiable instrument.
 - (a) A promissory note
 - (b) A bill of exchange

- (c) A cheque
 - (d) All of these
17. A negotiable instrument shall be payable to _____ is an order instrument
- (a) A particular person
 - (b) A particular person or his order
 - (c) The order of a particular person
 - (d) All of these
18. Bearer instrument means an instrument
- (a) Which is expressed to be payable to bearer
 - (b) On which the last endorsement is in blank
 - (c) Either (a) or (b)
 - (d) None of these
19. Every negotiable instrument shall be
- (a) Either a demand instrument or a time instrument
 - (b) Either a bearer instrument or an order instrument
 - (c) Both (a) and (b)
 - (d) None of these
20. Endorsement means signing on _____ for the purpose of negotiating such negotiable instrument.
- (a) The face of negotiable instrument
 - (b) The back of negotiable instrument
 - (c) A slip of paper annexed to negotiable instrument
 - (d) Any of these
21. Where the endorsement contains a direction to pay the amount mentioned in the negotiable instrument to a specified person, it is called as
- (a) Restrictive endorsement
 - (b) Special endorsement
 - (c) Facultative endorsement
 - (d) Sans Frais endorsement
22. _____ may be presented for payment at any time
- (a) A demand instrument
 - (b) A time instrument
 - (c) Both (a) and (b)
 - (d) None of these
23. In a promissory note or a bill of exchange, the expressions 'at sight' means
- (a) 'On presentation'
 - (b) 'On demand'
 - (c) Both (a) and (b)
 - (d) None of these
24. A bearer instrument can be negotiated by
- (a) Endorsement
 - (b) Delivery
 - (c) Both (a) and (b)
 - (d) Either (a) or (b)

25. A negotiable instrument may be negotiated until
- Maturity date
 - Due date
 - It is paid or satisfied
 - None of these
26. Statement (1): It is presumption of law that every negotiable instrument bearing a date was made or drawn on such date.
Statement (2): It is presumption of law that every lost promissory note or bill was duly stamped
- Only statement (1) is correct
 - Only statement (2) is correct
 - Both the statements are correct
 - None of the statements is correct
27. Statement (1): It is presumption of law that every holder of a negotiable instrument is a holder in due course
Statement (2): It may be proved before the court that a holder of negotiable instrument is not a holder in due course.
- Only statement (1) is correct
 - Only statement (2) is correct
 - Both the statements are correct
 - None of the statements is correct
28. _____ can be crossed
- A promissory note
 - A bill of exchange
 - A cheque
 - All of these
29. Statement (1): Where the cheque contains the name of a banker, but does not contain two parallel transverse lines, it is a valid special crossing.
Statement (2): A specially crossed cheque shall be paid to the banker to whom it is crossed:
- Only statement (1) is correct
 - Only statement (2) is correct
 - Both the statements are correct
 - None of the statements is correct
30. A person signed a blank acceptance and kept it in his drawer and some person stole it and filled it up for Rs. 29,000 and negotiated it to an innocent person for value, In this case whether signer of the blank acceptance liable to the holder in due course?
- it was held that the signer to the blank acceptance was liable to the holder in due course
 - It was held that the signer to the blank acceptance was liable to the holder in due course based on situations
 - it was held that the signer to the blank acceptance was not liable to the holder in due course
 - it was held that the signer to the blank acceptance was not liable to the holder in due course based on situations
31. A promissory note, bill of exchange or cheque.....
- may contain words prohibiting transfer or indicating an intention that it shall be transferable
 - does not contain words prohibiting transfer or Indicating an Intention that It shall not be transferable

