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INTRODUCTION

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Business Law

Instructions to examinees:

- (i) Answer all **TEN** questions.
- (ii) Answer in **black** pen only.
- (iii) Multiple Choice Questions must be answered in answer script only.

Q.1 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions.

- (i) Which part of the Constitution of the Islamic Republic of Pakistan 1973 contains special provisions relating to the National Economic Council?
 - (a) Part II - Fundamental Rights and Principles of Policy
 - (b) Part III - The Federation of Pakistan
 - (c) Part V - Relations between Federation and Provinces
 - (d) Part VII - The Judicature

(01)

- (ii) Which of the following statements is correct in relation to the objective of the Competition Act, 2010?
 - (a) To provide for the establishment of the Competition Commission of Pakistan to reduce competition
 - (b) To protect the consumers from anti-competitive behaviour
 - (c) To suggest practices which enhance competition in the relevant market
 - (d) To ensure free competition in all spheres of commercial activities only

(01)

- (iii) On 1 September 2022, Organza Florists (OF) agreed to deliver 100 kg of freshly picked red roses to Blaize Banquet (BB) on 4 September 2022 at Rs. 250 per kg for a wedding ceremony. As the roses were to be picked in the morning of the event day, OF planned to procure the roses from Taffeta Gardens (TG) at an agreed rate of Rs. 100 per kg.

However, on 3 September 2022, before OF could place the order with TG, BB contacted OF and asked for the delivery to be made on 7 September 2022 as the ceremony was re-scheduled. OF refused to change the delivery date and rescinded the contract.

Can OF claim damages from BB in respect of the contract?

- (a) Yes, OF can claim Rs. 10,000 as damages
 - (b) Yes, OF can claim Rs. 25,000 as damages
 - (c) No, because OF has not suffered any damages
 - (d) No, because there was no penalty clause agreed between OF and BB
- (1.5)**
- (iv) Mona promised to sell her wedding dress to Sadaf for Rs. 80,000 if she would pay Rs. 30,000 in advance and the balance on the delivery date which was a month before Sadaf's wedding. Mona knew that rain soaked her wedding dress and destroyed it completely, however, she needed Rs. 30,000 urgently. Sadaf agreed to the payment terms and paid the advance of Rs. 30,000 to Mona.

Subsequently, when Mona failed to honour delivery of the wedding dress, Sadaf had to purchase another dress worth Rs. 100,000 for her wedding. Identify the amount which Mona is liable to pay to Sadaf.

- (a) Rs. 20,000
 - (b) Rs. 30,000
 - (c) Rs. 50,000
 - (d) Rs. 80,000
- (1.5)**

- (v) Aziza is a home-based baker famous for making themed cakes for special occasions. On 5 September 2022, a discount offer was made on Aziza's social media account with the caption '*Order today to avail special price of Rs. 2,000 per pound for our special chocolate fudge cake. Delivery within 24 hours*'. Sadia messaged Aziza on the same day for placing an order for a 2.5 pound cake. Aziza replied that she will charge Rs. 3,000 per pound for the cake as she has received many orders and will now charge premium price.

Can Sadia compel Aziza to sell the cake at Rs. 2,000 per pound?

- (a) No, because Aziza's offer was not specifically given to Sadia
- (b) No, because Sadia's offer has not been accepted by Aziza
- (c) Yes, because Aziza's discount offer regarding sale of cake is still valid
- (d) Yes, because change in price was communicated after receiving of Sadia's message

(1.5)

- (vi) Salman and Farhan purchased two local coffee shops and renovated them to reflect the modern café style under the name "Coffee Holics". The interior designing of both the shops was done by Salman whereas the renovation expenses were paid by Farhan. The operational rights of both the shops were given to Zakir on the terms that Zakir shall only pay a fixed amount of Rs. 25 on each coffee cup sold. Salman and Farhan agreed to equally divide the amount paid by Zakir amongst themselves.

In the above scenario, Salman and Farhan are:

- (a) partners because they share the profit in equal proportion
- (b) partners because they jointly own the coffee shops
- (c) not partners because the renovation expenses were not paid by both of them
- (d) not partners because the arrangement does not constitute a partnership

(01)

- (vii) Furqan gifted a property to his spouse Nadira on completion of her post-graduation. Subsequently, on Furqan's request, Nadira agreed to transfer the property in Furqan's name if, at any time in future, he incurs heavy loss in business due to any reason. After five years, Furqan incurred heavy loss in business due to COVID-19 pandemic and asked Nadira to transfer the property in his name which she refused.

Can Furqan hold Nadira responsible for the breach of contract?

- (a) Yes, because the agreement was contingent on incurring of heavy loss in business
- (b) Yes, because all agreements made verbally are enforceable by law
- (c) No, because the agreement is void due to lack of consideration
- (d) No, because the agreement was made by Nadira under undue influence

(1.5)

- (viii) Faiq agreed to sell two snow leopard cubs to Wajeelha for Rs. 500,000. He also promised to deliver an imported Persian cat worth Rs. 80,000 along with the cubs as complimentary. On the delivery date, Wajeelha refused to take delivery of the cubs on the premise that snow leopards were endangered species and capturing them was prohibited under local laws. However, she demanded that Faiq must deliver the cat as promised and said that she is willing to pay the market price for the cat.

Is Faiq compelled to deliver the cat?

- (a) Yes, because the contract is voidable at Wajeelha's option due to unilateral mistake of law
- (b) Yes, because the legal set of reciprocal promises should be executed by Faiq
- (c) No, because the promise to deliver the cat was dependent on the delivery of snow leopard cubs
- (d) No, because the agreement is void due to lack of consideration

(1.5)

- (ix) On 1 September 2022, Zahid wrote a promissory note undertaking to pay Rs. 300,000 in three equal monthly installments to the Chairman of Flannel Traders & Co. or order. In the aforesaid promissory note:
- (a) amount of money to be paid and payee both are certain
 - (b) amount of money to be paid is certain but payee is not certain
 - (c) amount of money to be paid is not certain but payee is certain
 - (d) amount of money to be paid and payee both are not certain
- (01)**

- (x) On 1 June 2022, Ali made an announcement promising to pay a reward of Rs. 90,000 to any person who would find his lost dog. Sarim came to know about the announcement on 15 June 2022 and decided to find the dog. On 30 June 2022, Sarim found the dog and handed it over to Ali on the same day. Ali paid the reward of Rs. 90,000 to Sarim on 10 July 2022.

In the above scenario, the contract between Ali and Sarim was formed on:

- (a) 1 June 2022
 - (b) 15 June 2022
 - (c) 30 June 2022
 - (d) 10 July 2022
- (01)**

- (xi) Pervez had a guest house in Abbottabad which he rented to his business partner Karim at a regular price for two days. On the day of leaving Abbottabad, Karim noticed overdues of last month appearing in the electricity bill of the guest house. He paid the bill to appease Pervez. When Pervez came to know about Karim's act, he thanked Karim and verbally promised to pay back the bill amount of Rs. 55,000.

Can Pervez be held liable if he subsequently refuses to pay Rs. 55,000 to Karim?

- (a) No, because Pervez did not make the agreement in writing
 - (b) No, because Karim was not legally bound to pay the dues
 - (c) Yes, because Pervez promised to pay Karim for his voluntary act
 - (d) Yes, because Karim was legally bound to pay the dues
- (1.5)**

- (xii) Precedents are defined as:

- (a) interpretation of law by the Supreme Court of Pakistan
 - (b) interpretation of law by any high court which are binding on other high courts
 - (c) decisions of superior courts which are not an intrinsic part of the legal system
 - (d) judgements of a superior court which are binding on subordinate courts
- (01)**

- Q.2 Briefly discuss delegated legislation and state any **two** advantages and **two** disadvantages of delegated legislation. Also describe how control is exercised over delegated legislation. **(05)**

- Q.3 On 5 September 2022, Aftab bought goods from Kamran for Rs. 950,000 on credit of two months and immediately sold them to Abdullah for Rs. 960,000. Aftab received Rs. 10,000 in cash from Abdullah and the remaining amount was agreed to be received after two months. Aftab intends to settle both the transactions through a negotiable instrument.

Under the provisions of the Negotiable Instruments Act, 1881 prepare a draft of the negotiable instrument that Aftab may issue in settlement of both the transactions. *(Assume necessary details for the preparation of the negotiable instrument)* **(05)**

- Q.4 Under the provisions of the Contract Act, 1872:

- (a) identify any **five** differences between coercion and undue influence. **(05)**
- (b) identify any **two** differences between fraud and misrepresentation. **(03)**

- Q.5 Rahim Khan is a software engineer who runs his own IT firm. He engages many free lancers as and when required to work on different projects. He also works part-time in a computer training institute where he teaches various computer courses.

Consider the following matters under the Contract Act, 1872:

- (a) While teaching at the institute, Rahim met a course participant Usama with specialized graphic designing skills. He collaborated with Usama and submitted a website designing proposal to a prospective client, Farah. She liked the proposal and offered Rahim and Usama to design her boutique's website for Rs. 500,000 to which they both agreed.

Rahim and Usama lied to Farah that Usama is eighteen years old even though his eighteenth birthday was still few months away.

Discuss whether Farah can enforce performance against Rahim and Usama. **(04)**

- (b) On 10 September 2022, a virtual gaming tournament has been scheduled in which a gaming expert team will participate from Pakistan. Rahim provided training to Pakistani team. Considering the team's skills, he proudly claimed to his friend Nadir that his team will win the tournament.

Nadir offered that if Rahim submits Rs. 100,000 to him as a security and his team wins the tournament then Nadir will pay Rs. 200,000 to Rahim. Rahim agreed and paid Rs. 100,000 to Nadir.

Discuss whether Rahim can sue Nadir if the team wins the tournament but Nadir refuses to pay. **(03)**

- (c) Organdy Limited (OL) signed a contract with Rahim's IT firm to manage OL's social media accounts for one year effective 1 July 2022 at Rs. 1,500,000 per quarter payable in arrears. Rahim hired Zia to perform the task at a salary of Rs. 200,000 per month for the contract term. Rahim sent several reminders for the passwords of OL's social media accounts but did not receive the passwords from OL.

Discuss the validity of the contract between OL and Rahim. Also identify the remedies available to Rahim, if any. **(03)**

- (d) Assume that in (c) above, Rahim was offered a similar project by Muslin Limited. On 31 August 2022, Rahim accepted the offer and assigned the project to Zia. On the same date, Rahim sent an e-mail to OL regretting that performance is impossible mainly due to non-availability of resources.

Discuss the validity of Rahim's correspondence. Also discuss OL's position in this situation. **(04)**

- Q.6 (a) Under the Payment Systems and Electronic Fund Transfers Act, 2007 identify the operational arrangements required to be established by the operators of a designated payment system. **(04)**
- (b) Briefly explain when a person may be considered as an offender by virtue of which such person may be punished under the provisions of the Prevention of Electronic Crimes Act, 2016. **(05)**
- (c) Under the provisions of the Arbitration Act, 1941 state any **four** powers of arbitrator. **(04)**

- Q.7 On 30 June 2021, Noman, Salim, Ahmed and Sana entered into a partnership for carrying on business of manufacturing and export of denim fabrics under the name and style 'Damask Traders' (DT).

At the time of commencement of partnership, Noman disclosed to other partners his interest in family business of export of velvet fabrics. Due to his connections with foreign buyers, Noman brought in many export orders for DT. Salim handled operations and ensured timely delivery of orders to customers.

Being the consultant of DT, consider the following matters under the Partnership Act, 1932:

- (a) On 5 September 2022, a meeting was held to discuss the financial performance of DT for the year ended 30 June 2022. Following matters were discussed in the meeting:
- (i) Profit for the year was determined after accruing Salim's salary of Rs. 100,000 per month for running DT's operations. Noman found this unjustified and demanded an equivalent salary for his efforts to establish DT's business. *Discuss the validity of Noman's viewpoint.* (03)
 - (ii) 20% of the export orders were combined orders for denim and velvet fabrics which were jointly fulfilled by DT and Noman's family business. Salim argued that 50% of the velvet business's profits should be paid to DT. *Comment on the validity of Salim's argument.* (03)
 - (iii) Ahmed informed that he had paid Rs. 900,000 from his personal bank account to a supplier on 31 January 2022 due to non-availability of cash in DT's bank account. On 31 May 2022, the amount was paid back to Ahmed. He demanded Rs. 27,000 as profit which he would have earned if the funds were maintained in his bank account. *Evaluate the validity of Ahmed's demand.* (03)
 - (iv) During the meeting, Noman stated that since he had brought most of the orders for DT, remaining partners cannot use the brand 'Damask Traders', if he decides to leave the partnership. *Discuss the validity of Noman's statement.* (03)
- (b) On 15 August 2021, Sana died in a car accident and her seventeen-year old daughter Sarah was admitted to the benefits of DT. On 8 September 2022, Sarah is to celebrate her eighteenth birthday. *Advise Sarah regarding her rights and liabilities in respect of DT on attaining the age of majority.* (05)

- Q.8 Sultan imports mulberry silk and receives repetitive orders from regular customers. The invoices are generated on the dispatch date and payment becomes due on the last date of the subsequent month.

Wajahat is a regular customer of Sultan. Following are the extracts from Wajahat's statement of receivables as on 30 June 2022:

Date of invoice	Amount (Rs.)	Due date	Comments noted by Sultan
31 January 2017	60,000	28 February 2017	Time barred under local law
10 May 2021	100,000	30 June 2021	Overdue for one year
10 March 2022	90,000	30 April 2022	Overdue for two months
31 March 2022	200,000	30 April 2022	Overdue for two months
30 June 2022	50,000	31 July 2022	Not yet due
Total	500,000		

Wajahat sent a cheque of Rs. 220,000 on 31 July 2022 but did not mention the invoices against which the payment was to be adjusted. Sultan sent several reminders to Wajahat in this regard but did not receive a response.

Under the provisions of the Contract Act, 1872 discuss how the proceeds of the cheque can now be adjusted against Wajahat's statement of receivables. (05)

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- Q.9 (a) Kazim agreed to supply 500,000 cotton fabric rolls of a specific design to Zainab's workshop on 4 September 2022 between 10 am to 9 pm. Zainab informed Kazim that she requires the rolls urgently as she has to cater her orders.

On 4 September 2022, Kazim brought the rolls to Zainab's workshop at 8:30 pm and asked her to take delivery quickly as he was in a rush to make another delivery before 9 pm in nearby locality. Zainab wanted to check one roll from each of the 1,000 boxes to ensure that they are of the same design which she had ordered. Kazim threatened Zainab that if she does not sign the goods receiving note within next 10 minutes, he will not deliver the rolls to her and will take the delivery truck away to unload next order.

Under the provisions of the Contract Act, 1872 discuss whether Kazim is justified in his contention. Also discuss Zainab's position if Kazim does not deliver the rolls to her. **(04)**

- (b) Assume that in (a) above, Kazim brought the cotton fabric rolls for delivery to Zainab's workshop on 5 September 2022 at 10:30 am but Zainab refused to take the delivery. However, Zainab offered to take the delivery if she is given a special discount of 20% on the invoice amount.

Under the provisions of the Contract Act, 1872 discuss Kazim's position if he:

- (i) refuses to give the discount and sues Zainab for breach of the contract. **(03)**
 (ii) agrees to give the discount and makes the delivery but later sues Zainab to pay the full amount. **(02)**

- Q.10 Under the provisions of the Contract Act, 1872:

- (a) identify how and on what grounds a proposal stands revoked. Also describe the time frame after which a proposal cannot be revoked. **(05)**
 (b) briefly describe the rules in respect of time and place for the performance of a promise where both of them have not been specified in the contract. **(04)**

(THE END)

Business Law
Suggested Answers
Certificate in Accounting and Finance – Autumn 2022

- A.1**
- | | | | | | |
|-------|-----|--------|-----|-------|-----|
| (i) | (c) | (ii) | (b) | (iii) | (c) |
| (iv) | (c) | (v) | (b) | (vi) | (d) |
| (vii) | (c) | (viii) | (d) | (ix) | (a) |
| (x) | (c) | (xi) | (c) | (xii) | (d) |

A.2 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. For example, local authorities are given statutory powers to make bye-laws which apply within a specific locality.

Advantages of delegated legislation

- As Parliament does not have time to examine matters in detail, delegated legislation helps to make the process faster.
- Much of the content of delegated legislation is technical and is better worked out in consultation with professional, commercial or industrial groups outside Parliament.

Disadvantages of delegated legislation

- Delegated legislation 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.

Control over delegated legislation

- Parliament has some control over delegated legislation by restricting or defining the power to make rules.
- Rules made under delegated power to move legislation 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. If the objection is valid, the Court declares it void.

- A.3** Aftab may issue following negotiable instrument i.e. bill of exchange in settlement of both the transactions:

Draft of the bill of exchange

Dated: 5 September 2022	
Rs. 950,000/- only	
Two months after date pay to Kamran or to his order the sum of Rupees Nine Hundred and Fifty Thousand only, for value received.	
Accepted Signed by Abdullah	
To	
Abdullah	Sign: _____
ABC Road	Aftab
Name of city	XYZ Road
	Name of city

Business Law
Suggested Answers
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A.4 (a)	S. No.	Coercion	Undue influence
	(1)	Consent is obtained by giving a threat of an offence or committing an offence.	Consent is obtained by dominating the will.
	(2)	Coercion involves physical pressure.	Undue influence involves moral pressure.
	(3)	Parties to a contract may or may not be related to each other.	Parties to a contract are related to each other under some sort of relationship.
	(4)	The objective is to compel a person to enter into a contract.	The objective is to obtain an unfair advantage.
	(5)	Criminal liability is incurred, therefore, it is illegal.	Criminal liability is not incurred.

(b)	S. No.	Fraud	Misrepresentation
	(1)	Fraud implies an intention or any other act fitted to deceive.	Representation is innocent without intent to deceive.
	(2)	Fraud is civil wrong and aggrieved party can claim damages in addition to cancellation of contract.	Aggrieved party can only avoid the contract but damages are only payable at discretion of the Court.

A.5 (a) Usama was not competent to contract as he was below the age of majority i.e. eighteen years and an agreement with minor is void ab-initio.

As Usama was not competent to contract, he will not be liable towards Farah irrespective of the fact that he fraudulently induced Farah to enter into an agreement with him. Therefore, Farah cannot demand performance from Usama. However, since he entered into agreement jointly with Rahim, Farah can demand performance from Rahim.

Furthermore, if it was intention of parties that contract should be performed by promisors who submitted proposal, such promise must be performed by Rahim. Otherwise, Rahim may employ another competent graphic designer to perform the contract.

(b) Rahim has entered into an agreement with Nadir by way of wager as he has made a bet such that Rs. 200,000 shall be paid to him on the happening of an uncertain event i.e. a particular team winning the tournament. This agreement is void and no suit can be filed to recover any sum paid or payable in this regard.

