Law Examination Answers

Question 1

(a)

(i) **True**. According to the Indian Contract Act, 1872, all contracts are agreements because they require offer, acceptance, and consideration. However, not all agreements are contracts because they may lack essential elements like free consent, lawful consideration, or capacity to contract.

(ii) **True**. Mere mental acceptance (silence) does not constitute valid acceptance in contract law unless the offeree has a duty to speak or the offer specifies that silence will be treated as acceptance.

(b)

Yes, Y can cancel the contract on the basis of fraud by X. Under Section 17 of the Indian Contract Act, fraud includes any act committed with intent to deceive another party. X committed fraud by:

1. Knowingly selling an unsound horse
2. Creating a forged veterinary certificate
3. Displaying it prominently to induce Y into the contract

Since Y relied on this fraudulent representation, the contract is voidable at Y's option under Section 19.

OR

(c)

(i) The statement means that courts generally don't evaluate the adequacy of consideration (whether it's fair), but an agreement must have some consideration to be valid. Exceptions include:

- Natural love and affection (Section 25)
- Compensation for past voluntary service
- Promise to pay time-barred debt
- Completed gifts

- Agency contracts

(ii) The statement is correct. Contracts with minors are void ab initio under the Indian Contract Act. In **Mohori Bibee v. Dharmodas Ghose**, the Privy Council held that a minor's agreement is void and no estoppel applies. However, a minor can be a promisee or beneficiary, and is liable for necessaries supplied to him.

(d)

No, Mr. A cannot recover the amount. The agreement is void under Section 23 of the Indian Contract Act as it's against public policy:

1. It interferes with marital relations
2. The consideration is unlawful (money for divorce)
3. The subsequent promise to marry is tainted by the initial illegality

Question 2

(a)

The finder of goods has duties similar to a bailee:

- Must take reasonable care of the goods (Section 151)
- Cannot use goods for personal purposes
- Must make efforts to find the true owner
- Has a right to compensation for expenses incurred
- Can sell perishable goods after reasonable time

(b)

A surety's liability:

- Is secondary (comes after principal debtor defaults)
- Is co-extensive with the principal debtor unless otherwise specified
- Can be limited by contract terms
- Continues until discharged by payment, release, or novation
- Can be invoked even if principal debtor is a minor (if surety is adult)

(c)

The statement means that impossibility of performance (doctrine of frustration under Section 56) discharges contracts only in exceptional cases like:

- Destruction of subject matter
- Death/incapacity in personal service contracts
- Change in law making performance illegal
- Fundamental change in circumstances

Self-induced impossibility or temporary difficulties don't excuse performance.

OR

(d)

Bailment vs Pledge:

Bailment	**Pledge**
General delivery of goods	Delivery for security purpose
For safekeeping/use/transport	For securing debt/performance
Bailee has limited rights	Pawnee can sell on default
No property transfer	Special type of bailment
Example: giving watch for repair	Example: gold for loan

(e)

The surety's liability is co-extensive under Section 128 because:

1. The guarantee covers all obligations of principal debtor
2. Surety can be sued without first suing principal debtor
3. Liability matches the principal debt amount
4. Exceptions must be expressly agreed

(f)

True. Under Section 68, a minor is liable to pay for necessaries (basic requirements suitable to his condition in life) supplied to him or his dependents. The supplier can recover reasonable price from minor's property (not personally). Examples: food, clothing, education.

Question 3

(a)

Breach of contract occurs when a party fails to perform obligations without lawful excuse. Discharge by breach happens through:

1. **Actual breach** - Failure at performance time (e.g., not paying on due date)
2. **Anticipatory breach** - Renunciation before performance date (e.g., saying "I won't pay" in advance)

Remedies include damages, specific performance, or injunction.

(b)

The doctrine of **caveat emptor** (buyer beware) doesn't apply here because:

1. There were hidden defects not discoverable by ordinary examination
2. Mr. B made representations about condition, creating reliance
3. Section 16(2) of Sale of Goods Act provides exception for latent defects
4. The seller had superior knowledge and duty to disclose

Mr. A can claim damages or rescind the contract.

OR

(c)

Contracts can be discharged by:

1. **Performance** - Complete fulfillment (e.g., delivering goods and payment)
2. **Agreement** - Novation, rescission (e.g., mutual cancellation)
3. **Frustration** - Impossible without fault (e.g., concert hall burns down)
4. **Breach** - Failure to perform (e.g., non-payment)
5. **Operation of law** - Death, insolvency, merger

(d)

The subject matter is **specific goods** (identified and agreed at contract formation) which are:

- **Existing goods** (already owned/produced by seller)
- **Future goods** (to be grown/manufactured)
- **Contingent goods** (availability depends on uncertain event)

Under Sale of Goods Act, risk passes with property unless otherwise agreed. For crops, it's future goods until harvested.

Question 4

(a)

The statement means the Registrar's certificate is **conclusive evidence** of:

1. Proper incorporation procedures followed
2. Compliance with Companies Act requirements
3. Company's legal existence from incorporation date

Even if procedural defects exist, the company's validity can't be challenged after certificate issuance (indoor management rule).

(b)

Under LLP Act 2008:

- Designated partners must notify Registrar within 30 days of resignation
- LLP must appoint new designated partner within 30 days
- Non-notification makes resigning partner liable for penalties
- LLP may be fined for non-compliance
- The partner remains liable for pre-resignation obligations

OR

(c)

No, death doesn't automatically dissolve the LLP due to:

1. **Separate legal entity** - LLP continues irrespective of partner changes
2. **Perpetual succession** - Existence unaffected by member changes
3. Remaining partners can continue operations
4. Deceased partner's share handled as per LLP agreement

This distinguishes LLPs from traditional partnerships.

(d)

Sale vs Agreement to Sell:

Sale	**Agreement to Sell**
Property transfers immediately	Property transfers later
Buyer owns goods immediately	Seller remains owner
Risk passes to buyer	Risk remains with seller
Executed contract	Executory contract

Unpaid seller's rights: lien, stoppage in transit, resale
Implied conditions: title, description, quality, fitness, sample

Question 5

(a)

Conversion procedure:

1. Obtain DIN & DPIN for partners
2. Apply for name approval
3. File Form 17 with incorporation documents
4. Registrar issues certificate of incorporation
5. Transfer assets/liabilities to LLP

Effects:

- Partners' liability becomes limited
- Partnership dissolves
- Tax benefits may apply
- Continuity of business operations

(b)

In LLP, partners' liability is limited to their contribution. Profit allocation:

1. First as per LLP agreement
2. If silent, equally (Section 23)
3. In conflict, majority decision may apply
4. Courts can intervene for unfair distributions

Example: If 3 partners contribute 40%, 30%, 30%, profits typically follow unless agreed otherwise.

OR

(c)

LLP advantages:

1. **Limited liability** - Personal assets protected
2. **Flexible management** - No board requirements
3. **Perpetual existence** - Unlike partnerships
4. **Fewer compliances** - Compared to companies
5. **Tax benefits** - No dividend distribution tax

(d)

(i) **Whistle Blower:**
An employee who reports organizational wrongdoing (fraud, safety violations). Protected under various laws from retaliation. Encourages ethical practices.

(ii) **Indemnity vs Guarantee:**

Indemnity	**Guarantee**
Two parties (indemnifier & indemnified)	Three parties (creditor, debtor, surety)
Primary liability	Secondary liability
Independent contract	Accessory to main contract
Example: insurance contract	Example: loan guarantee