- (c) does contain words prohibiting transfer or indicating an intention that it shall not be transferable
 - (d) does not contain words prohibiting transfer or indicating an Intention that It shall be transferable
32. Out of the below situation, where it is called as Instruments payable on demand?
- (a) promissory note or bill of exchange, in which no time for payment Is specified
 - (b) A promissory note or bill of exchange, in which Fixed time for payment is specified
 - (c) A promissory note or bill of exchange, in which specified time for payment is specified to specified person
 - (d) A promissory note or bill of exchange, in which no time for payment Is specified or fixed time Is specified
33. The maker of a bill of exchange or cheque is called the _____ person thereby directed to pay is called the _____
- (a) Payer and receiver
 - (b) Drawee and drawer
 - (c) Payee and receiver
 - (d) Drawer and drawee
34. Maker of a bill of exchange is called as _____
- (a) Drawee
 - (b) Drawer
 - (c) Acceptor
 - (d) Payee
35. A promissory note is a document in writing containing
- (a) A conditional promise to pay
 - (b) A conditional order to pay
 - (c) An unconditional promise to pay
 - (d) An unconditional order to pay
36. If a document contains an order directing a person to pay, it is
- (a) A promissory note
 - (b) Not a promissory note
 - (c) A bill of exchange
 - (d) A conditional promissory note
37. A promise to pay is conditional if
- (a) It depends upon certain event i.e. death
 - (b) The promise is to pay on X's death if he leaves the maker enough to pay
 - (c) It is to pay on demand
 - (d) It is to pay after a certain period
38. In promissory note, there are
- (a) Two parties
 - (b) Three parties
 - (c) Four parties
 - (d) Five parties

-
39. A holder in due course gets an instrument
 - (a) Subject to defects
 - (b) Free from defects
 - (c) Subject to certain rights
 - (d) Which cannot be further negotiated

 40. A promissory note, cheque or bill of exchange is an inland instrument if it is
 - (a) Drawn in Pakistan and payable outside
 - (b) Drawn upon any person resident in Pakistan
 - (c) Drawn and payable in Pakistan
 - (d) Drawn and payable outside Pakistan

 41. The maker of a bill of exchange is called:
 - (a) Drawee
 - (b) Drawer
 - (c) Acceptor
 - (d) Payee

 42. Which of the following is not applicable to negotiable instruments?
 - (a) It must be in writing.
 - (b) It must be transferable.
 - (c) It must be registered.
 - (d) It must be signed.

 43. Bearer instrument means an instrument:
 - (a) Which is expressed to be payable to bearer.
 - (b) On which the last indorsement is in blank.
 - (c) Either (a) or (b)
 - (d) Which is payable after certain days of making the instrument.

 44. Which of the following may be presented at any time for payment?
 - (a) Bearer instrument payable on specified time.
 - (b) Order instrument payable on specified time
 - (c) Order instrument payable on demand.
 - (d) None of the above

Sr. No.	Answer	Sr. No.	Answer
1	C	31	B
2	C	32	A
3	B	33	D
4	A	34	A
5	B	35	C
6	C	36	C
7	A	37	B
8	B	38	A
9	A	39	B
10	C	40	C
11	D	41	B
12	D	42	C
13	C	43	C
14	A	44	C
15	D		
16	D		
17	D		
18	C		
19	C		
20	D		
21	B		
22	A		
23	B		
24	D		
25	A		
26	C		
27	C		
28	C		
29	C		
30	A		

CH # 15**PROVISIONS RELATING TO CHEQUES**

1. Which instrument is immediately payable on demand?
 - (a) Cheque
 - (b) Promissory Note
 - (c) Bill of exchange
 - (d) All of these
2. Addition of the words “non-negotiable” to the crossing
 - (a) Restricts transferability of cheque
 - (b) Makes no difference
 - (c) Does not restrict further transferability of cheque
 - (d) Makes the cheque invalid
3. Where a cheque bears across its face the name of the banker, the crossing is
 - (a) General crossing
 - (b) Special crossing
 - (c) Not-negotiable crossing
 - (d) Restrictive crossing
4. A bill of exchange, other than a cheque, cannot be
 - (a) Endorsed
 - (b) Crossed
 - (c) Accepted
 - (d) Negotiated
5. Where a cheque bears across its face the words “A/c Payee” or “A/c Payee Only”, the crossing is
 - (a) Special Crossing
 - (b) Not-negotiable crossing
 - (c) General Crossing
 - (d) Restrictive Crossing
6. Identify the following type of crossing:
 - (a) General crossing
 - (b) Ordinary crossing
 - (c) Particular crossing
 - (d) Special crossing
7. Identify the following type of crossing:
 - (a) Negotiable crossing
 - (b) Non-negotiable crossing
 - (c) Special crossing
 - (d) General crossing
8. A cheque is
 - (a) A demand instrument
 - (b) A time instrument
 - (c) Either (a) or (b), as per facts of the case
 - (d) None of these