Hence, Rahim cannot file suit for recovering money already paid i.e. Rs. 100,000 or for recovering win money of another Rs. 100,000 even if the team wins the tournament as predicted by him.

(c) The contract between Rahim and OL comprised of reciprocal promises and OL is preventing Rahim from performing his promise, therefore, contract is voidable at Rahim's option i.e. Rahim can declare the contract void or not take any step implying that he intends to continue the contract.

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Furthermore, Rahim is entitled to get such damages which naturally arose in the usual course of business from such breach or which the parties knew when they

made the contract to be likely to result from such breach. Accordingly, Rahim can claim Zia's salary to such extent which incurred till the date he communicates his decision to repudiate the contract.

- (d) As identified in (c) above, the contract is voidable at Rahim's option. By refusing to perform, Rahim has rescinded the contract. However, his comment regarding impossibility of contract performance is incorrect as non-availability of resources does not make a contract void due to supervening impossibility.

OL does not have any option available and cannot insist that Rahim should perform the contract. As discussed in (c) above, OL will have to compensate Zia's salary of Rs. 200,000 for two months i.e. July and August 2022 as Rahim incurred these damages due to breach of contract.

A.6 (a) Under the Payment Systems and Electronic Fund Transfers Act, 2007 the operational arrangements required to be made by the operators of a Designated Payment System (DPS) are as follows:

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

(b) A person may be considered as an offender by virtue of which such person may be punished under the Prevention of Electronic Crimes Act, 2016 if he with dishonest intention:

- (i) gains unauthorized access to any information system/data or any critical infrastructure information system/data;
- (ii) without authorization copies or otherwise transmits or causes to be transmitted any data or any critical infrastructure data;
- (iii) interferes with or damages or causes to be interfered with or damages any part or whole of an information system/data or a critical information system/data.

Furthermore, 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 may also be considered as an offender.

(c) The arbitrators shall, unless a different intention is expressed in the agreement, have power to:

- (i) administer oath to the parties and witnesses appearing;
- (ii) state a special case for the opinion of the 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 the opinion of the Court;
- (iii) make the award conditional or in the alternative;
- (iv) correct in favour of either party any clerical error or arising from any accidental slip or omission;

- A.7 (a) (i)** Noman finding remuneration accrual unjustified indicates that it was not in accordance with the contract terms agreed between partners.

Under the Partnership Act, 1932 a partner is entitled to receive remuneration for taking part in conduct of business, only if it is agreed by all the partners. Therefore, Salim can get salary for handling DT's operations subject to consent of all the partners.

Further, Noman can also get salary for establishing DT's business, subject to consent of all the partners.

- (ii)** DT is a newly established business and it is clear that instead of using DT's name or business connections, Noman is using his own family business goodwill to establish DT's reputation.

Under the Partnership Act, 1932, Noman would have been liable to pay the profits derived by himself to DT, if:

- the businesses were of same nature or competing with each other. Trading in denim fabrics is entirely separate from dealing in velvet fabrics, it is neither of same nature nor competes with each other.
- there exists a contract between the partners to share personal profits. Noman had disclosed his interest in family business dealing with velvet fabrics at commencement of partnership but there was no contract to share profits earned by him.

Due to the abovementioned reasons, Salim's argument is invalid and Noman and his family are not liable to share velvet business's profits with DT.

- (iii)** Subject to contract between the partners 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 6% per annum.

Ahmed is entitled to receive interest amount of Rs. 18,000 ($900,000 \times 6\% \times 4 \div 12$) only, as he made the payment beyond the firm's capital irrespective of the fact that the actual profit offered by the bank would have been Rs. 27,000.

- (iv)** Subject to contract between the partners, the property of the firm includes the goodwill of the business.

Since there was no earlier contract between the partners as to treatment of goodwill, Noman's claim on goodwill of the firm is not valid.

- (b)** Sarah has to decide whether or not she wants to become a partner and such decision has to be taken by her within six months from the date of attaining majority i.e. by 7 March 2023.

If Sarah decides not to become DT's partner:

Sarah will have to give public notice of her intention not to become DT's partner by 7 March 2023 and in this scenario:

- her rights and liabilities shall continue to be those of a minor up to the date on which she gives public notice;
- her share shall not be liable for any acts of DT done after the date of public notice; and
- she shall be entitled to sue DT's partners for her share of property and profits.

If Sarah decides to become DT's partner:

Sarah will have to give public notice of her intention to become DT's partner by 7 March 2023 and in this scenario:

- her rights and liabilities as a minor continue up to the date on which she becomes a partner;
- she becomes personally liable to third parties for all acts of DT done since she was admitted to the benefits of partnership; and
- her share in the property and profits of DT shall be the share to which she was entitled as a minor.

Provided that, if she fails to give public notice as above, she shall become DT's partner on expiry of six months from the date of attaining majority.

A.8 In the absence of any intimation from Wajahat regarding application of payment to debts, following are the two possibilities to determine the settlement:

- (I) Sultan may apply the payment at his discretion to any lawful debt actually due and payable to him from Wajahat, whether its recovery is or is not barred by the law in force for the time being as to the limitation of suits.
- (II) If Sultan does not make an appropriation, then the payment shall be applied in discharge of the debts in order of time, whether they are or are not barred by the law in force for the time being as to the limitation of suits.

Further, where the debts are of equal standing, the payment shall be applied in discharge of each outstanding debt in equal proportion.

Accordingly, invoices dated 31 January 2017 amounting Rs. 60,000 and 10 May 2021 amounting to Rs. 100,000 will be settled first against the payment received.

Further, the invoices dated 10 March 2022 and 31 March 2022 are of equal standing i.e. both matured on 30 April 2022, therefore, remaining payment shall be applied in discharge of these invoices in equal proportion i.e. Rs. 18,621 against invoice dated 10 March 2022 and Rs. 41,379 against invoice dated 31 March 2022.

A.9 (a) Kazim's offer of performance to Zainab is not valid because it does not fulfill the following conditions:

- An offer of performance must be unconditional. Kazim's condition that goods receiving note should be signed within next 10 minutes invalidates his offer of performance;
- Since contract is to deliver cotton fabric rolls in specific designs, Zainab must have a reasonable opportunity of checking that rolls pertain to the specific designs she ordered. She cannot possibly inspect 1,000 boxes in 10 minutes.

Due to the above reasons Kazim is not justified in his contention since his offer of performance is not fulfilling all the requirements.

Zainab's position:

Zainab's urgency to receive the order on time was in Kazim's knowledge which he tried to use to his advantage threatening to leave without delivery. If Kazim does not deliver the rolls to her, Zainab can claim compensation for breach of contract because non-delivery on the agreed date shall render the contract voidable at Zainab's option

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- (b) (i) Kazim already knew about Zainab's urgent orders due to which time was the essence of contract and non-delivery on the agreed date has made the contract voidable at Zainab's option. Accordingly, Kazim cannot hold Zainab responsible for breach of contract as she has the right to declare the contract void due to any reason and hence she can refuse to take delivery.
- (ii) If Kazim agrees to Zainab's demand of 20% discount, it will be considered as accepting alteration of contract. Consequently, he will not be able to demand full payment from Zainab afterwards.

- A.10** (a) A proposal is revoked by:
- (i) the communication of notice of revocation by the proposer to the other party;
 - (ii) 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) the failure of the acceptor to fulfil a condition precedent to acceptance; or
 - (iv) the death or insanity of the proposer, if the fact of the death or insanity comes to the knowledge of the acceptor before acceptance;
 - (v) non-acceptance or rejection by offeree;
 - (vi) a counter offer made by the offeree in response to the original offer.

Time frame after which a proposal cannot be revoked:

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.

- (b) Where time and place for the performance of a promise have not been specified in the contract and the promisor is to perform promise without application by the promisee in that situation following rules shall apply:
- where no time for performance is specified, the engagement must be performed within a reasonable time.
 - where no place is fixed for the performance of it, 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 END)

BUSINESS LAW
Summary of Marking Key
Certificate in Accounting and Finance – Autumn 2022

Note regarding marking scheme:

The marking scheme is given as a guide. Markers also award marks for alternative approaches to a question and relevant/well-reasoned comments/explanations. Moreover, the available marks in answer may exceed the total marks of a question.

		Mark(s)	
A.1	Marks as mentioned on the question paper against each MCQ	15.0	
A.2	▪ Describe delegated legislation	1.5	
	▪ State advantages and disadvantages of delegated legislation	2.0	
	▪ Describe how control is exercised over delegated legislation	1.5	
A.3	▪ Identify that Aftab may issue a bill of exchange	1.0	
	▪ Prepare a specimen of bill of exchange to be issued by Aftab	4.0	
A.4	(a) 01 mark for each difference	5.0	
	(b) 1.5 marks for each difference	3.0	
A.5	(a) ▪ Identify Usama as minor and discuss impact of his minority on agreement	2.5	
	▪ Discuss that Farah can demand performance from Rahim	1.5	
	(b) ▪ Identify that the agreement between Rahim and Nadir is void	2.0	
		▪ Conclude that Rahim cannot sue Nadir to recover any amount	1.0
	(c) ▪ Identify that the contract comprise of reciprocal promises	1.0	
		▪ Discuss the remedies available to Rahim	2.0
	(d) ▪ Discuss that Rahim has effectively rescinded the contract	2.0	
		▪ Conclude that OL cannot demand performance from Rahim	2.0
	A.6	(a) Up to 1.5 marks for identification of each operational arrangement	4.0
		(b) Up to 1.5 marks for explanation of each offence	5.0
		(c) Up to 01 mark for identification of each power	4.0
	A.7	(a) (i) ▪ Discuss that Noman's disagreement with Salim's salary is valid	1.5
▪ Discuss that salary can be paid to Noman if all partners agree			1.5
(ii) ▪ Discuss when Noman is liable to pay personal profit to other partners		2.5	
		▪ Identify that Salim's argument is not valid	0.5
(iii) ▪ Discuss that maximum 6% interest per annum may be paid on such payment		2.0	
		▪ Conclude that Ahmed is entitled to receive profit of Rs. 18,000	1.0
(iv) ▪ Discuss that property of the firm includes goodwill		1.0	
		▪ Conclude that Noman's claim on DT's goodwill is not valid	2.0

BUSINESS LAW Summary of Marking Key Certificate in Accounting and Finance – Autumn 2022
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		Mark(s)
	(b)	Discuss Sarah's rights and liabilities in the following situations:
		▪ if Sarah decides to become DT's partner 2.5
		▪ if Sarah decides not to become DT's partner 2.5
A.8		▪ Discuss that payment can be adjusted at the discretion of Sultan 1.5
		▪ Discuss how payment will be adjusted if Sultan does not make an appropriation 3.5
A.9	(a)	▪ Identify the grounds by virtue of that Kazim's offer of performance to Zainab is not valid 2.5
		▪ Discuss that Kazim is not justified in his contention 0.5
		▪ Discuss Zainab's position if Kazim does not deliver the rolls to her 1.0
	(b)	(i)
		▪ Identify that time was essence of contract 1.0
		▪ Discuss that contract is voidable at Zainab's option 1.0
		▪ Discuss that Kazim will not be able to sue Zainab for breach 1.0
		(ii)
		▪ Identify that Kazim's agreement will alter the contract 1.0
		▪ Conclude that Kazim will not be able to sue Zainab for full amount 1.0
A.10	(a)	▪ Up to 01 mark for identification of each ground of revocation 4.0
		▪ Identify time frame after which a proposal cannot be revoked 1.0
	(b)	▪ Describe rules related to time of performance 2.0
		▪ Describe rules related to place of performance 2.0

(THE END)

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Business Law	Certificate in Accounting and Finance (CAF) Autumn 2022

Passing %

Question-wise										
1	2	3	4	5	6	7	8	9	10	Overall
39%	62%	42%	80%	43%	39%	13%	27%	45%	45%	41%

General comments

A slight decrease in overall result was observed in this session as 41% of examinees secured passing marks compared to 45% in the previous session.

Below-average performance was observed in question number 7 and 8 which may largely be attributed to selective studies and failure to identify and apply relevant knowledge of the law to scenario-based questions. Examinees are advised that while attempting scenario-based questions, they should first determine the core issue(s) and then identify and apply the relevant provisions of law applicable to the issue.

Question-wise common mistakes observed

Question 1

- Performance in MCQ no. (iii), (iv), (vii), (viii), and (xi) was below average.
- It is advised to write the correct option number only instead of writing the entire wording of the option.
- Few examinees either attempted to overwrite their choices instead of clearly mentioning the selected option legibly; or selected two options instead of one due to which marks could not be awarded.

Question 2

Examinees were not able to address all the requirements of this question; and focused on the advantages and disadvantages of the delegated legislation only.

Question 3

- Examinees were not able to identify that Aftab may issue a bill of exchange in settlement of both transactions.
- Few examinees prepared drafts of all types of negotiable instruments instead of giving due consideration to the scenario.

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Question 4

Good performance was observed in both parts of this question.

Question 5(a)

Good performance was observed in this part of the question.

Question 5(b)

Examinees were not able to determine that the agreement between Rahim and Nadir is void being a wagering agreement; due to which Rahim cannot file any suit against Nadir.

Question 5(c)

- Examinees were not able to identify that the contract comprised of reciprocal promises.
- Examinees did not discuss that the contract was voidable at Rahim's option and that he was entitled to get damages from OL.

Question 5(d)

Examinees were not able to conclude that Rahim has effectively rescinded the contract and OL cannot demand performance from Rahim.

Question 6(a)

- Examinees gave general statements and were unable to identify the operational arrangements required to be established by the operators of a designated payment system.
- Few examinees repeatedly mentioned the same points using different wordings; hence lost precious time.

Question 6(b)

Examinees answered this part of the question as per the provisions of the Anti-Money Laundering Act, 2010 instead of the Prevention of Electronic Crimes Act, 2016 which was a specific requirement of this part of the question.

Question 6(c)

Examinees gave irrelevant answers and were not able to identify the powers of an arbitrator under the provisions of the Arbitration Act, 1940.

Question 7(a)(i)

Examinees were not able to determine that salaries can be paid to Noman and Salim only if all the partners of DT agree to provide such remuneration.

Question 7(a)(ii)

Examinees did not discuss that Salim's argument is invalid; as sharing of personal profits earned by partners is subject to a contract between partners in certain prescribed situations/circumstances which were not satisfied in the given scenario.

Question 7(a)(iii)

Examinees did not discuss that 6% interest p.a. may be paid to Ahmed on payment beyond the amount of capital. Accordingly, he is entitled to receive a profit of Rs. 18,000 only.

Question 7(a)(iv)

Examinees were not able to conclude that Noman's claim on DT's goodwill is not valid.

Question 7(b)

Examinees covered only one of the two possible scenarios instead of both the possibilities in their answer i.e. where Sarah decides to become DT's partner; and where Sarah decides not to become DT's partner.

Question 8

Examinees did not discuss that the payment made by Wajahat can be adjusted at the discretion of Sultan and if Sultan does not make an appropriation, the payment will be adjusted in order of time, including time-barred debt.

Question 9(a)

Examinees were not able to identify the grounds by virtue of which Kazim's offer of performance is rendered invalid.

Question 9(b)(i)

Examinees were not able to determine that Kazim will not be able to sue Zainab because time was the essence of the contract and he did not deliver goods on the specified time.

Question 9(b)(ii)

Good performance was observed in this part of the question.

Question 10(a)

Examinees ignored one of the requirements of this part of the question; and did not describe the time frame after which a proposal cannot be revoked.

Question 10(b)

Examinees did not mention that in the given scenario, the contract must be performed within a reasonable time.

(THE END)



The Institute of
Chartered Accountants
of Pakistan

Certificate in Accounting and Finance Stage Examination

7 March 2023
3 hours – 100 marks
Additional reading time – 15 minutes

Business Law

Instructions to examinees:

- (i) Answer all **TEN** questions.
- (ii) Answer in **black** pen only.
- (iii) Multiple Choice Questions must be answered in answer script only.

Q.1 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions.

- (i) Which part of the Constitution of the Islamic Republic of Pakistan 1973 includes articles related to distribution of revenues between the Federation and the Provinces?
 - (a) Part II - Fundamental Rights and Principles of Policy
 - (b) Part III - The Federation of Pakistan
 - (c) Part V - Relations between Federation and Provinces
 - (d) Part VI - Finance, Property, Contracts and Suits

(01)
- (ii) Starling Clinics (SC), an animal care clinic, is a partnership firm in which Zia and Sohail are partners. SC purchases medical equipment from Rizwan Medicals (RM).

On 6 March 2023, Zia contacted RM to purchase an automatic wheelchair worth Rs. 900,000 for his disabled son and promised to make payment after three weeks. RM delivered the wheelchair. Sohail was not aware of the order placed by Zia.

Can RM hold SC liable for Rs. 900,000 if Zia subsequently refuses to pay?
 - (a) Yes, because the wheelchair was purchased in the ordinary course of business
 - (b) Yes, because SC is bound by the act of its partner Zia
 - (c) No, because the wheelchair was purchased without Sohail's consent
 - (d) No, because the wheelchair was not purchased in the ordinary course of business

(1.5)
- (iii) Which of the following statements related to the President of Pakistan is **NOT** true?
 - (a) A person elected as the President represents the unity of the republic
 - (b) A person is eligible for re-election as the President for three consecutive terms
 - (c) The President must be a Muslim
 - (d) The President is elected for a term of five years

(01)
- (iv) Saima, Murtaza and Zahid are partners in Eagle Enterprises (EE), a bridal boutique. The operations of EE are run by Murtaza and Zahid. On 1 March 2023, one of EE's customers, Farah, paid an advance of Rs. 500,000 to Murtaza for 10 customised bridal dresses to be delivered on 6 March 2023. However, EE did not deliver the dresses on agreed date.

On EE's default to deliver the dresses on time, Farah wants to send a legal notice to claim damages. In order to serve the notice to EE, Farah:
 - (a) may have the notice served to any of the three partners
 - (b) may have the notice served to either Murtaza or Zahid
 - (c) must have the notice served to Murtaza and Zahid
 - (d) must have the notice served to Zahid

(1.5)

- (v) Sidra Farms (SF) agreed to supply 500 kg of fresh meat at Rs. 800 per kg to Canary Foods (CF) on 5 March 2023. It was mutually agreed that in case of breach, defaulting party shall pay the compensation of Rs. 200,000. SF estimated to earn a profit of Rs. 100,000 from the contract.

On 1 March 2023, SF's farms were destroyed due to floods. CF came to know about this fact through the newspaper and immediately placed the order with another vendor. On 5 March 2023, SF purchased 500 kg meat from the market at Rs. 600 per kg and reached CF's designated location. CF refused to take the delivery. SF sold the consignment for Rs. 650 per kg and incurred additional transportation charges of Rs. 10,000.

In the above scenario, CF's liability towards SF would be:

- (a) Rs. 10,000 (b) Rs. 85,000 (c) Rs. 100,000 (d) Rs. 200,000 **(02)**
- (vi) Kamal and Jamal are brothers who live in identical bungalows constructed side-by-side. Kamal engaged Aqib to paint the servant quarters of his bungalow and showed him the location. On 5 March 2023, Aqib arrived at the location while Kamal was away on a business trip. Aqib mistakenly entered Jamal's bungalow and started painting the servant quarters. Jamal saw Aqib but did not stop him.

Can Aqib recover his service charges from Jamal?

- (a) Yes, because it was an honest mistake on the part of Aqib
 (b) Yes, because Jamal accepted Aqib's offer impliedly
 (c) No, because Jamal was not a party to the contract between Aqib and Kamal
 (d) No, because the price was not agreed between Aqib and Jamal **(1.5)**
- (vii) Shahid owns an antique lamp. On 15 February 2023, he agreed to sell and deliver the lamp to Zoya for Rs. 150,000 on 31 March 2023. Subsequently, Zoya came to know that Shahid had sold and delivered the lamp to his friend Ahsan on 5 March 2023.

Can Zoya claim damages from Shahid for non-performance of the contract before 31 March 2023?

- (a) Yes, because Shahid has made it impossible for himself to perform the contract
 (b) Yes, because Shahid has made a misrepresentation to Zoya
 (c) No, because Shahid can purchase any similar lamp and perform the contract
 (d) No, because Zoya can enforce the contract on or after 31 March 2023 **(1.5)**
- (viii) On 5 February 2023, Nadia agreed to sell her Mercedes Benz to her brother Fahad. Nadia wanted to sell the car at market price and Fahad wanted to purchase it at cost price. They decided that the sale price shall be determined by their eldest brother Noman. On 20 February 2023, Noman decided the price in Fahad's favor.

In the above scenario, can Nadia refuse to sell her car to Fahad?

- (a) Yes, because Nadia was unduly influenced to make the contract
 (b) Yes, because Nadia has not given consent to the sale price
 (c) No, Nadia is bound to sell the car under the contract dated 5 February 2023
 (d) No, Nadia is bound to sell the car under the contract dated 20 February 2023 **(1.5)**
- (ix) Which of the following instruments issued by Mohsin is a valid negotiable instrument?

- (a) I promise to pay Maria Rs. 50,000 as soon as possible
 (b) I promise to pay Maria Rs. 50,000 and all fines according to the rules
 (c) I promise to pay for Mohsin Rs. 50,000 on the term of any marriage with Zainab
 (d) I promise to pay Maria Rs. 50,000 two months after Furqan's death **(01)**

- (x) Ali owed Rs. 500,000 to Bilal which was due on 26 February 2023. Bilal requested Ali to send the payment through cheque by post to his residential address in Hyderabad. On 26 February 2023, Ali posted the cheque to Bilal on the given address.

On 1 March 2023, Bilal received the cheque and deposited it in the bank on the same day. The funds were credited to Bilal's bank account on 2 March 2023. Bilal, on the same day, sent a letter to Ali by post, acknowledging the receipt of payment. The letter was received by Ali on 6 March 2023.

Under the provisions of the Contract Act, 1872, Ali's debt would be considered to have been discharged on:

- (a) 26 February 2023 (b) 1 March 2023
(c) 2 March 2023 (d) 6 March 2023 (01)
- (xi) Farooq Brothers (FB) is a trading firm having five partners. FB is engaged in the business of imported electronic equipment. Under the mutual agreement of all the partners, two partners Farooq and Zohaib share the responsibility of managing the firm's business.

FB normally imports washing machines and air conditioners only. Farooq has been evaluating the option to import electric induction cookers due to huge demand on account of gas shortages. Farooq shared his plan with Zohaib, who objected on the basis that the gas shortage is a temporary problem.

Which of the following statements is **NOT** true?

- (a) Farooq can import induction cookers if Zohaib gives consent
(b) Farooq can import induction cookers if any other partner gives consent
(c) Farooq can import induction cookers if majority partners give consent
(d) Farooq can import induction cookers if all the partners give consent (1.5)

- Q.2 Doves & Co. (DC) is a partnership firm engaged in the selling of various species of pet birds. The firm's operations are managed by two partners namely Faizan and Usama.

Following matters are under consideration of the firm:

- (a) Haroon, a specialist bird-keeper, owns an aviary where he keeps exotic birds. In order to source exotic birds from abroad, Faizan plans to appoint Haroon as DC's agent in Faisalabad for purchasing 100 birds per week and keeping them in custody until the birds are sold. *Under the provisions of the Contract Act, 1872, briefly explain Haroon's authority in respect of DC's business.* (04)
- (b) In February 2023, Usama attended an exhibition where he met Sarah, a well-known animal enthusiast and social media influencer. Usama requested Sarah to join DC as a partner at a monthly remuneration of Rs. 100,000. Sarah agreed and joined DC as a partner on 6 March 2023. *Under the provisions of the Partnership Act, 1932, describe Sarah's acts which would bind DC. Also identify the restrictions on Sarah's implied authority as a partner.* (08)
- (c) On 1 March 2023, DC supplied 50 finch birds to Raven Parks (RP) for Rs. 200,000. Rizwan, RP's owner, holds a bill of exchange originally issued to him for Rs. 200,000 which is due to mature on 31 March 2023. He has offered to endorse the aforesaid bill of exchange in DC's favour. *Under the provisions of the Negotiable Instruments Act, 1881, discuss the essentials which must be ensured by DC before accepting the bill of exchange.* (04)
- (d) Assume that in (c) above, Rizwan is a holder in due course in respect of the bill of exchange which has been offered to be endorsed in DC's favour. *Under the provisions of the Negotiable Instruments Act, 1881, discuss the conditions to be fulfilled by a person to become a holder in due course.* (03)

Q.3 Describe how an Ordinance is promulgated in Pakistan and explain the effect of such Ordinance. (04)

Q.4 On 1 December 2022, Sparrow Traders (ST) decided to install a solar energy system at its factory in an effort to reduce operational expenditures. On 4 December 2022, ST entered into a contract with Parrot Electrics (PE) for the acquisition of an imported solar system at a price of Rs. 12 million. The project details agreed by both the parties are as follows:

Project milestone	Due Date	Payment terms
Delivery of solar panels	31 December 2022	50% of contract price
Commissioning of the system	31 January 2023	20% of contract price
Smooth running of the system for one month	28 February 2023	30% of contract price

Under the agreement, PE agreed to pay Rs. 5,000 per day, on the failure to meet any of the project milestones. Similarly, ST agreed to pay a penalty of 1% per month, on the failure to pay the amount on due dates.

On the date of the agreement, there were no statutory taxes levied on the import of solar panels. However, effective from 10 December 2022, the Government imposed 16% custom duty on the import of solar panels. On 26 December 2022, the consignment of solar panels arrived in Pakistan. PE shared the new duty structure with ST and demanded an additional amount of Rs. 1.5 million to proceed further.

Under the provisions of the Contract Act, 1872, discuss the relative positions of ST and PE under each of the following independent situations. Also identify the remedies, if any, available to both ST and PE.

(I) On 27 December 2022, ST refused to pay the custom duty and barred PE from accessing the commissioning site due to the price dispute. (06)

(II) PE threatened to cancel the contract if ST fails to reimburse the custom duty to PE. ST, with no other option available, reimbursed custom duty of Rs. 1.5 million to PE after which PE installed the solar system on agreed date. On 28 February 2023, ST informed PE that it will make the final payment only after PE agrees to the deduction of Rs. 1.5 million as PE had employed coercion by threatening to cancel the contract. (04)

Q.5 (a) Karim, a 90 year old farmer, resides in a remote village. Karim's son Wajid, who resides abroad, has appointed Zain to look after his aging father. Zain's duties include managing Karim's household affairs and handling all the operations of Karim's farm.

Zain advised Karim to sell a portion of his barren land in the outskirts Karim's farm as it is losing its value with the passage of time. Karim sold the barren land to Zain for Rs. 500,000.

On 28 February 2023, Wajid visited his father and came to know that the land purchased by Zain from his father had a market value of Rs. 5 million at the time of sale. Wajid convinced Karim to file a suit against Zain. To support his father, Wajid agreed to pay the professional fees of lawyers and all related expenses.

Under the provisions of the Contract Act, 1872, discuss whether Karim can file a suit against Zain. (03)

(b) Assume that in (a) above, Karim gets the land back alongwith the damages equal to the expenses incurred in respect of the suit filed against Zain. Karim promised Wajid that he will transfer the land to him and will also reimburse him the expenses in respect of the suit.

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Under the provisions of the Contract Act, 1872, discuss the validity of Karim's promises. (03)

Q.6 Under the provisions of the Contract Act, 1872:

- (a) explain any **four** rules regarding the performance of reciprocal promises. (04)
- (b) discuss the enforceability of an agreement when consent is caused by mistake. (04)

Q.7 (a) After graduating from Pelican College of Arts and Design (PCAD), Kamran Shah opened an art gallery in Karachi to showcase his paintings. However, the gallery did not generate much public interest despite his extensive efforts. Kamran discussed the matter with his professor, Adil Adeb, the owner of PCAD, emphasizing on his aspirations to achieve recognition for his paintings. Kamran requested Adil to display his paintings in the PCAD's upcoming annual exhibition scheduled for 31 March 2023.

Adil informed Kamran that he has already invited various artists for displaying their work in the exhibition, however, one of the artists namely Sohail Khan has still not responded. Adil proposed to Kamran that if Sohail refuses to participate in the exhibition, then Kamran can display his paintings on the following terms:

- Kamran will pay Rs. 50,000 to PCAD for every painting sold.
- Subsequent to the exhibition, Kamran will not sell any of his paintings in Karachi.
- In case of any dispute, the decision taken by Adil shall be final which cannot be challenged by Kamran in any manner.
- Kamran must submit the details of his paintings fifteen days before the exhibition, which is a compulsory requirement to be adhered to by all the participating artists.

Kamran agreed to the above terms and signed the contract on 5 March 2023. Adil did not receive any response from Sohail till that date.

Under the provisions of the Contract Act, 1872, discuss the enforceability of the contract between PCAD and Kamran. (06)

- (b) Assume that in (a) above, Kamran subsequently comes to know before the date of exhibition that his paintings would be displayed in the exhibition without any mention of his credentials, despite the fact that at the time of signing the contract, Adil had promised to display his paintings under the category of 'Emerging artists' alongwith prominent credentials.

Under the provisions of the Contract Act, 1872, discuss the possible effect(s) of the information subsequently received by Kamran, on the enforceability of the contract. (05)

Q.8 (a) Saiqa and Alia decided to open a tailoring shop. To manage the opening expenses, they jointly borrowed Rs. 300,000 from Faizan on 28 February 2022. The loan was to be repaid on 28 February 2023.

Under the provisions of the Contract Act, 1872, advise the respective positions of Faizan and Saiqa in respect of the loan amount, in each of the following independent situations:

- (I) On the due date, Saiqa approached Faizan and paid back Rs. 150,000 mentioning that she has paid her share and now he should claim the remaining amount from Alia. Faizan met Alia for recovery of the remaining loan amount but she refused to pay it. (03)

- (II) On the due date, Alia approached Faizan and informed him that she cannot pay the loan as the entire amount was utilized by Saiqa. Alia also mentioned that Saiqa has refused to give Alia her share in the shop. Considering the situation, Faizan released Alia in respect of the loan. (02)

- (b) Under the provisions of the Contract Act, 1872, list the acceptable grounds of supervening impossibility. (03)

- Q.9 (a) List any **four** circumstances under which the State Bank of Pakistan may revoke the designation of a designated payment system under the provisions of the Payment Systems and Electronic Fund Transfers Act, 2007. **(04)**
- (b) Under the provisions of the Competition Act, 2010:
- (i) explain 'Product market' and 'Geographic market'. **(04)**
 - (ii) identify the practices that are considered as deceptive marketing practices. **(04)**
- Q.10 Under the provisions of the Partnership Act, 1932:
- (a) define the principle of 'Holding out' and state its exception(s). **(04)**
 - (b) identify the assets which are included in the property of a partnership firm. **(03)**

(THE END)

Business Law

Suggested Answer

Certificate in Accounting and Finance – Spring 2023

- | | | | |
|-----|---|---|-----------------------------------|
| A.1 | (i) (d)
(iv) (b)
(vii) (a)
(x) (a) | (ii) (d)
(v) (b)
(viii) (c)
(xi) (b) | (iii) (b)
(vi) (b)
(ix) (d) |
|-----|---|---|-----------------------------------|

- A.2 (a)** With respect to DC's business, Haroon shall have the express authority to do every lawful thing necessary to purchase the birds and act as their custodian until the birds are sold. An agent having an authority to carry on a business has the authority to do every lawful thing necessary for the purpose, or usually done in the course of conducting such business.

Further, in case of an emergency, Haroon shall have the authority, to take all necessary actions for the purpose of protecting DC from any potential loss as would be done by a person of ordinary prudence, in his own case, under similar circumstances.

- (b)** While Sarah is DC's partner, DC shall be bound by Sarah's acts done while:
- Carrying on, in the usual way, business of the kind carried on by DC i.e. selling of various species of pet birds;
 - Taking actions, in an emergency, to protect DC from any potential loss as would be done by a person of ordinary prudence, in his own case, acting under similar circumstances;
 - Acting in DC's name, or in any other manner expressing or implying an intention to bind DC;
 - Acting on behalf of DC which falls within Sarah's implied authority, unless the person with whom she is dealing knows of the restriction or does not know or believe Sarah to be DC's partner.

Restrictions on Sarah's implied authority as DC's partner

In the absence of any usage or custom of trade to the contrary, Sarah's implied authority as DC's partner, would not empower her to:

- submit a dispute relating to DC's business to arbitration
- open a banking account on behalf of DC in her own name
- compromise or relinquish any claim or portion of a claim by DC
- withdraw a suit or proceeding filed on behalf of DC
- admit any liability in a suit or proceeding against DC
- acquire immovable property on behalf of DC
- transfer immovable property belonging to DC
- enter into partnership on behalf of DC

- (c)** DC must ensure that the bill of exchange (B/E) which was issued to Rizwan and is going to be endorsed in DC's favour is valid i.e. it fulfills all of the following essentials of a negotiable instrument and endorsement:

- B/E contains an unconditional order to pay;
- Drawer name is appearing on B/E and B/E is properly stamped;
- B/E is signed by the drawer and the drawee;
- All the parties mentioned on the B/E are certain;
- If B/E contains any material alteration, the same is confirmed by the appropriate party through signature;
- Rizwan is entitled to the possession of B/E in his name;
- The sum payable under B/E must be certain and contain legal tender only;
- Rizwan is entitled to receive/recover Rs. 200,000 from the parties liable under the B/E;
- Rizwan has endorsed B/E in DC's favor on the instrument itself for the purpose of negotiation;
- B/E is delivered to DC with the intention of passing the property in it.

- (d) Following conditions are required to be fulfilled by Rizwan in order to become a holder in due course:
- He must fulfill all essentials of a holder and must be a holder for valuable consideration;
 - He should receive the B/E before its maturity; and
 - He should take the B/E 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. If there is any suspicion and he takes the B/E without making proper inquiries, he cannot be said to be acting in good faith.

A.3 Promulgation of an Ordinance in Pakistan and its effect

The President, if deems necessary to take immediate action, has power to make an Ordinance when the Senate or the National Assembly are not in session.

Such Ordinance promulgated thus, shall have the same force and effect as an Act of the 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 the Houses, if it is other than Money Bill.

However, National Assembly may extend any Ordinance for another period of 120 days by passing a resolution.

If National Assembly, before expiration of above 120 days, passes a resolution disapproving an Ordinance, it shall expire on the day of passing of such resolution.

A.4 (I) Position of the parties to the contract

PE's demand for additional payment of Rs. 1.5 million on account of custom duty

- PE's demand for Rs. 1.5 million on account of custom duty over and above the contract was not justified. It may be considered as conditional offer of performance which renders the offer of performance invalid.
- PE's demand was tantamount to an alteration of the contract by increasing the contract price.

ST barring PE from accessing the commissioning site due to the price dispute

- Contract between ST and PE contain reciprocal promises. If PE is willing to deliver the solar system at ST's commissioning site despite the price dispute, then ST's action of barring PE from accessing the commissioning site shall be considered as preventing PE from performing its promise. As a result, the contract is voidable at the option of PE.
- Further, if PE has made a valid offer of performance to ST, and the offer was not accepted, PE shall not be responsible for the non-performance of the contract and shall have the right to claim compensation and rescind the contract.

Remedies available to PE due to ST's fault

PE is entitled to claim reasonable compensation from ST for any loss which it may sustain in consequence of the non-performance of the contract. However, it cannot claim penalty from ST since the project milestones were not achieved.

Remedies available to ST due to PE's fault

ST is entitled to claim reasonable compensation from PE for any loss which it may sustain in consequence of the non-performance of the contract.

Business Law

Suggested Answer

Certificate in Accounting and Finance – Spring 2023

(II) Position of the parties to the contract

PE's demand for additional amount to proceed further does not fall under the definition of coercion since PE did not commit, or threaten to commit, any act forbidden by the Penal Code with the intention of causing ST to enter into an agreement. Therefore, ST's claim of coercion is not valid.

By reimbursing import duties, it is established that ST altered the original contract and now has to abide by payment terms i.e. pay the remaining amount.

Remedies available to the parties to the contract

PE may obtain reasonable compensation for damages to the extent of accrued penalty @ 1% per month for each day of delayed payment.

ST does not have any remedy against PE since it agreed to the alteration of the contract.

- A.5 (a)** Karim may file a suit against Zain on the grounds of undue influence since Zain was in a position to dominate Karim's will and he used that position to obtain an unfair advantage over Karim.

Zain shall be deemed to be in a position to dominate Karim's will because:

- he stands in a fiduciary relation to Karim; or
- Karim's mental capacity may be affected due to old age.

- (b)** The validity of Karim's promises is as follows:

Promise to transfer land

Since Karim made the promise without consideration on account of natural love and affection, it shall not be enforceable unless the land is actually transferred to Wajid or until the promise is expressed in writing, registered under the law for the time being in force for the registration of documents.

Promise to reimburse expenses of suit

Even though Karim made the promise without consideration to reimburse Wajid the expenses paid voluntarily in respect of the suit, such promise is still valid and enforceable.

- A.6 (a)** The rules regarding the performance of reciprocal promises are as follows:
- (i) **Simultaneous performance**
When a contract consists of reciprocal promises to be simultaneously performed, the promisor needs 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 as fixed by the contract, and where the order is not expressly fixed by the contract, they must be performed in that order which the 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**
When a contract consists of reciprocal promises, such that one of them cannot be performed, or that its performance cannot be claimed till the other has been performed, and the promisor of the promise last mentioned fails to perform it, such promisor cannot claim the performance of the reciprocal promise, and must make compensation to the other party to the contract for any loss which such other party may sustain by the non-performance of the contract.
 - (v) **Promise to do legal and 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.
- (b)** The enforceability of an agreement when consent is caused by any of the following types of mistake is as follows:
- ***Bilateral mistake***
Where both the parties to an agreement are under a mistake as to a matter of fact essential to the agreement, or are under a mistake as to a law not in force in Pakistan, the agreement is void.