9. Cheque Is also a bill of exchange but is drawn on a banker and _____
- payable on demand
 - Payable after a certain period
 - at a designated future date or on demand
 - All of the above
10. Which instrument is immediately payable on demand?
- Cheque
 - Promissory Note
 - Bill of exchange
 - All of these
11. Addition of the words “non-negotiable” to the crossing
- Restricts transferability of cheque
 - Makes no difference
 - Does not restrict further transferability of cheque
 - Makes the cheque invalid
12. Where a cheque bears across its face the name of the banker, the crossing is
- General crossing
 - Special crossing
 - Not-negotiable crossing
 - Restrictive crossing
13. A bill of exchange, other than a cheque, cannot be
- Indorsed
 - Crossed
 - Accepted
 - Negotiated
14. Where a cheque bears across its face the words “A/c Payee” or “A/c Payee Only”, the crossing is
- Special Crossing
 - Not-negotiable crossing
 - General Crossing
 - Restrictive Crossing
15. Mr. A sign the instruments in the following terms
- “I promise to pay Mr. B or order Rs. 500/-“
 - “I acknowledged myself to be indebted to Mr. B in Rs. 1000/- to be paid on demand, for value received”.
 - Mr. A promise to pay Mr. B sum of Rs. 500/- on telephone.
 - “I am liable to pay to Mr. B Rs. 500/-“

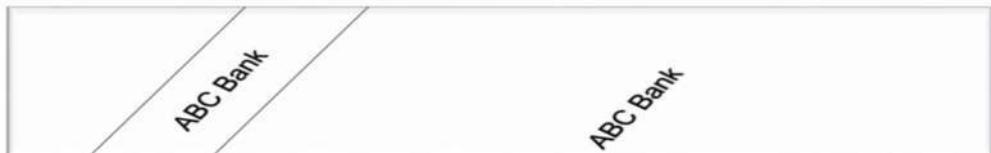
Identify the correct one:

- 1 & 2
- 1 & 3
- 3 & 4
- 2 & 4

16. Identify the following type of crossing on a cheque:



- (a) General crossing
 (b) Ordinary crossing
 (c) Particular crossing
 (d) Special crossing
17. Identify the following type of crossing on a cheque:



- (a) Negotiable crossing
 (b) Non-negotiable crossing
 (c) Special crossing
 (d) General crossing
18. Choose the incorrect statement in relation to crossing and payment of cheques:
- (a) A collecting/receiving banker is one who receives the payment of a crossed cheque on behalf of his customer.
 (b) The protection to the collecting banker is not available even if it credits customer's account with the amount of the cheque before receiving payment thereof.
 (c) Where the cheque is crossed specially to more than one banker, except when crossed to an agent for collection, the banker to whom it is drawn shall refuse payment thereof.
 (d) The addition of the words not negotiable does not restrict the further transferability of the cheque.
19. The duty and authority of a banker to pay a cheque drawn on him by his customer are determined by:
- (a) Countermand of payment.
 (b) Notice of customer's death.
 (c) Notice of adjudication of the customer as an insolvent.
 (d) All of above

Sr. No.	Answer	Sr. No.	Answer
1	A	16	A
2	C	17	C
3	B	18	B
4	B	19	D
5	D		
6	A		
7	C		
8	A		
9	A		
10	A		
11	C		
12	B		
13	B		
14	D		
15	A		