However, an erroneous opinion as to the value of the thing which forms the subject-matter of the agreement is not deemed to be a mistake as to a matter of fact.
 - ***Unilateral mistake***
A contract remains valid if it was caused by one of the parties to it being under a mistake as to a matter of fact or under a mistake as to a law not in force in Pakistan.
 - ***Mistake as to any law in force in Pakistan (Local Law)***
A contract is not voidable because it was caused by a mistake as to any law in force in Pakistan. In case of such mistake, the contract will be valid.

- A.7 (a)** Contract between PCAD and Kamran is a contingent contract which can only be enforced if Sohail does not participate in the exhibition.

Sohail's non-participation can be confirmed either through an express response or by his conduct i.e. non-submission of the details of his paintings fifteen days before the exhibition which is a compulsory requirement for all the participating artists.

Payment for every painting sold

Requirement to pay Rs. 50,000 to PCAD for every painting sold is lawful and can be enforced.

Restriction to sell paintings after exhibition

Kamran cannot be restricted from undertaking lawful business to sell paintings in any locality including Karachi because he has not sold the goodwill of his business and is merely a participant of the exhibition. Although Kamran has signed the agreement, it shall be void to that extent.

Restriction to enforce legal rights

Kamran cannot be absolutely restricted from enforcing his rights under or in respect of the contract by the usual legal proceedings in the ordinary tribunals. Therefore, Adil cannot restrain Kamran in this regard. However, although Kamran has signed the agreement, the same shall be void to that extent.

Submission of details prior to exhibition

The requirement of submitting the details of paintings by Kamran 15 days prior to exhibition is lawful and in case of non-submission Kamran shall not be entitled to participate in the exhibition.

- (b)** Kamran had made it clear that he aspired to achieve recognition for his paintings and Adil had promised to display his painting with prominent credentials. Therefore, if Kamran's credentials are not displayed prominently, it means Kamran's consent was not freely obtained due to the following possibilities:

- (1) If Adil innocently caused, Kamran to make a mistake as to the substance of the subject matter of the contract, Kamran's consent would be considered to have been obtained by way of misrepresentation.
- (2) If Adil made the promise without the intention of performing it or had the intention to deceive, Kamran's consent would be considered to have been obtained by way of fraud.

Effect on the contract

As Kamran's consent was not freely obtained, the contract would be voidable at the option of Kamran.

Kamran, may, if he thinks fit, 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. Therefore, Kamran may either insist that his credentials are displayed prominently or he may choose to withdraw from the contract by refusing to participate in the exhibition and claim damages.

However, the contract shall not become voidable, if Kamran had the means of discovering the truth with ordinary diligence.

Further, if it is established that Adil's promise did not cause Kamran's consent to the contract, then the contract shall be considered valid and enforceable.

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- A.8 (a) (I)** Since Saiqa and Alia are joint promisors, Faizan may, in the absence of express agreement to the contrary, compel any one of the joint promisors to perform the whole of the promise and recover the remaining amount from Saiqa. This is because if a joint promisor makes a default, then other joint promisors must bear the loss arising from such default, unless a contrary intention appears from the contract.

Saiqa is compelled to pay the remaining amount to Faizan. However, she can subsequently recover the money from Alia, since a joint promisor can compel other joint promisor to contribute equally, unless a contrary intention appears from the contract.

- (II)** Since Saiqa and Alia made a joint promise, Faizan may, in the absence of express agreement to the contrary, release Alia being one of such joint promisors. However, such release would not discharge Saiqa, and Faizan would be able to recover the entire loan amount from her.

Further, release of Alia by Faizan would not free her from her obligation towards Saiqa. Therefore, Saiqa may subsequently recover Rs. 150,000 from Alia.

(b) Supervening impossibility

Following are the acceptable grounds of supervening impossibility:

- Destruction of subject matter.
- Death or personal incapacity in contracts of personal nature.
- Declaration of war making it impossible to perform the contract.
- The particular state of things cease to exist or occur which form the basis of contract.

- A.9 (a)** The State Bank of Pakistan (SBP) may revoke the designation of a designated payment system (DPS) if it is satisfied that:

- the DPS has ceased to operate effectively as a payment system;
- the operator of the designated system has knowingly furnished information or documents to the SBP in connection with the designation of the payment system which is or are false or misleading in any material particular;
- the 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 the terms and conditions of the designation or requirements of the Payment Systems and Electronic Fund Transfers Act, 2007 has been contravened; or
- the SBP considers that it is in the public interest to revoke the designation.

- (b) (i) Product market** comprises of all those products or services which are regarded as interchangeable or substitutable by the consumers by reason of the products' characteristics, prices and intended uses.

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 homogeneous. This area can be distinguished from neighboring geographic areas because, in particular, the conditions of competition are appreciably different in those areas.

- (ii) Deceptive marketing practices shall be deemed to have been resorted to if an undertaking resorts to:
- the distribution of false or misleading information that is capable of harming the business interests of another undertaking;
 - 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;
 - false or misleading comparison of goods in the process of advertising;
 - fraudulent use of another's trademark, firm name, or product labelling or packaging.

A.10 (a) Principle of holding out

A person 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 any person 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 giving credit.

Exception to the principle of holding out

The principle of holding out shall not apply 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.

- (b) Subject to contract between the partners, property of the firm includes:
- all property and rights and interests in property originally brought into the stock of the firm, or
 - 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,
 - the goodwill of the business.

Furthermore, unless the contrary intention appears, property and rights and interests in property acquired with money belonging to the firm are deemed to have been acquired for the firm.

(THE END)

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BUSINESS LAW
Summary of Marking Key
Certificate in Accounting and Finance – Spring 2023

Note regarding marking scheme:

The marking scheme is given as a guide. Markers also award marks for alternative approaches to a question and relevant/well-reasoned comments/explanations. Moreover, the available marks in answer may exceed the total marks of a question.

		Mark(s)
A.1	Marks as mentioned on the question paper against each MCQ	15.0
A.2	(a) Explain Haroon's authority as DC's agent in respect of the following:	
	▪ in the ordinary course of business	2.0
	▪ in case of an emergency	2.0
	(b) As DC's partner, describe Sarah's acts which would bind DC	3.0
	▪ Identify the restrictions on Sarah's implied authority as DC's partner	5.0
	(c) 0.5 mark for each essential which must be ensured by DC	4.0
	(d) 01 mark for each condition to be fulfilled for becoming a holder in due course	3.0
A.3	▪ Describe the process of promulgation of an Ordinance in Pakistan	3.0
	▪ Explain that an Ordinance shall have the same effect as an Act of the Parliament	1.0
A.4	(I) Discuss that PE's demand for payment of custom duty was not justified	2.0
	▪ Discuss the effects of ST's act of barring PE from accessing the site	2.0
	▪ Identify the remedies available to PE and ST in each scenario	2.0
	(II) Identify that PE had not employed coercion on ST in the given scenario	2.0
	▪ Establish that ST should make final payment on 28 February 2023 without deducting any amount; otherwise, PE will be entitled to claim damages	2.0
A.5	(a) Discuss that Zain shall be deemed to dominate Karim's will and that he used his position to obtain an unfair advantage over Karim	2.0
	▪ Identify that Karim may file suit on grounds of undue influence	1.0
	(b) Discuss that Karim's promise to:	
	▪ transfer the land to Wajid is not enforceable	2.0
	▪ reimburse the expenses paid by Wajid in respect of the suit is valid	1.0
A.6	(a) 01 mark for explanation of each rule	4.0
	(b) Discuss the enforceability of an agreement in the following situations:	
	▪ when both contracting parties are under a mistake (bilateral mistake)	2.0
	▪ when one of the contracting parties is under a mistake (unilateral mistake)	1.0
	▪ when a mistake relates to any law in force in Pakistan	1.0

BUSINESS LAW Summary of Marking Key Certificate in Accounting and Finance – Spring 2023
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		Mark(s)
A.7	(a)	▪ Identify that the contract signed by Kamran is a contingent contract 2.0
		▪ 01 mark to discuss each enforceable term of the contract 2.0
		▪ 01 mark to discuss each void term of the contract 2.0
	(b)	▪ Discuss that Kamran's consent was not free 2.0
		▪ Identify the remedies available to Kamran in the given scenario 3.0
A.8	(a) (I)	▪ Identify that Saiqa and Alia are joint promisors 1.0
		▪ Discuss that Faizan can demand remaining payment from Saiqa 1.0
		▪ Discuss that Saiqa may subsequently recover paid amount from Alia 1.0
	(II)	▪ Identify that Saiqa and Alia are joint promisors 1.0
		▪ Discuss that Faizan can recover full payment of loan from Saiqa 0.5
		▪ Discuss that Saiqa may subsequently recover Rs. 150,000 from Alia 0.5
	(b)	Up to 01 mark to state each acceptable ground of supervening impossibility 3.0
A.9	(a)	01 mark to state each circumstance 4.0
	(b) (i)	▪ Explain 'Product market' 2.0
		▪ Explain 'Geographic market' 2.0
(ii)	01 mark for identification of each practice 4.0	
A.10	(a)	▪ Define the principle of 'Holding out' 2.5
		▪ State exception to the principle of 'Holding out' 1.5
	(b)	Up to 01 mark for identification of each asset included in partnership's property 3.0

(THE END)

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Business Law	Certificate in Accounting and Finance (CAF) Spring 2023

Passing %

Question-wise										
1	2	3	4	5	6	7	8	9	10	Overall
37%	29%	59%	2%	26%	43%	14%	66%	50%	41%	31%

General comments

A decrease in the overall result was observed in this session, as 31% of examinees secured passing marks, compared to 41% in the previous session.

Below-average performance was observed in question number 2, 4, 5, and 7. This was mainly because examinees failed to identify and apply relevant knowledge of the law to scenario-based questions. Examinees are advised that, while attempting scenario-based questions, they should first determine the core issue(s), and then identify and apply the relevant provisions of law applicable to the issue.

Question-wise common mistakes observed

Question 1

- Performance in MCQ no. (iv), (v), (viii), and (x) was below average.
- It is advised to write only the correct option number instead of writing the entire wording of the option.
- Few examinees either attempted to overwrite their choices instead of clearly mentioning the selected option legibly or selected two options instead of one, due to which marks could not be awarded.

Question 2(a)

Examinees did not mention that in case of any emergency, Haroon as DC's agent shall have the authority, to take all necessary actions for the purpose of protecting DC from potential loss as would be done by a person of ordinary prudence, in his own case, under similar circumstances.

Question 2(b)

Examinees did not describe Sarah's acts that would bind DC and instead entirely focused on the second part of the question, which required the identification of restrictions on Sarah's implied authority as DC's partner.

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Question 2(c)

Examinees did not discuss that DC must ensure that the bill of exchange contains an unconditional order to pay and that all parties mentioned on the bill of exchange are certain.

Question 2(d)

Examinees did not mention that a holder in due course must fulfill all the essentials of a holder and must be a holder for valuable consideration.

Question 3

Examinees did not mention that an Ordinance promulgated in Pakistan shall have the same effect as an Act of Parliament.

Question 4(I)

- Examinees only focused on evaluating ST's act of barring PE from accessing the commissioning site and ignored to discuss that PE's demand for payment of custom duty was itself not justified.
- Examinees ignored the second part of the question and did not identify the remedies available to the contracting parties.

Question 4(II)

Examinees did not identify that PE had not employed coercion on ST in the given scenario and instead established that coercion had been applied by PE. Resultantly, examinees were not able to correctly determine the relative positions and remedies available to the contracting parties.

Question 5(a)

Examinees did not discuss that under the given circumstances, Karim may file a suit against Zain on grounds of undue influence.

Question 5(b)

Examinees did not discuss that Karim's promise to transfer the land to Wajid cannot be enforced, however, his promise to reimburse the expenses paid by Wajid in respect of the suit would be valid.

Question 6(a)

Examinees mostly covered only two rules that related to simultaneous performance and order of performance.

Question 6(b)

Examinees did not discuss the effect on the enforceability of a contract wherein consent is caused by mistake as to a matter of fact or by mistake as to a law not in force in Pakistan.

Question 7(a)

Examinees did not discuss that the contract can be enforced, however, two of the contract terms would be void due to the following reasons:

- Kamran cannot be restricted from undertaking lawful business to sell paintings in any locality including Karachi because he has not sold the goodwill of his business and is merely a participant of the exhibition.
- Kamran cannot be completely barred from enforcing his rights under or in respect of the contract through regular legal proceedings in the ordinary tribunals. Consequently, Adil cannot restrain Kamran in this regard.

Question 7(b)

Examinees did not discuss that in the given scenario Kamran's consent to the contract was not freely obtained, therefore, the contract would be voidable at the option of Kamran and he may either insist that his credentials are displayed prominently or he may choose to withdraw from the contract by refusing to participate in the exhibition.

Question 8(a)(I)

Examinees did not discuss that since Saiqa and Alia are joint promisors, Saiqa would be compelled to pay the remaining amount of the loan to Faizan in the given scenario.

Question 8(a)(II)

Examinees did not discuss that since Saiqa and Alia are joint promisors, Faizan can recover the loan amount from Saiqa in the given scenario.

Question 8(b)

Some examinees mentioned the situations in which supervening impossibility is not acceptable instead of listing the acceptable grounds for supervening impossibility.

Question 9(a)

Examinees either gave irrelevant answers or repeated the same points instead of identifying four distinct circumstances under which SBP may revoke the designation of a designated payment system under the provisions of the Payment Systems and Electronic Fund Transfers Act.

Question 9(b)(i)

Examinees did not explain the 'Geographic market' as per the provisions of the Competition Act and gave irrelevant/generic answers.

Question 9(b)(ii)

Examinees only mentioned that deceptive marketing practices shall be deemed to have been resorted if an undertaking resorts to the distribution of false or misleading information that is capable of harming the business interests of another undertaking. The other practices that are considered as deceptive marketing practices as per the provisions of the Competition Act were not identified.

Question 10(a)

Examinees defined the principle of 'Holding out' correctly, however, they did not state the exception to the principle.

Question 10(b)

Examinees did not mention that the property of the partnership firm includes the goodwill of the business.

(THE END)



Business Law

Instructions to examinees:

- (i) Answer all **TEN** questions.
- (ii) Answer in **black** pen only.
- (iii) Multiple Choice Questions must be answered in answer script only.

Q.1 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions.

- (i) Asbestos Aerospace (AA) plans to introduce a new spaceship model. AA engaged Usama, a renowned aeronautical engineer, to design the structure of the new model. On 10 March 2023, Usama promised to deliver the design by 21 August 2023. AA informed Usama that a delay cost of Rs. 80,000 would be imposed if the design was not received by the agreed-upon date.

Tragically, on 10 August 2023, Usama suffered a severe accident resulting in the loss of his children and significant personal injuries. Due to the trauma and its impact on his mental health, Usama was unable to fulfil his commitment. Consequently, AA incurred a delay cost of Rs. 250,000.

Under the Contract Act, 1872, can AA claim damages of Rs. 250,000 from Usama?

- (a) Yes, because AA had informed Usama of the damages on 10 March 2023
 - (b) Yes, because Usama was competent to enter the contract on 10 March 2023
 - (c) No, because Rs. 250,000 cannot be considered as reasonable damages when compared to the initially agreed upon Rs. 80,000
 - (d) No, because the contract subsequently became void due to unforeseen circumstances (1.5)
- (ii) Under the Prevention of Electronic Crimes Act, 2016, which of the following could be a reason for designating private or government infrastructure as critical infrastructure?
 - (a) Meeting national security objectives
 - (b) Enhancing personal data protection
 - (c) Potential economic growth
 - (d) Contributing to social welfare (01)
 - (iii) Glass Sea (GS), the operator of multiple aquariums, entered into a contract with Timber Fishes (TF) on 5 August 2023 and made a payment of USD 5 million. TF agreed to supply either 8 dolphins locally sourced from Indus River or 5 dolphins imported from Japan. The contract stipulated a delivery date of 30 September 2023.

However, on 5 September 2023, TF communicated to GS that the contract cannot be performed due to a government-imposed ban on capturing dolphins from Indus River, which became effective on 10 August 2023.

Under the Contract Act, 1872, can GS hold TF liable for non-performance of the contract?

- (a) No, because part of the contract's object is unlawful
- (b) No, because the contract cannot be enforced in light of government directives
- (c) Yes, because the legal branch of the alternative promise is enforceable
- (d) Yes, because it is a valid contingent contract (1.5)

- (iv) Which of the following statements is true regarding a bill in respect of any matter, other than money bill?
- The bill must be originated in the National Assembly
 - The bill must be originated in the Senate
 - The bill must be originated simultaneously in both the National Assembly and the Senate
 - The bill may originate in either the National Assembly or the Senate **(01)**
- (v) In the context of the Arbitration Act, 1940, which of the following is considered as a 'legal representative'?
- A lawyer appointed to represent a deceased's family disputes
 - A person who has no relation to the deceased but handles their financial affairs
 - A person who intermeddles with the estate of the deceased
 - A person who briefly assists in managing the estate of a deceased **(01)**

- (vi) Sadia sold leather garments worth Rs. 500,000 to Concrete Textiles (CT) with an agreed payment date of 1 August 2023. However, CT missed the payment, causing Sadia to be unable to settle her own Rs. 500,000 debt to Ash Leathers (AL), which was due on 15 August 2023. As a result, AL sent a notice to Sadia demanding payment of Rs. 500,000 along with an additional Rs. 25,000 for damages and Rs. 2,000 as miscellaneous charges.

On 5 September 2023, when Sadia finally received payment of Rs. 500,000 from CT, she demanded that CT should also pay compensation to her.

Under the Contract Act, 1872, which of the following amounts is Sadia entitled to claim from CT?

- Interest accrued on Rs. 500,000 from 1 August 2023 till 4 September 2023
 - Interest accrued on Rs. 500,000 from 15 August 2023 till 4 September 2023
 - Rs. 25,000 on account of damages payable to AL by Sadia
 - Rs. 27,000 on account of damages and miscellaneous charges payable to AL by Sadia **(1.5)**
- (vii) Under the Competition Act, 2010, which of the following practices can **NOT** be deemed as a deceptive marketing practice?
- Packaging a new product exactly the same as a competitor's renowned product
 - Comparing different brands based on the nutritional value of ingredients
 - Spreading false information to harm business interests of another undertaking
 - Unauthorised use of competitor's trademark for promotional purposes **(01)**
- (viii) Fahad emailed Alia an offer to sell his brick factory for Rs. 1,500,000. He requested a signed letter of acceptance to be sent to him through post by 5 July 2023.

On 4 July 2023, Alia emailed Fahad, in which she communicated her acceptance to purchase the factory and mentioned that she cannot send a signed letter as she is travelling to a remote area in South Africa for a month. Fahad read Alia's email on the same day but did not reply. On 4 August 2023, Fahad received the signed letter through post.

Under the Contract Act, 1872, can Fahad refuse to sell his factory to Alia?

- Yes, because Alia sent a counter offer on 4 July 2023
- Yes, because Alia sent the signed letter of acceptance after 5 July 2023
- No, because Alia sent the signed letter of acceptance within reasonable time
- No, because Fahad did not insist for acceptance through letter after he received Alia's email on 4 July 2023 **(1.5)**

- (ix) Under the Partnership Act, 1932, which of the following actions falls within the implied authority of a partner?
- (a) Transferring immovable property of the partnership firm
 - (b) Borrowing money on behalf of the partnership firm
 - (c) Entering into a new partnership on behalf of the partnership firm
 - (d) Purchasing immovable property on behalf of the partnership firm
- (01)**

- (x) In the partnership firm, Marble Resorts (MR), with Salman and Yasir as partners, an incident occurred during a corporate event on 1 August 2023. The cinematic projector for displaying documentaries developed a fault. Salman promptly purchased a replacement projector worth Rs. 500,000 using his personal credit card. His action successfully resolved the emergency, resulting in MR earning a profit of Rs. 150,000 from the event. Additionally, a five-year contract was secured with the client for hosting future corporate events.

On 1 September 2023, Yasir attempted to reimburse Salman from MR's bank account. However, Salman not only sought reimbursement for the projector's cost but also for the credit card charges of Rs. 12,500. Further, he demanded compensation for his extraordinary efforts.

Under the Partnership Act, 1932, determine the maximum amount that Salman can claim from MR.

- (a) Rs. 500,000 (b) Rs. 502,500 (c) Rs. 512,500 (d) Rs. 515,000
- (02)**
- (xi) With reference to 'coercion', as explained in the Contract Act, 1872, which of the following statements is **NOT** true?
- (a) It must be applied in a place where the Pakistan Penal Code is enforced
 - (b) It includes threatening to commit an act forbidden by the Pakistan Penal Code
 - (c) It must be applied with the intention of causing a person to enter into an agreement
 - (d) It includes unlawfully detaining any property to the prejudice of a person
- (01)**
- (xii) Under the Contract Act, 1872, which of the following is a void agreement?
- (a) Farah verbally agrees to compensate her brother Shahid for her hospitalization expenses paid voluntarily by Shahid on her behalf
 - (b) Kashif appoints a minor, Mona, as his agent for his garment business
 - (c) After death of Fatima's parents, her guardian signed an agreement for good consideration, under which Fatima cannot be married till she is a minor
 - (d) Zain promised that he would not open his fast food outlet in Gulberg in exchange of Rs. 200,000 paid to him by Primer Foods
- (01)**

Q.2 Identify the basis of legal system and explain the main sources of law in Pakistan. **(05)**

- Q.3 (a) Granite Tiles (GT) is engaged in the business of designing and manufacturing tiles. Hakim was a partner at GT, and when he passed away in December 2022, his minor son Wasim was admitted to the benefits of GT.

Under the Partnership Act, 1932, provide guidance to Wasim concerning his rights and limitations pertaining to GT. **(03)**

- (b) On 1 November 2023, Wasim will attain the age of majority, and he intends to become GT's partner.

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Under the Partnership Act, 1932, state the course of action that Wasim should take to become GT's partner. Also, advise Wasim about his duties, mutual rights and liabilities, concerning GT after becoming a partner. **(08)**

Q.4 (a) Consider the following independent situations:

- (i) In a contract, a specific provision dictates that in the event of a default, Rs. 10 million shall be payable to the aggrieved party by the defaulting party.
- (ii) A constructive contract lacks a pre-established determination of the damages to be paid in the event of a default.

Under the Contract Act, 1872, advise how the compensation payable would be determined in each of the above situations after a default is committed. (03)

- (b) Fatima, a doctor by profession, purchased a five-storey building for Rs. 50 million, owned and constructed by Hammad. At the time of purchase, Fatima asked Hammad to inform her of any structural issues with the building that might require repair. Hammad did not respond to the question, allowing Fatima to believe that the building is in good condition.

Fatima opened her hospital in the building. Shortly thereafter, she came to know about numerous structural issues in the building. An independent contractor has provided an estimate of Rs. 5 million to fix these issues.

Under the Contract Act, 1872, discuss the remedies available to Fatima. (04)

Q.5 Lime Cement (LC) operates as a medium-scale cement manufacturer and distributor. The following pertains to LC's operations:

- (a) Daniyal, recently appointed as a delivery supervisor at LC, has been tasked with overseeing the following orders:

(I) An order from Rubber Paints (RP) for 50 bags of cement, scheduled for delivery on 30 September 2023. Upon reviewing the order details, he noted the absence of specific information regarding the time and place of delivery. ***Under the Contract Act, 1872, advise Daniyal about time and place of delivery for RP's order.*** (03)

(II) An order jointly placed by Fahim Hussain and Karim Hussain for 60 bags of cement, for building a farm house in Faisalabad. ***Under the Contract Act, 1872, identify the conditions that Daniyal must fulfil to make a valid delivery offer.*** (04)

- (b) LC received an offer to export 50,000 bags of cement to Europe. According to the offer document, LC is required to send two sample cement bags to the customer.

LC's production team is carrying out a detailed feasibility check while its head of sales is aggressively pushing for the offer acceptance to be sent immediately.

Under the Contract Act, 1872, identify the possible situations in which the offer would be revoked. (04)

Q.6 (a) Saad and Abid are close friends and avid cricket enthusiasts. Saad opened a sports equipment store in Karachi, and Abid extended his support in setting up the business, by introducing him to Malik, a major supplier of cricket gear.

Subsequently, Saad, representing Abid as his partner, purchased cricket gear from Malik, promising to pay on 31 August 2023. However, he failed to pay the amount on time.

Under the Partnership Act, 1932, discuss whether Malik can recover his dues from Abid. (04)

- (b) Under the Partnership Act, 1932, explain the circumstances under which an individual, entitled to a share of up to 50% of the annual profits of a partnership firm, would still not be recognized as a partner within that firm. (03)

Q.7 (a) Straw Farms (SF) is famous for its organically grown peaches. In July 2022, SF decided to build a processing facility for freezing peaches. In August 2022, SF awarded two separate contracts to Gypsum Builders (GB) as follows:

- (I) Construction of a factory building by August 2023 for processing the peaches to be harvested in September 2023. SF informed GB that when the building is ready, a processing plant will be installed for freezing peaches to be exported to Europe, from which SF expects to earn a profit of Rs. 10 million.
- (II) Construction of a head office building by August 2023 for administrative work. SF informed GB that the staff will be shifted to this building in December 2023.

GB initially planned to construct both buildings by July 2023; however, due to labour issues, construction could not be completed on either site till date. GB needs a further 30 days to finish the remaining work.

Under the Contract Act, 1872, evaluate SF's position, and discuss the remedies available to SF. (07)

(b) Rizwan engaged Bamboo Designers (BD) to completely renovate his bungalow by 31 August 2023 for Rs. 5 million. The renovation work included civil works, painting, plumbing and tiling. Rizwan informed BD that he would arrange imported marble tiles to be fixed in the bungalow.

BD completed the renovation work on 31 August 2023 except for fixing of the tiles. Due to transit issues, the cargo of tiles ordered by Rizwan reached Pakistan on 5 September 2023. Upon receiving the tiles, Rizwan asked BD to proceed with the completion of the renovation work.

However, BD refused to deploy labour until the contract price to the extent of work completed is paid, and Rizwan declined to make the payment as the bungalow was not ready as per agreed specifications.

Under the Contract Act, 1872, evaluate BD's position, and discuss the remedies available to BD. (04)

Q.8 (a) Define the term 'financial institution' under the Anti-Money Laundering Act, 2010. (06)

(b) Under the Arbitration Act, 1940, state any **four** powers of arbitrator. (04)

Q.9 (a) Babar owns Steel Electronics (SE), a retail store of electronic equipment. He typically buys the equipment from wholesale suppliers on credit and pays invoices by cheque within 60 days, always attaching a letter specifying which invoice(s) the cheque covers.

When Babar fell ill, his son, Junaid, managed SE. Upon returning, Babar learned that Junaid had sent several cheques to Farrukh, a major supplier, without specifying the relevant invoices.

Under the Contract Act, 1872, advise Babar how the cheques sent by Junaid should be applied to Farrukh's outstanding invoices. (04)

(b) Under the Contract Act, 1872, identify the following:

(i) Any **four** differences between 'contingent contract' and 'wagering agreement'. (04)

(ii) Circumstances in which an agreement without consideration is considered to be a valid contract. (05)

Q.10 (a) Zareen has signed the following instruments:

- (i) I promise to pay Rs. 5 million to Maria and further undertake to deliver her my car with registration number FNT-23 on 30 September 2023, for value received.
- (ii) Zainab, pay Rs. 20 million to Saeed as early as possible.
- (iii) I acknowledge that I am indebted to Mehreen for USD 200,000 to be paid on demand, for value received.

Under the Negotiable Instruments Act, 1881, comment on the type and validity of each of the above instruments. **(03)**

- (b) Rustom issued a cheque payable to 'Laiba or order'. Rizwan, by falsifying Laiba's endorsement on the cheque, managed to receive payment from the bank.

Under the Negotiable Instruments Act, 1881, discuss whether the bank would be liable towards Rustom for making the payment to Rizwan. **(03)**

- (c) Under the Negotiable Instruments Act, 1881, identify **four** differences between promissory note and bill of exchange. **(04)**

(THE END)

Business Law

Suggested Answer

Certificate in Accounting and Finance – Autumn 2023

- | | | | |
|-----|---|---|--|
| A.1 | (i) (d)
(iv) (d)
(vii) (b)
(x) (d) | (ii) (a)
(v) (c)
(viii) (d)
(xi) (a) | (iii) (c)
(vi) (a)
(ix) (b)
(xii) (d) |
|-----|---|---|--|

A.2 Basis of legal system in Pakistan:

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

Main sources of law in Pakistan:

The following are the main sources of law in Pakistan:

(i) Legislation:

It is the law created by the Parliament and other bodies to whom it has delegated authority. It includes the Act of Parliament, the Ordinance promulgated by the President of Pakistan and the delegated legislation.

(ii) Precedent (case law):

Precedents are judgments or decisions of a superior court that are binding on the subordinate courts.

(iii) Custom:

Certain customs practices and beliefs are so vital and intrinsic parts of a social and economic system that they are treated as if they were laws e.g., Sharia laws.

(iv) Agreement:

Parties in their agreement stipulate terms for themselves which constitute law for the contracting parties.

- A.3 (a) The rights and limitations of Wasim as a minor admitted to the benefits of GT are as follows:

Rights

- Wasim has the right to a share of GT's property and profits, according to the terms agreed upon by the partners.
- He is entitled to access, inspect, and make copies of GT's accounts.

Limitations

- Wasim will not be considered as GT's partner.
- He cannot initiate legal action against the partners for profits or property unless he disconnects his relationship with GT.
- He is not entitled to access any of GT's books other than the accounts.

(b) Actions to be taken by Wasim for becoming a partner in GT

In order to become a partner in GT, Wasim must issue a public notice indicating his intention to become a partner within six months of attaining majority. The notice will establish his status as a partner in GT. If Wasim fails to issue this notice, he will automatically become a partner in GT six months after reaching the age of majority i.e., on 1 May 2024.

Wasim's duties

After becoming a partner, Wasim is obligated to:

- carry on GT's business to the greatest common advantage;
- be just and faithful to the other partners in GT;

Business Law

Suggested Answer

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- render true accounts and full information of all things affecting GT to any partner or their legal representative;
- indemnify GT for any loss caused by his fraudulent conduct in the business.

Wasim's mutual rights and liabilities

Subject to the contract between the partners, the following are Wasim's mutual rights and liabilities:

- (i) He has the right to participate in the conduct of the business;
- (ii) He is obligated to attend diligently to his duties in the business;
- (iii) He has the right to be consulted in case of disagreements over ordinary business matters, and in case of change to be made in the nature of GT's business;
- (iv) He has the right to access, inspect, and copy any of GT's books;
- (v) He is not entitled to receive remuneration for participating in the business;
- (vi) He is entitled to an equal share of the profits and must contribute equally to any losses sustained by GT;
- (vii) If he is entitled to interest on the capital he contributed, such interest shall be payable only from the profits;
- (viii) If he contributes more money to the business than the capital amount initially agreed upon, he is entitled to interest on the additional amount @ 6% per annum;
- (ix) GT shall indemnify him for payments made and liabilities incurred:
 - In the ordinary and proper conduct of the business, and
 - For act carried out in an emergency to protect the firm from loss, as would be done by a person of ordinary prudence, in his own case, under similar circumstances;
- (x) He must indemnify GT for any loss caused by his willful neglect in conducting GT's business; and
- (xi) He is obligated to pay personal profits derived by him due to his association with GT or from any competing business carried on by him which is of the same nature as GT.

A.4 (a) (i) Where a contract is breached and a specific sum, i.e. Rs. 10 million, is stipulated as the penalty for the breach, the aggrieved party is entitled to receive reasonable compensation from the defaulting party. This compensation should not exceed Rs. 10 million, regardless of whether actual damage or loss has been proven.

(ii) When a constructive contract is breached, the party adversely affected by the breach is entitled to receive compensation from the defaulting party for any loss or damage directly resulting from the breach. This includes losses or damages that either naturally arose in the ordinary course of events or were known to both parties at the time the contract was made as likely outcomes of a breach.

Compensation will not be awarded for any remote or indirect loss or damage incurred due to the breach. When calculating the loss or damage resulting from a breach of contract, any existing means of remedying the inconvenience caused by the contract's non-performance must be taken into account.

(b) Fatima has the option to pursue legal action against Hammad on the grounds of fraud for the following reasons:

- In the specific circumstances of this case, Hammad's silence tantamount to an affirmative statement. This effectively assured Fatima of the building's structural soundness, even though Hammad concealed material facts.
- Under ordinary due diligence, it was not possible for Fatima to ascertain the structural integrity of the building on her own.

Business Law

Suggested Answer

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Since Fatima's consent for the building purchase was obtained through fraud, it cannot be considered freely given. Consequently, the sale is voidable at the option of Fatima. However, she retains the right to consider the sale valid, on the condition that she is placed in the position she would have occupied had the building been as represented. This could mean Hammad compensating her for the repair costs, which amount to Rs. 5 million.

- A.5 (a) (I)** The delivery date specified is 30 September 2023. Daniyal needs to verify whether LC has committed to deliver the order as per RP's request.

If LC's commitment is contingent on RP's input, then it is RP's responsibility to request performance at an appropriate place and during usual business hours.

If LC has committed to deliver the order without requiring RP's input, then:

- LC must deliver the order during the usual business hours on 30 September 2023.
- LC is obligated to ask RP to designate a reasonable place for the delivery of the order and must then arrange for delivery at that place.

- (II)** To ensure a valid delivery offer, Daniyal must satisfy the following conditions:

- (i) The delivery offer must be unconditional.
- (ii) The delivery offer must be made at an appropriate time.
- (iii) The delivery offer must be made at an appropriate place.
- (iv) The delivery offer must be made under circumstances that allow Fahim Hussain or Karim Hussain, the intended recipients, to reasonably ascertain that Daniyal, on behalf of LC, is able and willing to deliver 60 bags of cement.
- (v) Fahim Hussain or Karim Hussain must have a reasonable opportunity to verify the contents of 60 bags.
- (vi) The delivery offer must be made to either Fahim Hussain or Karim Hussain, as an offer to one of several joint promisees carries the same legal consequences as an offer made to all of them.

- (b)** The offer can be revoked before its acceptance is completed with respect to the customer under the following circumstances:

- (i) The customer communicates a notice of revocation to LC or LC itself rejects the customer's offer.
- (ii) The time period specified for accepting the offer has elapsed, or, if no time period is specified, a reasonable amount of time has passed without LC communicating acceptance.
- (iii) LC fails to fulfill a condition precedent to acceptance, such as sending two sample bags as required by the customer.
- (iv) The customer dies or becomes insane (if the customer is a natural person), provided that LC becomes aware of the death or insanity before acceptance.
- (v) LC sends a counter offer to the customer.

Business Law

Suggested Answer

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- A.6 (a)** If Abid, while introducing Saad to Malik, represents himself either through spoken or written words, conduct, or by lending his name as a partner in Saad's business, he would be liable as if he were a partner. This would be the case if Malik extends credit to Saad based on the belief that Abid is a partner whether Abid knows or does not know that the representation had reached Malik.

In this scenario, Abid would be regarded as a 'partner by estoppel' (or holding out) and would be liable for paying the outstanding amount to Malik.

However, Abid would not be considered as a 'holding out partner' and would therefore not be liable for any outstanding amount to Malik if:

- he did not represent himself as being Saad's partner; or
 - he denied any claim by Saad that suggested him as a partner; or
 - he was unaware of Saad's representation of him as a partner in the business.
- (b)** An individual who is entitled to receive up to 50% of the annual profits from a partnership firm may still not be recognized as a partner in that firm if such individual falls into one of the following categories:
- Lender of money who has lent money to persons engaged in the business.
 - An employee or agent who receives a share of the profit as remuneration.
 - The widow or child of a deceased partner, receiving an annuity.
 - A previous owner or co-owner of the business, who receives the share as consideration for the sale of the goodwill or a portion thereof.
 - The transferee of a partner's interest in the firm.
 - A minor who has been admitted to the benefits of the partnership firm.

A.7 (a) Contract I - Construction of factory building

SF's position

GB was contractually obligated to complete the construction of the factory building by August 2023, given that the processing of peaches to be harvested in September 2023 was dependent on the building's completion. Therefore, time was of the essence for this contract.

Due to GB's failure to meet the given timeline, the contract becomes voidable at the discretion of SF.

Remedies available to SF

SF may choose to accept delayed performance from GB after August 2023. However, in this scenario, SF cannot claim compensation for any losses resulting from the delay, unless SF notifies GB of its intention to claim such compensation at the time of accepting the delayed performance.

It is pertinent to note that if SF allows GB to continue construction activities after August 2023 without any formal notice, this will be considered implied acceptance of the delayed performance.

Alternatively, SF can refuse to accept delayed performance. Further, SF may also seek compensation for damages incurred due to non-fulfilment of the contract, since GB knew, at the time of making the contract regarding the potential consequences of not completing the construction work within stipulated time period.

Contract II - Construction of head office building

SF's position

The head office building was not scheduled for use until December 2023; hence, time was evidently not the essence of this contract.

SF does not have the option to render the contract voidable, so GB can proceed with the construction work.