CH # 16**ANTI-MONEY LAUNDERING AND
ELECTRONIC PAYMENTS**

1. Under the provision of Anti-Money Laundering Act, 2010 which of the following is not a 'financial institution'?
 - (a) Lending business
 - (b) Financial leasing business
 - (c) Educational institute
 - (d) A business trading in transferable securities
2. If a person holds or possesses on behalf of any other person any property knowing or having reason to believe that such property is _____, he is guilty of offence of money laundering.
 - (a) Illegally occupied
 - (b) Not owned by that other person
 - (c) Proceeds of crime
 - (d) Owned by government
3. In which of the following case(s) a person is deemed to have committed an offence of money laundering?
 - (a) If a person acquires, converts, possesses, uses or transfers property, knowing or having reason to believe that such property is proceeds of crime.
 - (b) If a person conceals or disguises the true nature, origin, location, disposition, movement or ownership of property, knowing or having reason to believe that such property is proceeds of crime.
 - (c) If a person holds or possesses on behalf of any other person any property knowing or having reason to believe that such property is proceeds of crime.
 - (d) All of above.
4. Habib is guilty of an offence of money laundering, the court may punish him with rigorous imprisonment for a term:
 - (a) Which shall not be less than one year
 - (b) which may extend upto ten years.
 - (c) which shall not be less than one year but may extend upto ten years.
 - (d) None of above.
5. Habib Limited is guilty of offence of money laundering, the court may punish it with rigorous imprisonment for a term:
 - (a) Which shall not be less than one year
 - (b) which may extend upto ten years.
 - (c) which shall not be less than one year but may extend upto ten years.
 - (d) None of above.
6. Abid is guilty of offence of money laundering, he shall be liable to fine which may extend upto:
 - (a) Rs. 10 million
 - (b) Rs. 25 million
 - (c) Rs. 100 million
 - (d) Rs. 250 million

7. Abid Limited is guilty of offence of money laundering, it shall be liable to fine which may extend upto:
 - (a) Rs. 10 million
 - (b) Rs. 25 million
 - (c) Rs. 100 million
 - (d) Rs. 250 million
8. Abid, in connection with his directorship in Abid Limited, is guilty of offence of money laundering, he shall be liable to fine which may extend upto:
 - (a) Rs. 10 million
 - (b) Rs. 25 million
 - (c) Rs. 100 million
 - (d) Rs. 250 million
9. Which of the following persons have been mentioned in the definition of "Electronic Money"
 - (i) A banking company
 - (ii) A financial institution
 - (iii) Any other company or person
 - (a) (i) only
 - (b) (ii) only
 - (c) (i) and (ii) only
 - (d) (i), (ii) and (iii)
10. Which of the following is not Electronic Fund Transfer?
 - (a) Transfer of fund initiated through stored value card Terminal
 - (b) Transfer of fund initiated through bank draft
 - (c) Transfer of fund initiated through ATM
 - (d) Transfer of fund initiated through debit card
11. The State Bank may designate a Payment System as a Designated Payment System by a written order:
 - (a) If necessary for generating tax revenue for the Government
 - (b) If there is no Designated Payment System in that particular city
 - (c) If necessary in the public interest
 - (d) If there are less than 100 bank branches in that particular city
12. Which of the following statement(s) is / are correct?
 - (i) The State Bank may designate a Payment System as a Designated Payment System by a written order, if necessary in the public interest.
 - (ii) The State Bank may inspect the premises, equipment, machinery, apparatus, books or other documents, or accounts and transactions relating to the Payment System, in considering whether to designate it as Designated Payment System.
 - (a) (i) only
 - (b) (ii) only
 - (c) Both (i) and (ii)
 - (d) Neither (i) nor (ii)
13. The State Bank may revoke the designation of a Designated Payment System if it is satisfied that:
 - (a) the Designated Payment System has ceased to operate effectively as a Payment System
 - (b) the operator or settlement institution of the Designated Payment System is in the course of being wound up or otherwise dissolved, whether in Pakistan or elsewhere