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Suggested Answer

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Remedies available to SF

SF may be entitled to claim compensation from GB for any potential losses due to the delay. However, it's worth noting that the head office building's usage was planned for December 2023, and this timeline was clearly communicated to all parties involved. Given this clearly stated intent, the likelihood of GB being required to compensate SF for delays related to this contract is relatively low.

(b) BD's position

The contract between Rizwan and BD includes reciprocal promises concerning the execution of tiling works.

However, Rizwan failed to provide the tiles as agreed, thereby preventing BD's ability to fulfill its end of the contract within the stipulated timeline.

Remedies available to BD

Since Rizwan breached the contract, BD has the option to consider the contract voidable.

BD is entitled to claim compensation from Rizwan for any losses sustained due to Rizwan's failure to perform his part of the contract. This is in addition to the contract price proportionate to the extent of work already completed by DB.

If BD agrees to proceed with the work, contingent upon Rizwan paying a partial contract price, this implies that BD accepts completing the tiling work within the same initial contract price.

Such an agreement would also open the door to potential modifications to the original contract terms, provided that Rizwan consents to the proposed changes.

A.8 (a) A person involved in carrying following activities, would fall within the ambit of a 'financial institution' as envisaged in the Anti-Money Laundering Act, 2010:

- (i) acceptance of deposits and other repayable funds from the public;
- (ii) lending in whatsoever form;
- (iii) financial leasing;
- (iv) money or value transfer;
- (v) issuing and managing means of payments including but not limited to credit and debit cards, cheques, traveler's cheques, money orders, bank drafts and electronic money;
- (vi) financial guarantees and commitments; and
- (vii) trading in:
 - money market instruments;
 - foreign exchange;
 - exchange, interest rate, and index instruments;
 - transferable securities;
 - 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 market instruments;
 - carrying out business as an intermediary.

Business Law

Suggested Answer

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- (b) The arbitrators shall, unless a different intention is expressed in the agreement, have the power to:
- (i) administer the oath to the parties and witnesses appearing;
 - (ii) state a special case for the opinion of the 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 the opinion of the Court;
 - (iii) make the award conditional or in the alternative;
 - (iv) correct in an award any clerical mistake or error arising from any accidental slip or omission;
 - (v) administer to any party to the arbitration such interrogatories as may, in the opinion of the arbitrators, be necessary.

- A.9 (a)** When SE makes a payment to Farrukh, and the circumstances imply that the payment is intended for a particular debt, Farrukh's acceptance of the payment suggests that it will be applied towards that particular debt.

In the absence of clear instructions from Junaid and with no other factors indicating which debt the payment should be applied to, Farrukh has the discretion to apply the payment to any valid debt owed by SE. This holds true even for debts that may be time-barred under current laws governing the limitation of legal action for debt recovery.

If Farrukh does not allocate the payment to a specific debt, Junaid's payments will be applied to the debts in order of time. This is the case regardless of whether the debts are or are not time-barred by the laws on the limitation of legal action for debt recovery.

When multiple debts are of equal standing, Junaid's payments will be divided proportionally among these debts to discharge them.

(b) (i)

	Contingent Contracts	Wagering Agreements
1.	Contingent contracts are valid contracts.	Wagering agreements are void and illegal contracts.
2.	In a contingent contract, parties have a real interest in the occurrence or non-occurrence of the event (e.g. insurable interest in the property insured).	Parties are not interested in the occurrence or non-occurrence of the event, except for the winning or losing the amount.
3.	The future uncertain event is merely collateral.	The uncertain event is the sole determining factor of the agreement.
4.	Contingent contracts consist of reciprocal promises.	Wagering agreements may or may not consist of reciprocal promises.
5.	Suit can be filed and damages can be claimed in case of breach of contingent contract.	Suit cannot be filed and damages cannot be claimed in case of breach of wagering agreements.

- (ii) An agreement without consideration is considered to be a valid contract, if it is:
- (i) 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; or
 - (ii) 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; or
 - (iii) a promise, made in writing and signed by the person to be charged therewith, or by his agent generally or specially authorized on that behalf, to pay wholly or in part a debt or other liability which the creditor might have enforced payment but for the law for the limitation of suits; or
 - (iv) a gift already made by the donor to the donee.

Business Law

Suggested Answer

Certificate in Accounting and Finance – Autumn 2023

- A.10 (a) (i)** It is not a valid promissory note because it includes Zareen's undertaking to deliver her car. A promissory note is an instrument in writing that contains an unconditional undertaking to pay a certain sum of money only.
- (ii)** It is not a valid bill of exchange on account of uncertainty.
- (iii)** It is not a valid promissory note because the promise to pay must not be for foreign currency.
- (b)** The banker in this case would not be liable to Rustom and can debit Rustom'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 Rustom if he can prove that payment was not made in due course.

(c)

	Promissory note	Bill of exchange
1.	There are two parties i.e. the maker and the payee.	There are three parties i.e. the drawer, the drawee and the payee.
2.	The maker of a promissory note cannot be the payee because the same person cannot be both the promisor and the promisee.	The drawer and the payee may be the same person where a bill of exchange is drawn as "Pay to me or my order".
3.	There is a promise to make the payment.	There is an order for making the payment.
4.	It requires no acceptance as it is signed by the person who is liable to pay.	It needs acceptance by the drawee before it is presented for payment.
5.	The liability of the maker is primary and absolute.	The liability of the drawer is secondary and conditional. It is only when the acceptor does not honour the bill of exchange that the liability of drawer arises as a surety.
6.	The maker stands in immediate relation with the payee.	The drawer of an accepted bill stands in immediate relation with the acceptor and not the payee.
7.	It cannot be drawn "payable to bearer".	It can be drawn "payable to bearer" provided that it is not drawn "payable to bearer on demand".
8.	In case of dishonour, no notice of dishonour is required to be given to the maker.	In case of dishonour, notice of dishonour must be given by the "holder" to all prior parties who are liable to pay (including the drawer and indorser).

(THE END)

BUSINESS LAW
Summary of Marking Key
Certificate in Accounting and Finance – Autumn 2023

Note regarding marking scheme:

The marking scheme is given as a guide. Markers also award marks for alternative approaches to a question and relevant/well-reasoned comments/explanations. Moreover, the available marks in answer may exceed the total marks of a question.

		Mark(s)
A.1	Marks as mentioned on the question paper against each MCQ	15.0
A.2	<ul style="list-style-type: none"> ▪ Identify the basis of legal system in Pakistan ▪ 01 mark for explanation of each source of law in Pakistan 	1.0 4.0
A.3	(a) 0.75 mark for each of Wasim's right / limitation, pertaining to GT	3.0
	(b) <ul style="list-style-type: none"> ▪ Determine the course of action to be taken by Wasim to become a partner ▪ 0.5 mark for each duty, mutual right / liability of Wasim, concerning GT after becoming a partner 	1.5 6.5
A.4	(a) Advise the compensation payable for breach of contract in the following scenarios: <ul style="list-style-type: none"> ▪ Contract in which Rs. 10 million is fixed as damages ▪ Constructive contract lacking pre-established determination of damages 	 1.5 1.5
	(b) <ul style="list-style-type: none"> ▪ Determine that Hammad committed fraud against Fatima ▪ Discuss the remedies available to Fatima 	2.0 2.0
A.5	(a) (I) Advise Daniyal about the prescribed mode to determine the following: <ul style="list-style-type: none"> ▪ Time of delivery for RP's order ▪ Place of delivery for RP's order 	 1.5 1.5
	(II) Up to 01 mark for each condition to be fulfilled by Daniyal	4.0
	(b) 01 mark for each situation in which the offer would be revoked	4.0
A.6	(a) <ul style="list-style-type: none"> ▪ Discuss whether Abid would be considered as a partner under the 'holding out' principle ▪ Identify when Abid would not be held liable towards Malik 	 2.5 1.5
	(b) 0.5 mark to explain each circumstance	3.0
A.7	(a) <ul style="list-style-type: none"> ▪ Identify that the time was of essence in case of Contract (I) only ▪ Evaluate SF's position in respect of voidability of Contract (I) and (II) ▪ Discuss the remedies available to SF in respect of each contract 	 2.0 2.0 3.0
	(b) <ul style="list-style-type: none"> ▪ Evaluate BD's position on account of breach of reciprocal promise ▪ Discuss the remedies available to BD 	 1.5 2.5

<p>BUSINESS LAW Summary of Marking Key Certificate in Accounting and Finance – Autumn 2023</p>

		Mark(s)
A.8	(a)	Define the term 'financial institution' under the Anti-Money Laundering Act 6.0
	(b)	01 mark for identification of each power of arbitrator 4.0
A.9	(a)	▪ Advise how Farrukh would apply the payments towards Babar's debts 2.0
		▪ Discuss when the payments would have to be applied to the debts in order of time and further, would be proportionated, if debts are of equal standing 2.0
	(b) (i)	01 mark for identification of each difference 4.0
	(ii)	Up to 1.5 marks for identification of each circumstance in which an agreement without consideration is considered to be a valid contract 5.0
A.10	(a)	▪ 0.5 mark for identification of type of each instrument 1.5
		▪ 0.5 mark for determination of validity of each instrument 1.5
	(b)	▪ Discuss the situation in which banker would not be liable towards Rustom 2.0
		▪ Identify that banker would be liable only if it makes payment made out of due course 1.0
	(c)	01 mark for identification of each difference 4.0

(THE END)

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Business Law	Certificate in Accounting and Finance (CAF) Autumn 2023

Passing %

Question-wise										Overall
1	2	3	4	5	6	7	8	9	10	Overall
62%	55%	45%	18%	46%	32%	7%	46%	71%	50%	43%

General comments

An increase in overall result was observed in this session as 43% of examinees secured passing marks compared to 31% in the previous session.

Below-average performance was noted in questions number 4 and 7, primarily due to the examinees' inability to identify and apply relevant knowledge of the law to scenario-based questions. It is strongly advised that when attempting such questions, examinees should first ascertain the core issue(s) and then identify and apply the relevant provisions of law that address the applicable issue.

Question-wise common mistakes observed

Question 1

- Performance in MCQ no. (i), (vi), (viii), and (x) was below average.
- Few examinees selected multiple options instead of selecting one correct option due to which marks could not be awarded.

Question 2

Examinees did not identify that the legal system in Pakistan is based on the Constitution of the Islamic Republic of Pakistan, 1973 as well as Islamic law (Sharia).

Question 3(a)

Examinees did not mention that Wasim, being a minor admitted to the benefits of GT, would not be considered as GT's partner. Consequently, he would not possess the ability to legally sue GT's partners for his share of profits or property relating to the firm unless he chooses to disassociate himself from GT.

Question 3(b)

Examinees stated a course of action for Wasim's decision not to become GT's partner, despite the question indicating Wasim's intention to become GT's partner. Additionally, some

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examinees discussed Wasim's implied authorities as GT's partner, which was not relevant to the question's requirement.

Question 4(a)

Examinees misinterpreted that the defaulting party would automatically own Rs. 10 million as minimum compensation for breaching a contract in which a specific sum of Rs. 10 million was stipulated as a penalty. This led to the incorrect assumption that the defaulting party must pay Rs. 10 million regardless of the actual damages suffered by the aggrieved party.

Question 4(b)

Examinees did not discuss that Hammad had committed fraud against Fatima due to which the sale of the building would be voidable at Fatima's option.

Question 5(a)(I)

Examinees did not mention that if Daniyal determined LC's commitment to delivering the order without RP's input, then LC would be obliged to request RP to designate a reasonable delivery location for the order.

Question 5(a)(II)

Examinees failed to recognize that the delivery offer ought to be made to either Fahim Hussain or Karim Hussain. Moreover, during delivery, either Fahim Hussain or Karim Hussain must be given a reasonable opportunity to inspect the contents of 60 cement bags.

Question 5(b)

Examinees did not identify that the offer would also be revoked if LC sent a counteroffer to the customer or if LC rejected the customer's offer.

Question 6(a)

Examinees did not discuss that Abid would not be liable as a holding-out partner towards Malik if he had denied any of Saad's claims asserting his partnership with Saad.

Question 6(b)

Examinees did not mention that a transferee acquiring a partner's interest in a partnership firm would not be recognized as a partner of the firm, despite receiving a specified percentage of the annual profits.

Question 7(a)

Examinees overlooked indicating that time was of the essence in case of contract (I) and GB's failure to meet the deadline would render contract (I) voidable at SF's discretion. Further, they did not explain the fact that if SF chooses to accept delayed performance, it could not claim compensation for any loss due to the delay unless SF notifies GB of its intention to claim such compensation upon accepting the delayed performance.

Question 7(b)

Examinees failed to address that the contract between Rizwan and BD comprised reciprocal promises. Furthermore, they did not acknowledge that Rizwan's failure to supply the tiles as agreed upon hindered BD from fulfilling its promise within the stipulated timeframe.

Question 8(a)

Examinees did not define the term 'financial institution' under the Anti-Money Laundering Act. Instead, they provided a generalized explanation which was not required.

Question 8(b)

Some examinees did not state the powers vested in an arbitrator specified under the Arbitration Act. Instead, they provided generalized or irrelevant answers which were not required.

Question 9(a)

Examinees failed to mention that if SE has multiple debts with the same priority, Junaid's payments would be applied proportionally to discharge these debts.

Question 9(b)(i)

Examinees repeated several points rather than identifying four distinct differences between a contingent contract and a wagering agreement.

Question 9(b)(ii)

Examinees did not mention that an agreement without consideration can be a valid contract if it constitutes a gift already given by the donor to the donee.

Question 10(a)

Examinees did not identify that the instrument signed by Zareen acknowledging her debt towards Mehreen does not constitute a valid promissory note.

Question 10(b)

Examinees omitted that the banker would only be liable to Rustom if he could substantiate that payment was not made in due course.

Question 10(c)

Examinees repeated the same points instead of identifying four distinct differences between a promissory note and a bill of exchange.

(THE END)



Business Law

Instructions to examinees:

- (i) Answer all **TEN** questions.
- (ii) Answer in **black** pen only.
- (iii) Multiple Choice Questions must be answered in answer script only.

Q.1 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions.

- (i) Under the Contract Act, 1872, a proposal may be revoked at any time before the communication of its acceptance is complete, as against the:
(a) acceptor (b) promisee (c) proposer (d) offeree **(01)**

- (ii) Aqib and Haris are partners in Quadrilateral Sports (QS). Maaz placed an order to purchase 10,000 footballs from Aqib and paid an advance of Rs. 100,000 to him. Aqib neither informed Maaz about his partnership in QS nor did he inform Haris about Maaz's order and spent the advance on his personal expenses. When Maaz did not receive the order on agreed date, he investigated Aqib's background and found out that Aqib is a partner in QS.

Under the Partnership Act, 1932, can Maaz hold QS liable for the delivery?

- (a) No, because Aqib had not informed Haris regarding Maaz's order
 - (b) No, because Maaz was unaware of Aqib's partnership in QS upon purchase
 - (c) Yes, because an act done by Aqib in the ordinary course of business binds QS
 - (d) Yes, because QS is liable for the misapplication of payment by its partner **(01)**
- (iii) Zubair purchased 5,000 kg of basmati rice from Shakir and promised to pay Rs. 500,000 after two months. However, due to a fire incident at his shop, he incurred huge loss rendering him unable to pay the amount to Shakir on due date.

Mohsin, who is a friend of Zubair, intending to help him out in the crisis, sent a letter to Shakir along with a cash cheque of Rs. 475,000, requesting Shakir to accept the payment in full settlement of Zubair's debt. Shakir immediately encashed the cheque on 1 March 2024, fearing that his debt would not otherwise be recovered. He now demands the remaining payment of Rs. 25,000 and damages of Rs. 30,000 incurred by him on account of delayed payment.

Under the Contract Act, 1872, which of the following statements is correct?

- (a) Shakir can sue Zubair for the recovery of Rs. 25,000 only
 - (b) Shakir can sue Zubair for the recovery of Rs. 55,000
 - (c) Shakir can sue either Mohsin or Zubair for the recovery of Rs. 55,000
 - (d) Shakir can neither sue Mohsin nor Zubair for the recovery of Rs. 55,000 **(02)**
- (iv) Which of the following is **NOT** an advantage of delegated legislation?
(a) Delegated legislation is more flexible than an Act of Parliament
(b) Delegated legislation is better worked out in consultation with professional, commercial or industry bodies [For more kindly visit https://sdc.parliament/](https://sdc.parliament/)
(c) It is simpler to amend delegated legislation than to amend an Act of Parliament
(d) The power to make law is given to unelected civil servants and experts working under the supervision of a government minister **(01)**

- (v) Fahad, a foreign ambassador stationed in Pakistan, signed a lease agreement with a local landlord for an office space in Quetta, to be used for the foreign embassy's consular operations.

Under the Contract Act, 1872, which of the following statements is correct regarding the lease agreement signed by Fahad?

- (a) Fahad can be sued in the local courts only despite his diplomatic status
 (b) Fahad can be sued both in the local and international courts despite his diplomatic status
 (c) Fahad cannot be sued in the local courts due to his diplomatic status
 (d) Fahad cannot avoid legal actions even if a personal immunity clause is included in the lease agreement

(01)

- (vi) Which of the following would be considered a 'critical infrastructure', under the Prevention of Electronic Crimes Act, 2016?

- (a) Any system whose disruption could lead to the loss solely to the business, taking into account significant social impacts
 (b) Any system whose compromise could lead to significant loss of life, taking into account significant social impacts
 (c) Any facility whose disruption could result in significant loss to private business operations, taking into account economic impacts
 (d) Any facility whose disruption could result in significant loss to operations of the public transportation system

(01)

- (vii) Jamal purchased a ticket from Hexagon Cruises (HC) for cruise ship journey from Pakistan to Georgia for Rs. 300,000, scheduled to reach there on 29 February 2024. The objective of Jamal's trip was to deliver his speech on the first two days of the five-day conference he was attending in Georgia. In consideration, he received Rs. 100,000 advance from the Georgia Research Institute (GRI).

On the date of departure, HC cancelled the journey. Jamal purchased the next available ticket from Oval Cruises for Rs. 500,000, scheduled to depart after two days. Jamal arranged hotel accommodation costing Rs. 30,000 and incurred necessary expenses of Rs. 20,000 during his two days extended stay in Karachi. He finally reached Georgia on 3 March 2024 and had to refund Rs. 100,000 to GRI as he did not deliver his speech as contracted.

Under the Contract Act, 1872, which of the following amounts can Jamal recover from HC?

- (a) Rs. 500,000 (b) Rs. 550,000 (c) Rs. 600,000 (d) Rs. 650,000

(02)

- (viii) With reference to 'undue influence', as explained in the Contract Act, 1872, which of the following statements is **NOT** correct?

- (a) The contract is voidable at the option of the party whose consent was caused through exercise of undue influence
 (b) A person is deemed to be in a position to dominate the will of another where he holds apparent authority over the other person
 (c) Consent is said to be free when it is not caused by undue influence
 (d) The burden of proving that undue influence was not applied shall lie upon the person whose will was dominated by the other person

(01)

- (ix) Which of the following would constitute as an act of glorification of an offence under the Prevention of Electronic Crimes Act, 2016?

- (a) Disseminating information that glorifies the contributions of a political party
 (b) Preparing information that glorifies the contributions of a political party
 (c) Gaining authorized access to any critical infrastructure information system
 (d) Disseminating the verdicts given by the courts to criminals in high profile cases

(01)

- (x) Malik engaged Waqas to carry out maintenance of the equipment installed in the garden area of his house. While working on maintenance tasks, Waqas noticed a gas leak in the kitchen. To prevent any casualty, Waqas promptly fixed the gas leak using his tools without seeking Malik's consent since he was not at home. Malik later thanked him for taking timely action.

Under the Contract Act, 1872, can Waqas hold Malik liable to pay for his services in respect of fixing the gas leak?

- (a) No, as Malik had not engaged Waqas to fix the gas leak
- (b) No, because the service charges for fixing the gas leak were not ascertained
- (c) Yes, if Waqas did not intend to fix the gas leak gratuitously
- (d) Yes, because Waqas fixed the gas leak as Malik's agent **(01)**

- (xi) Nadir, Rehan and Saqib signed a partnership agreement on 5 March 2020 stipulating a profit-sharing ratio of 50:25:25. Nadir has been the only partner involved in managing the firm's business. Subsequent to the agreement, the firm's profits were distributed annually among the partners in the ratio of 70:15:15, a practice which neither Rehan nor Saqib opposed. However, due to an extra-ordinary increase in the current year's profit, Saqib highlighted the need to abide by the profit-sharing ratio of 50:25:25 as stipulated in the signed partnership agreement to which Nadir disagrees.

Under the Partnership Act, 1932, which of the following statements is correct with respect to the profit-sharing ratio?

- (a) The ratio of 70:15:15 cannot be changed without the consent of all the partners
- (b) The ratio of 50:25:25 may be enforced through legal action against Nadir
- (c) The ratio can be changed to 50:25:25 with the consent of majority of the partners
- (d) The ratio can be changed by Nadir being the only partner managing firm's business **(1.5)**

- (xii) Sana received a promissory note from Bilal as payment for settlement of a personal loan extended by her. She intends to settle her obligation towards Zaheer by indorsing the same promissory note in Zaheer's favour. However, she noted that the promissory note already had indorsements covering it, leaving no space for Sana's signature to indorse it further.

Under the Negotiable Instruments Act, 1881, which of the following statements is correct?

- (a) Sana must ask Bilal to send another promissory note with enough space on it for further indorsement
- (b) Sana can indorse the promissory note through an e-mail sent to Zaheer as proof of indorsement
- (c) Sana can add her indorsement by signing a slip of paper and then attaching it to the promissory note
- (d) Sana must issue a new promissory note due to non-availability of space for further indorsement **(1.5)**

- Q.2 (a) Under the provisions of the Contract Act, 1872, describe quasi-contracts and explain the circumstances in which a quasi-contract may be formed. **(05)**

- (b) Under the provisions of the Partnership Act, 1932, list the restrictions imposed on the implied authority of a partner. **(04)**

- Q.3 (a) Under the provisions of the Competition Act, 2010, identify the agreements that are specifically void, unless exempted otherwise. **(06)**

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- (b) Define the term 'Electronic fund' under the provisions of the Payment Systems and Electronic Fund Transfers Act, 2007. **(04)**

Q.4 Briefly describe the legislative process for a bill passed by the National Assembly but rejected by the Senate. (04)

Q.5 Pentagon Dealers (PD) is a partnership firm engaged in the purchase and sale of automobiles. Saad, Mona and Zain, partners in PD, share profit in equal proportion.

Following are some of the matters related to PD and its partners:

(a) A car racing championship is planned to be held in Karachi on 31 March 2024. On 1 January 2024, PD entered into marketing collaboration with a car racer, Sphere Ryders (SR), for Rs. 2 million. Under the collaboration, PD also promised to deliver a brand new sports car to SR if it wins the finale of the championship. However, on 1 March 2024, Zain cancelled the sports car incentive on PD's behalf when the car prices increased exponentially. **Under the provisions of the Contract Act, 1872, evaluate PD's position and discuss the remedies available to SR, if any.** (04)

(b) On 1 January 2024, Saad entered into another partnership namely Triangular Tours (TT) which arranges trips for the tourists. However, Saad did not inform Mona and Zain regarding his new partnership venture. During the first two months, TT earned a profit of Rs. 10 million. **Under the provisions of the Partnership Act, 1932, determine Saad's liability towards Mona and Zain in respect of profits earned through TT's business.** (04)

(c) Mona owns a 500 square yard plot in a commercial area on which she intends to construct a grand car showroom in her own name. To cover the construction expenses, she obtained a personal loan from Circle Bank Limited (CBL). As a security of the loan, CBL's charge has been created over Mona's interest in PD. **Under the provisions of the Partnership Act, 1932, describe CBL's rights and limitations in respect of PD.** (04)

(d) PD sold a Mercedes-Benz, and in exchange, the customer issued a cheque crossed generally for Rs. 50 million in favour of 'Pentagon Dealers'. Zain was concerned for the safety of the cheque, so he added the words 'not negotiable' between the two parallel transverse lines in his own handwriting. **Under the provisions of the Negotiable Instruments Act, 1881, explain what would be the effect(s) of Zain's action on the cheque.** (04)

Q.6 Nonagon Books (NB), owned by Haroon, is a publishing house that also deals in a wide variety of educational books. The following are some matters related to NB that need to be addressed under the provisions of the Contract Act, 1872:

(a) NB agreed to purchase 15,000 medical books worth Rs. 50 million from Heptagon Publishers (HP), with the delivery scheduled for 25 February 2024. NB promised to provide a bank guarantee as security for the payment. However, HP did not deliver the books on the agreed delivery date because NB did not provide the bank guarantee. Subsequently, NB sued HP for non-performance of contract, claiming that since the books were not received, the bank guarantee was not provided. **Discuss NB's position and its liability, if any.** (03)

(b) NB placed an order with Octagon Printers (OP) for 100,000 copies of a Pakistani scientist's autobiography, with a delivery deadline of 2 March 2024. NB had informed OP of its intention to sell the autobiography at an exhibition scheduled for 3 March 2024, anticipating a profit of Rs. 5 million from the sale. However, due to unforeseen delays, the order arrived on 4 March 2024, at 11 p.m., when NB's warehouse was still open for stock count. **Discuss the possible course(s) of action that NB is entitled to take.** (04)

(c) NB's warehouse, located in a remote area, reported a significant shortfall in inventory. Upon further inquiry, For More kindly visit <https://www.e-learning.com.pk/> Moiz, the warehouse manager, was involved in the theft of inventory. Subsequently, Moiz agreed to pay the price of stolen inventory when Haroon promised to withdraw the suit filed against him. **Advise whether Moiz can hold Haroon liable if he pays the agreed price but the suit filed against him is not withdrawn.** (03)

- Q.7 (a) Four software engineers, namely Ali, Fawad, Shakir and Zia, formed a partnership firm named Trapezoid Developers (TD) in March 2021, agreeing to operate the software development business for a three-year term. By the start of year 2024, TD started receiving an increasing number of contracts for software development.

Ali and Fawad now wish to continue the partnership beyond the three-year term and have prepared a proposal to expand the business by providing one-window solution for all hardware and software related matters. The proposal contains the following terms:

- (i) Induct Nazir, a computer hardware expert, as a partner into TD, who will look after all hardware related matters.
- (ii) Acquire a computer hardware store which will arrange all necessary hardware as per the requirements of TD's clients.
- (iii) Setup a new division to meet the growing demand for customized mobile applications.

The following responses have been received regarding the proposal:

- (i) Shakir is concerned that even if all the partners accept the proposal, the business cannot continue under TD's name and therefore, a new partnership firm should be formed. He is also not in favour of starting development of customized mobile applications.
- (ii) Zia argued that TD should not pursue hardware business due to increasing exchange rates and diminishing purchasing power of consumers.

Under the provisions of the Partnership Act, 1932, evaluate the responses received from TD's partners and assess their possible effects on the implementation of the proposal. **(07)**

- (b) Abid, a proposed partner in a partnership firm, has inquired you about the circumstances in which he must indemnify the firm and the situations in which the firm would indemnify him, after he becomes the partner.

Under the provisions of the Partnership Act, 1932, respond to Abid's inquiry. **(05)**

- Q.8 (a) Rectangle Pharmaceuticals (RP) offered to sell 1,000 cartons of a life-saving drug at a discounted price to Cube Medicos (CM) and requested a confirmed purchase order by 7 March 2024. RP received CM's response letter on 5 March 2024 confirming an order for 500 cartons at the offered price, mentioning that the purchase order would be dispatched within a week. The letter was accompanied with a cheque for advance payment.

Under the provisions of the Contract Act, 1872, evaluate CM's response to RP's offer. **(04)**

- (b) Square Research (SR) is in the process of developing a medical device with radio sensor technology. In January 2024, SR entered into an agreement with Crescent Pharmaceuticals (CP) under which CP agreed to purchase 500,000 units of that medical device from SR in June 2024, if SR obtains regulatory approvals from the Drug Regulatory Authority of Pakistan (DRAP). CP paid an advance of Rs. 10 million to SR.

In February 2024, SR initiated the approval process with DRAP. However, before the approval was granted, the Ministry of Health revised its guidelines and banned the use of radio sensor technology for medical purposes. SR incurred Rs. 12 million for obtaining the approval from DRAP.

Under the provisions of the Contract Act, 1872, evaluate CP's position and identify the remedies available to CP. **(05)**

Q.9 Rashid, a renowned barista, held a coffee extraction demonstration session at his café. He showcased a particular model of coffee machine, mentioning it as the most common model used by various coffee shops in Italy. Impressed by the demonstration, Aisha purchased the machine for Rs. 200,000. Rashid congratulated Aisha and stated that the machine would brew 5,000 coffee cups before needing maintenance.

Within a month of purchase, Aisha noticed a significant decline in the machine's performance after just 500 coffee cups. Upon consulting a service center, she was informed that the machine required maintenance at an exorbitant service charge of Rs. 100,000. Aisha was deeply disappointed by this unexpected expense believing that Rashid had misguided her.

Under the provisions of the Contract Act, 1872, discuss Rashid's position and the remedies available to Aisha, if any. **(04)**

Q.10 Under the provisions of the Contract Act, 1872:

(a) identify the agreements that are expressly declared to be void. **(06)**

(b) define the term 'agent' and explain how the authority of an agent is determined. **(05)**

(THE END)

Business Law

Suggested Answer

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- | | | | | | | |
|-----|-------|-----|--------|-----|-------|-----|
| A.1 | (i) | (c) | (ii) | (b) | (iii) | (d) |
| | (iv) | (d) | (v) | (c) | (vi) | (b) |
| | (vii) | (b) | (viii) | (d) | (ix) | (a) |
| | (x) | (c) | (xi) | (a) | (xii) | (c) |

- A.2 (a)** In certain situations, the law of contract imposes obligations on a person in absence of any agreement. These obligations resemble those as created by a contract. These are called quasi-contracts i.e., those contracts that should have been formed even though in actuality they were not.

A quasi-contract may be formed, in the following circumstances:

- (i) **Supply of necessities:** 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 necessities 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.
 - (ii) **Reimbursement of 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.
 - (iii) **Person enjoying benefit of 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.
 - (iv) **Finder of goods:** A person who finds goods belonging to another and takes them into his custody, is subject to the same responsibilities as a bailee.
 - (v) **Payment or delivery by mistake or under coercion:** A person to whom money has been paid or anything has been delivered by mistake or under coercion, must repay or return it.
- (b)** In the absence of any contrary usage or custom of trade, the following are the restrictions imposed on the implied authority of a partner:
- (i) submit disputes relating to the firm's business to arbitration;
 - (ii) open a bank 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;
 - (viii) enter into partnership on behalf of the firm.

Business Law

Suggested Answer

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- A.3 (a)** An agreement in respect of the production, supply, distribution, acquisition or control of goods or the provision of services which has the object or effect of preventing, restricting, or reducing competition within the relevant market would be prohibited and hence void. Such agreements include but are not limited to:
- (i) 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;
 - (ii) dividing or sharing of markets for the goods or services, whether by territories, by volume of sales or purchases, by type of goods or services sold or by any other means;
 - (iii) fixing or setting the quantity of production, distribution or sale with regard to any goods or the manner or means of providing any services;
 - (iv) limiting technical development or investment with regard to the production, distribution or sale of any goods or the provision of any service;
 - (v) collusive tendering or bidding for sale, purchase or procurement of any goods or service;
 - (vi) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a disadvantage;
 - (vii) making the 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 such contracts.

- (b)** Under the Payment Systems and Electronic Fund Transfers Act, 2007, Electronic Fund 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
- 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 of Pakistan.

- A.4** Where a bill is rejected by the Senate, then such bill will not be effective unless it is, at the request of National Assembly, considered in the joint sitting of both the Houses (i.e., National Assembly and Senate).

If in the joint sitting, such bill is passed by the votes of the majority of the members present and voting in the joint sitting, it shall be presented to the President for assent.

The President shall within 10 days assent to the bill or return it to the Parliament for reconsideration of any provision or any amendment therein.

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A.5 (a) PD's position

The marketing collaboration between PD and SR constitutes a contract that contains therein a term which is dependent on the happening of a future uncertain event i.e., SR winning the finale of the car racing championship.

Zain's act of incentive cancellation is not valid as delivery promise would become void only if SR does not win the finale scheduled on 31 March 2024 or if the act of SR winning the finale becomes impossible on or before 31 March 2024. Furthermore, it is an absolute fact that the performance of the promise becoming commercially unviable due to exponential increase in prices is not an acceptable excuse of supervening impossibility.

Zain's act of incentive cancellation is an attempt for alteration to the original terms of the contract which requires SR's consent. If SR agrees to substitute a new contract, the original contract need not be performed by PD. Otherwise, PD shall continue to be held liable under the contract.

Remedies available to SR

SR can still hold PD liable for car delivery if SR manages to win the finale. However, SR as promisee may also dispense with or remit, wholly or in part, the performance of the promise made, or may accept instead of it any satisfaction which it thinks fit.

If SR wins the finale, it will be eligible to claim compensation from PD for any losses it sustained due to Zain's act that naturally arose in the usual course of things from such breach which may be the car price on 31 March 2024. Furthermore, SR may also seek compensation for special damages i.e., any loss or damage caused to it, which the parties knew, when contract was made, to be likely to result from the breach.

(b) Saad would only be liable to distribute his share of profits with Mona and Zain in equal proportion if:

- Saad had been restrained by Mona and Zain from carrying on any business other than that of PD; or
- it is established that Saad used PD's property; or PD's business connection; or PD's name to earn personal profits.

In the absence of any such agreement or the conditions mentioned above, Saad would not be liable to pay his share of profits from TT's business because TT's business is not of same nature nor does it compete with the automobile business in which PD is engaged.

(c) Rights of CBL in respect of PD's business

CBL is entitled to receive Mona's share of profits earned from PD's business as determined by the partners. However, if PD is dissolved or if Mona ceases to be PD's partner, CBL will be entitled as against Saad and Zain to receive the share of assets of PD's business to which Mona was entitled, and, for the purpose of ascertaining that share, to receive PD's accounts as from the date of the dissolution.

Limitations of CBL in respect of PD's business

CBL, during the continuance of PD's business, is not entitled to:

- interfere in the conduct of PD's business,
- require PD's accounts,
- inspect PD's books,
- enjoy the status of a partner,
- challenge the accounts or profits agreed to by PD's partners.

Business Law

Suggested Answer

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- (d) The cheque would remain valid as Zain, being holder of the cheque, has the authority to add the words 'not negotiable' and such addition to the general crossing is authorized under the provisions of the Negotiable Instruments Act, 1881.

The addition by Zain of the words 'not negotiable' does not restrict the further transferability of the cheque. However, it takes away the main feature of negotiability, which is transferability free from defects.

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 the title of its transferor. Therefore, a holder with a defective title cannot give a good title to a subsequent holder.

The objective of adding the words 'not negotiable' is to afford protection to PD (i.e., holder of the cheque) against miscarriage or dishonesty in the course of transit by making it difficult for the cheque so crossed cashed, until it reaches its destination.

A.6 (a) NB's position

The contract between NB and HP consist of reciprocal promises. It seems that the order of performance was not fixed by the contracting parties at the time of contract formation, therefore, reciprocal promises needed to be performed in such order which the nature of transaction required i.e., NB first needed to provide the payment security (bank guarantee) after which HP would deliver the books.

NB's liability

NB is liable to compensate HP, being the aggrieved party, for loss or damage caused by NB's breach. This compensation should cover losses that naturally arose in the usual course of things from the breach or were known by the parties, at the time of contract formation, to be likely results of the breach.

- (b) OP was aware of NB's plan to sell the autobiography in the exhibition scheduled for 3 March 2024 due to which time was the essence of contract and non-delivery on agreed date has made the contract voidable at NB's option.

The possible courses of action that NB is entitled to take are as follows:

- (i) NB has the right to accept delayed performance from OP. In such case, NB would not be able to claim compensation for any losses resulting from the delivery delay, unless NB notifies OP of its intention to claim such compensation at the time of accepting the delayed delivery of books.

NB also has the right to demand delivery at an appropriate time as the offer to deliver at 11 p.m. when staff is already busy with the stock count would not be considered as valid offer of performance unless NB itself is willing to accept performance at such time and in such manner.

- (ii) NB has the right to rescind the contract and declare it void, thereby refusing to take delivery. Being the aggrieved party, NB would be entitled to be compensated by OP for any loss or damage caused by the breach that naturally arose in the usual course of things from such breach, and the anticipated profit of Rs. 5 million, which both parties knew at the time of the contract formation to be a likely result of its breach.

- (c) The agreement between Moiz and Haroon is void because the object is unlawful as the Court may regard such an agreement being opposed to public policy.

Therefore, Moiz cannot hold Haroon liable if the suit filed against him is not withdrawn regardless of the fact that he pays the agreed amount as consideration.

A.7 (a) Evaluation of Shakir's response and its effect(s) on the proposal

- Shakir's concern is not valid because even though TD was formed for a fixed term expiring 31 March 2024, however, under the provisions of the Partnership Act, 1932, TD may continue to carry on its business even after expiry of the mutually agreed term, if all partners give their consent to continue the business.

Where the partnership business is continued after expiry of the term, TD would become 'partnership at will' in which mutual rights and duties of TD's partners would remain the same as they were before 31 March 2024, so far as they may be consistent with the incidents of partnership at will.