- (c) the State Bank considers that it is in the public interest to revoke the designation
 - (d) Any one or more of the above reason(s).
14. Which of the following statement(s) is / are correct?
- (i) The State Bank shall not revoke a designation without giving the operator of the Designated Payment System an opportunity to be heard.
 - (ii) The State Bank shall not suspend a designation without giving the operator of the Designated Payment System an opportunity to be heard.
- (a) (i) only
 - (b) (ii) only
 - (c) Both (i) and (ii)
 - (d) Neither (i) nor (ii)
15. Which of the following operational arrangements, among other things, are required to be established by an Operator of a Designated Payment System?
- (a) rules and procedures setting out the rights and liabilities of the operator and the participant and the financial risks the participants may incur
 - (b) criteria for participation in the Designated Payment System
 - (c) measures to ensure the safety, security and operational reliability of the Designated Payment System including contingency arrangements
 - (d) All of above

Sr. No.	Answer	Sr. No.	Answer
1	C	11	C
2	C	12	C
3	D	13	D
4	C	14	A
5	D	15	D
6	B		
7	C		
8	B		
9	D		
10	B		

CH # 17**DATA PROTECTION AND ELECTRONIC CRIMES**

1. Identify one of the following topics for which relevant legislation is not yet enforced.
 - (a) Prevention of Electronic Crimes
 - (b) Payment Systems and Electronic Fund Transfers
 - (c) Personal Data Protection
 - (d) Telecom Consumer Protection
2. In case of illegal use of personal data of subscriber of telecom operator, a complaint may be lodged to:
 - (a) Pakistan Electronic Media Regulatory Authority (PEMRA)
 - (b) Pakistan Telecommunication Authority (PTA)
 - (c) Personal Data Protection Authority of Pakistan (PDPAP)
 - (d) Federal Investigation Agency (FIA)
3. Which of the following are “data subject” in accordance with the Personal Data Protection Bill, 2020?
 - (a) Only a natural person
 - (b) Only a legal person
 - (c) Only a natural person aged 18 or above
 - (d) A natural person or a legal person
4. Sensitive personal data includes, in accordance with the Personal Data Protection Bill, 2020:
 - (a) Username and/or password
 - (b) Financial information
 - (c) Physical, psychological and mental health condition
 - (d) All of above
5. Which of the following statement(s) is are correct?
 - (i) One of the key principle of personal data processing is data minimisation.
 - (ii) One of the individual rights in relation to personal data processing is right to withdraw consent.
 - (a) (i) only
 - (b) (ii) only
 - (c) Both (i) and (ii)
 - (d) Neither (i) nor (ii)
6. Which of the following offence might result in longer imprisonment and/or higher fine under the provisions of Prevention of Electronic Crimes Act, 2016?
 - (a) Glorification of an offense
 - (b) Unauthorized access to critical infrastructure information system or data
 - (c) Unauthorized copying or transmission of data
 - (d) Unauthorized copying or transmission of critical infrastructure data
7. Which of the following offence might result in shorter imprisonment and/or lower fine as compared to others under the provisions of Prevention of Electronic Crimes Act, 2016?
 - (a) Interference with information system or data
 - (b) Unauthorized access to critical infrastructure information system or data
 - (c) Unauthorized copying or transmission of critical infrastructure data
 - (d) Interference with critical infrastructure information system or data

-
8. Which of the following offence may result in imprisonment which may extend to _____ or fine which may extend to _____, or both under the provisions of Prevention of Electronic Crimes Act, 2016?
 - (a) Unauthorized copying or transmission of data
 - (b) Interference with information system or data
 - (c) Unauthorized access to critical infrastructure information system or data
 - (d) Unauthorized copying or transmission of critical infrastructure data

 9. Which of the following offence may result in imprisonment which may extend to 6 months or fine which may extend to Rs. 100,000, or both under the provisions of Prevention of Electronic Crimes Act, 2016?
 - (a) Unauthorized access to information system or data
 - (b) Unauthorized copying or transmission of data
 - (c) Interference with information system or data
 - (d) Unauthorized access to critical infrastructure information system or data

 10. Which of the following offence may result in imprisonment which may extend to seven years or fine which may extend to Rs. 10 million, or both under the provisions of Prevention of Electronic Crimes Act, 2016?
 - (a) Unauthorized copying or transmission of critical infrastructure data
 - (b) Interference with critical infrastructure information system or data
 - (c) Glorification of an offense
 - (d) Both (b) and (c)

Sr. No.	Answer
1	C
2	B
3	A
4	D
5	C
6	A
7	A
8	C
9	B
10	D

CH # 18**COMPETITION ACT AND ARBITRATION ACT**

1. Which of the following practices might be an abuse of dominant position?
 - (a) applying dissimilar conditions to equivalent transactions on other parties, placing them at a competitive disadvantage.
 - (b) tie-ins, where the sale of goods or service is made conditional on the purchase of other goods or services.
 - (c) making conclusion of contracts subject to acceptance by the other parties of supplementary obligations which by their nature or according to commercial usage, have no connection with the subject of the contracts.
 - (d) All of above.

2. Which of the following is a deceptive marketing practice?
 - (a) refusing to deal while having a dominant position.
 - (b) false or misleading comparison of goods in the process of presenting the goods of the company.
 - (c) predatory pricing driving competitors out of a market, prevent new entry, and monopolize the market.
 - (d) boycotting or excluding any other undertaking from the production, distribution or sale of any goods or the provision of any service.

3. Which of the following is a deceptive marketing practice?
 - (a) fraudulent use of another's trademark, firm name, or product labelling or packaging.
 - (b) the distribution of false or misleading information to consumers, including the distribution of information lacking a reasonable basis, related to the price, character, method or place of production, properties, suitability for use, or quality of goods.
 - (c) false or misleading comparison of goods in the process of advertising.
 - (d) All of above.

4. Which of the following statement is incorrect in relation to Competition Act, 2010:
 - (a) An agreement fixing the purchase or selling price or imposing any other restrictive trading conditions with regard to the sale or distribution of any goods or the provision of any service is not prohibited unless CCP expressly directs otherwise.
 - (b) Agreement for limiting technical development or investment with regard to the production, distribution or sale of any goods or the provision of any service may not be void if exemption is granted by CCP.
 - (c) Fraudulent use of another's trademark, firm name, or product labelling or packaging is deceptive marketing practice.
 - (d) Tie-ins, where the sale of goods or service is made conditional on the purchase of other goods or services might result in abuse of dominant position.

5. Which of the following agreements are likely to be void agreements by undertakings or association of undertakings?
 - (a) Agreement for limiting technical development or investment with regard to the production, distribution or sale of any goods or the provision of any service.
 - (b) Agreement for collusive tendering or bidding for sale, purchase or procurement of any goods or service.
 - (c) Agreement for applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a disadvantage.
 - (d) All of above.

6. Reference to arbitration shall be, in absence of contrary intention expressed in arbitration agreement, to:
 - (a) Sole arbitrator
 - (b) One arbitrator from each side
 - (c) Even number (2 or more) of arbitrator from each side.
 - (d) None of above.
7. In absence of contrary intention expressed in arbitration agreement, the arbitrators shall make their award within:
 - (a) One month
 - (b) Two months
 - (c) Three months
 - (d) Four months
8. In absence of contrary intention expressed in arbitration agreement, If the arbitrators have allowed their time to expire without making an award:
 - (a) The matter shall be taken to the Court.
 - (b) The parties shall appoint other persons as arbitrators.
 - (c) The umpire shall forthwith enter on the reference in lieu of the arbitrators.
 - (d) None of above.
9. In absence of contrary intention expressed in arbitration agreement, the umpire shall make his award within:
 - (a) One month of entering on the reference
 - (b) Two months of entering on the reference
 - (c) Three months of entering on the reference
 - (d) Four months of entering on the reference
10. In absence of contrary intention expressed in arbitration agreement, the arbitrators or umpire shall have power to:
 - (a) administer oath to the parties and witnesses appearing.
 - (b) correct in an award any clerical mistake or error arising from any accidental slip or omission.
 - (c) make the award conditional or in the alternative.
 - (d) All of above.

Sr. No.	Answer
1	D
2	B
3	D
4	A
5	D
6	A
7	D
8	C
9	B
10	D