However, if Shakir remains adamant that a new partnership should be formed then it may require determination of mutual rights and duties of partners in the new firm which may be done through a formal partnership agreement.

- Shakir's objection in respect of development of customized mobile applications constitutes a dispute relating to ordinary matters of the business that may be decided by a majority of the partners (i.e., at least 3 partners) unless there is an express or implied contract to the contrary among the partners.

All the partners of TD should be informed about such dispute and should be provided with an opportunity to express opinion before matter is decided. However, TD can still undertake the application development if Zia agrees.

Evaluation of Zia's response and its effect(s) on the proposal

The proposal to pursue hardware business is a different venture which would constitute change in nature of TD's business. Such business cannot be undertaken without the consent of all the partners unless there is an express or implied contract to the contrary among the partners.

If Zia remains firm on his disagreement with regards to hardware business, then:

- TD cannot pursue hardware business;
- Induction of Nazir as a partner with hardware expertise may not be required;
- Remaining partners may dissolve TD and consider to form new partnership;
- Remaining partners may form new partnership with Nazir.

- (b) Abid shall be required to indemnify TD for any loss caused to it by his act of fraud or wilful neglect (subject to contract between partners) in the conduct of TD's business.

Subject to contract between the partners, TD shall indemnify Abid in respect of payments made and liabilities incurred by Abid in:

- the ordinary and proper conduct of TD's business;
- doing such act, in an emergency, for the purpose of protecting TD from loss, as would be done by a person of ordinary prudence, in his own case, under similar circumstances.

A.8 (a) CM's response contain the following deficiencies:

- **CM's acceptance is not absolute:** CM has actually extended a counter offer proposing to purchase 500 cartons at the discounted offer price to which RP's acceptance would be required in order for a contract to be formed.
- **Acceptance is not given in prescribed mode:** CM has not sent confirmed purchase order rather has mentioned that it would be sent after prescribed time. RP may, within a reasonable time, insist that the offer should be accepted in prescribed manner but if RP fails to make such demand, then it would be implied that CM's mode of acceptance has been accepted by it.

Moreover, CM has sent an advance cheque, therefore, RP's act/response would be critical in determining the status of the deal. Acceptance of the advance cheque as consideration would imply RP's acceptance of CM's counter offer.

(b) As the supply of the medical devices with radio sensor technology is contingent upon SR obtaining the required regulatory approval from DRAP, the performance of the contract would not become due for either party until the approval is obtained within the specified timeframe i.e., by June 2024.

The Ministry of Health's act of revising the guidelines and banning use of radio sensor technology for medical purposes was unforeseen and beyond SR's control which has significantly impacted the feasibility of fulfilling the collateral event to the contingent contract rendering the contract performance impossible.

Considering the principles of impossibility, it is apparent that with the radio sensor technology banned, the contract between CP and SR becomes void.

Accordingly, CP is entitled to recover the advance of Rs. 10 million paid to SR, whereas CP would not be liable towards the cost incurred by SR i.e., Rs. 12 million.

A.9 Rashid's position

Rashid's statement regarding the number of cups that could be brewed did not cause Aisha's consent in the first place since the statement was made after the machine was already purchased, therefore, the contract is valid and cannot be rendered voidable at Aisha's option.

Remedies available to Aisha

Aisha has no remedies available against Rashid because he cannot be held liable towards her unless she can prove that any of statements made by Rashid, based on which she decided to give her consent to purchase the coffee machine, were made with fraudulent intent or misrepresentation.

Business Law

Suggested Answer

Certificate in Accounting and Finance – Spring 2024

- A.10 (a)** An agreement not enforceable by law is said to be a void agreement. Following agreements have been expressly declared as void agreements:
- (i) Agreement in restraint of marriage of any person, other than a minor.
 - (ii) Agreement that restrains someone from exercising a lawful profession, trade or business except selling a business's goodwill, where the seller agrees to refrain from carrying on a similar business, within the specified local limits.
 - (iii) Agreement, by which any party is restricted absolutely from enforcing contractual rights, by the usual legal proceedings in ordinary courts, or limits the time within for enforcing these rights, except where parties agree not to appeal in an upper court or select one court of law over another when both have equal jurisdiction.
 - (iv) Agreements, meaning of which is not certain, or capable of being made certain.
 - (v) Wagering agreements; no suit shall be brought for recovering anything alleged to be won on any wager, or entrusted to any person to abide the result of any game or other uncertain event on which any wager is made.
 - (vi) Agreements knowingly made to promote or assist the conclusion, execution or performance of, or to secure or guarantee the performance of, any wagering agreement that is void.
- (b)** An 'agent' is a person employed to do any act for another or to represent another in dealings with third persons.

An agent's authority may be express or implied. An express authority is given by words spoken or written whereas implied authority is to be inferred from the circumstances of the case; and things spoken or written, or the ordinary course of dealing, may be accounted for circumstances of the case.

An agent having an authority to do an act has authority to do every lawful thing which is necessary in order to do such act, whereas 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.

Furthermore, 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.

(THE END)

BUSINESS LAW
Summary of Marking Key
Certificate in Accounting and Finance – Spring 2024

Note regarding marking scheme:

The marking scheme is given as a guide. Markers also award marks for alternative approaches to a question and relevant/well-reasoned comments/explanations. Moreover, the available marks in answer may exceed the total marks of a question.

		Mark(s)	
A.1	Marks as mentioned on the question paper against each MCQ	15.0	
A.2	(a) <ul style="list-style-type: none"> ▪ Description of quasi-contracts ▪ Up to 01 mark for explanation of each circumstance 	1.0 4.0	
	(b) 0.5 mark for each restriction imposed on a partner's implied authority	4.0	
A.3	(a) Up to 01 mark for identification of each void agreement	6.0	
	(b) <ul style="list-style-type: none"> ▪ 0.5 mark for identification of each mode / medium of money transfer ▪ 01 mark for each inclusion contained in the definition 	2.0 2.0	
A.4	▪ Description of legislative process of reconsideration of the bill once rejected by Senate	2.0	
	▪ Discuss the requirement to present it to the President for his assent	2.0	
A.5	(a) <ul style="list-style-type: none"> ▪ Evaluate PD's position due to Zain's act of cancellation ▪ Up to 01 mark for identification of each remedy available to SR 	2.0 2.0	
	(b) <ul style="list-style-type: none"> ▪ Determine when Saad would not be liable to share the profit with Mona and Zain ▪ Discuss when Saad would be liable to share the profit with Mona and Zain 	1.5 2.5	
		(c) <ul style="list-style-type: none"> ▪ Up to 01 mark for each right of CBL in respect of PD's business ▪ 0.5 mark for each limitation of CBL in respect of PD's business 	2.0 2.0
	(d) Explain the effect of Zain's action on: <ul style="list-style-type: none"> ▪ validity of the cheque given by the customer ▪ transferability of the cheque given by the customer 	2.0 2.0	
		A.6	(a) <ul style="list-style-type: none"> ▪ Discuss NB's position in case of reciprocal promises ▪ Discuss NB's liability towards HP
	(b) <ul style="list-style-type: none"> ▪ Identify that time was essence of the contract between NB and OP ▪ 01 mark for each possible course of action that NB is entitled to take 		1.0 3.0
	(c) <ul style="list-style-type: none"> ▪ Discuss on the validity of the agreement between Haroon and Moiz ▪ Conclude whether Moiz can hold Haroon liable based on agreement's validity 	2.0 1.0	

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<p>BUSINESS LAW Summary of Marking Key Certificate in Accounting and Finance – Spring 2024</p>

		Mark(s)	
A.7	(a)	▪ Evaluation of Shakir’s response and its effect on the proposal	4.0
		▪ Evaluation of Zia’s response and its effect on the proposal	3.0
	(b)	▪ Determine the circumstances in which Abid would indemnify the firm	2.0
		▪ Determine the circumstances in which firm would indemnify Abid	3.0
A.8	(a)	▪ Evaluate that CM’s response constitute a counter offer	1.0
		▪ Discuss that CM’s response would not constitute acceptance of RP’s offer	2.0
		▪ Determine that if RP accepts the cheque; it means CM’s offer is accepted	1.0
	(b)	▪ Evaluate CP’s position in the agreement with SR	4.0
		▪ Identify the remedies available to CP	1.0
	A.9	▪ Discuss Rashid’s position on his statement	1.5
▪ Discuss the remedies available to Aisha		2.5	
A.10	(a)	Up to 01 mark for identification of each void agreement	6.0
	(b)	▪ Definition of the term ‘agent’	1.0
		▪ Explain how the authority of an agent is determined in normal situation	2.5
		▪ Explain agent’s authority in case of an emergency	1.5

(THE END)

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Business Law	Certificate in Accounting and Finance (CAF) Spring 2024

Passing %

Question-wise										Overall
1	2	3	4	5	6	7	8	9	10	Overall
75%	69%	31%	33%	15%	46%	6%	24%	9%	44%	34%

General comments

A decrease in overall result was observed in this session as 34% of examinees secured passing marks compared to 43% in the previous session.

Below-average performance was noted in questions number 5, 7 and 9, primarily due to the examinees' inability to identify and apply relevant knowledge of the law to scenario-based questions. It is strongly advised that when attempting such questions, examinees should first ascertain the core issue(s) and then identify and apply the relevant provisions of law that address the issue.

Question-wise common mistakes observed

Question 1

- Performance in MCQ no. (iii), (vii) and (viii) was below average.
- Few examinees selected multiple options instead of selecting one correct option due to which marks could not be awarded.

Question 2(a)

Examinees mentioned different kinds of agreements that are valid despite no consideration, which was not required.

Question 2(b)

Examinees did not identify certain restrictions imposed on the implied authority of a partner, such as a partner not being able to acquire immovable property on behalf of the partnership firm or transfer immovable property belonging to the firm.

Question 3(a)

Examinees predominantly focused on agreements expressly declared void under the Contract Act. Whereas, the question specifically required a response under the Competition Act, and unfortunately, the examinees' answers deviated from the intended law, due to which marks could not be awarded.

Question 3(b)

Examinees instead of defining the term 'electronic fund' under the Payment Systems and Electronic Fund Transfers Act, provided a general explanation, which was not relevant to the question.

Question 4

Examinees did not mention the following points:

- The bill rejected by the Senate to be considered in a joint sitting of the National Assembly and the Senate, initiated by a request from the National Assembly.
- The President's obligation to either assent to the bill within ten days or return it to Parliament for reconsideration.

Question 5(a)

Examinees misclassified the contract as a wagering contract, while it was actually contingent in nature. Consequently, they were unable to identify the remedies available to SR.

Question 5(b)

Examinees did not determine that TT and PD operate independent businesses that are neither the same nor competing in nature and that Saad would not be liable to share profits from TT's business with Mona and Zain in the absence of imposed restrictions or agreements.

Question 5(c)

Examinees did not mention that during the continuance of PD's business, CBL would not have the right to interfere in the conduct of PD's business nor would be entitled to inspect PD's books.

Question 5(d)

Examinees made an error regarding the effect of Zain's handwritten 'not negotiable' notation on the cheque. While Zain, as the holder, has the authority to add such words, they mistakenly believed it would invalidate the cheque. Additionally, examinees overlooked the fact that the purpose of this notation is to protect the holder, in this case, Zain.

Question 6(a)

Examinees did not discuss NB's liability for compensating HP for the incurred damages. This liability arose from NB's failure to provide the required payment security i.e., bank guarantee, before book delivery.

Question 6(b)

Examinees overlooked a key factor that time was of the essence due to OP's awareness of NB's planned exhibition for the autobiography on 3 March 2024. Consequently, examinees were unable to identify suitable courses of action for NB, such as accepting delayed performance, demanding delivery at an appropriate time, or exercising the right to rescind the contract.

Question 6(c)

Examinees did not identify that the agreement between Moiz and Haroon was void due to its unlawful object.

Question 7(a)

Examinees did not discuss the following key points:

- The continuation of a partnership business as a 'partnership at will' after its term expires.
- The characterization of Shakir's objection to customized mobile application development as a dispute related to ordinary business matters, was resolvable by a majority of TD's partners.
- The requirement for unanimous consent from all TD partners when proposing a change in the nature of business, such as pursuing a hardware business.

Question 7(b)

Examinees did not mention that, Abid would be required to indemnify TD for any loss caused to the partnership firm by his willful neglect, in the conduct of TD's business.

Question 8(a)

Examinees overlooked the following points regarding contract formation:

- Instead of simply accepting RP's offer, CM extended a counteroffer. A contract would only be formed if RP accepts this counteroffer.
- The concept of acceptance within the prescribed mode, since acceptance in deviated form might not be considered a valid acceptance.

Question 8(b)

Examinees did not identify that the contract between CP and SR is a contingent contract. As a contingent contract is dependent on the continued existence of radio sensor technology, the subsequent ban on this technology rendered performance impossible, thereby voiding the contract.

Question 9

Examinees ignored the fact that Rashid's statement did not influence Aisha's consent to the contract. Consequently, Rashid cannot be held liable for Aisha.

Question 10(a)

Examinees did not identify that apart from wagering agreements, the agreements which are knowingly made to promote or assist the conclusion, execution, or performance of, or to secure or guarantee the performance of, any wagering agreement, are also expressly declared to be void under the Contract Act.

Question 10(b)

Examinees overlooked the concept of “agency of necessity” in the Contract Act. This principle grants an agent the authority, in case of an emergency, to take actions that protect the principal from loss. These actions should be similar to what a person of ordinary prudence would do for himself in a similar situation.

(THE END)



Business Law

Instructions to examinees:

- (i) Answer all **TEN** questions.
 - (ii) Answer in **black** pen only.
 - (iii) Multiple Choice Questions must be answered in answer script only.
-

Q.1 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions.

- (i) Sialkot Footballs (SF) made an offer to Football Academy (FA) to sell 1,000 footballs at Rs. 600 each. Zain, FA's manager and owner of a separate private sports academy, sent an acceptance letter from his private sports academy, enclosing a cheque drawn by him in favour of SF.

Under the Contract Act, 1872, which of the following statements is correct?

- (a) A counter offer has been made to SF as the acceptance was not given by FA
- (b) FA has given conditional acceptance to SF's offer as the cheque was sent by Zain
- (c) A contract has been formed between SF and FA as the offer was given to FA
- (d) The acceptance letter is not effective as the offer was given by SF to FA

(01)

- (ii) On 1 August 2024, Jahangir Sports (JS) offered to sell a vintage rubber raft to Nadim for Rs. 250,000. Subsequently, on 5 August 2024, Wasim, upon learning about the raft, expressed interest in purchasing it. JS then offered to sell the raft to Wasim for Rs. 275,000, provided that the sale to Nadim does not occur by 20 August 2024. Wasim accepted this offer.

However, on 20 August 2024, JS sold the raft to an expedition team for Rs. 400,000. On the same day, JS sent a revocation letter to Nadim and also informed Wasim about the sale to the expedition team.

Under the Contract Act, 1872, can Wasim hold JS liable for non-performance?

- (a) Yes, because the contract between JS and Wasim became enforceable on 20 August 2024
- (b) Yes, because JS sold the raft to the expedition team at a higher price
- (c) No, because the contract between JS and Wasim became void on 20 August 2024
- (d) No, because there was no contract between JS and Wasim

(1.5)

- (iii) Rehan, an archery expert, agreed to conduct a two-week archery training program, including weekends, at The Archery Club (TAC) for a daily fee of Rs. 15,000. TAC paid Rs. 210,000 to Rehan in advance before the training commenced on 19 August 2024. After six days of training, Rehan wilfully absented himself on the following Sunday. TAC arranged another trainer for the day and paid him Rs. 25,000. Rehan was allowed to resume the training on the next day, and he concluded the training on 1 September 2024, without any further absence.

Under the Contract Act, 1872, which of the following amounts can TAC recover from Rehan?

- (a) Rs. 10,000
- (b) Rs. 15,000
- (c) Rs. 25,000
- (d) Rs. 40,000

(1.5)

- (iv) Under the Payment Systems and Electronic Fund Transfers Act, 2007, which of the following is **NOT** an operational arrangement required to be established by an operator of a Designated Payment System (DPS)?
- Procedures setting out the financial risks that may be incurred by the participants
 - Procedures, controls and measures for the management of all types of risks
 - Contingency arrangements to ensure operational reliability of the DPS
 - Rules and procedures setting out the liabilities of the participant
- (01)**
- (v) Under the Negotiable Instruments Act, 1881, which of the following is an essential condition for a person to be considered a 'holder in due course' of a negotiable instrument?
- He must have obtained the negotiable instrument for valuable consideration
 - He must have taken possession of the negotiable instrument after the maturity date
 - He must not hold the negotiable instrument in good faith
 - He must have the right to sue at least one party liable under the negotiable instrument
- (01)**
- (vi) Under the Negotiable Instruments Act, 1881, which of the following instruments issued by Karim is a valid negotiable instrument?
- I am bound to pay Ali Rs. 500,000 that I have taken from him
 - I promise to pay Ali Rs. 500,000 for goods delivered to me on 31 August 2024
 - I promise to pay Ali Rs. 500,000 and deliver my entire collection of books to him
 - I am liable to pay Ali Rs. 500,000 two months after Kamran's death
- (01)**
- (vii) Waqar agreed to purchase a piece of land from Bilal for Rs. 50 million, to be used for industrial purposes due to its location. However, a subsequent change in the zoning law reclassified the land for agricultural use only. Consequently, Waqar has refused to make the payment as the land is no longer useful for his intended purpose.
- Under the Contract Act, 1872, determine the status of contract between Waqar and Bilal.
- The contract would become void due to supervening impossibility
 - The contract has become void due to bilateral mistake of fact
 - The contract is voidable at Waqar's option as the land does not suit his purposes
 - The contract is valid as the law changed after the contract was made
- (1.5)**
- (viii) Sadia, owner of a renowned Islamabad restaurant specializing in desserts, appointed Qasim, a minor, as an agent to assist her in procuring restaurant supplies. Qasim would not receive a commission and was working to gain experience only. On 1 August 2024, Qasim purchased 5,000 kg of sugar for the restaurant from Tariq Traders (TT) on credit, with payment due in one month. However, on 31 August 2024, following a dispute, Qasim stopped working for Sadia and refused to pay TT.
- Under the Contract Act, 1872, can TT be entitled to recover payment for 5,000 kg of sugar from Sadia?
- No, because TT's agreement with Qasim being a minor was void
 - No, because Qasim's agreement with Sadia was void due to lack of consideration
 - Yes, because the contract to sell 5,000 kg of sugar was between TT and Sadia
 - Yes, because Qasim and Sadia were jointly and severally liable to pay TT
- (1.5)**
- (ix) A general duty of a partner under the Partnership Act, 1932 that cannot be changed by agreement among the partners, is the duty of each partner to:
- carry on business to the benefits of the general public
 - indemnify the firm for loss or liability incurred by the firm's business
 - account for personal profits derived from the use of the firm's property
 - render true accounts of the firm to other partners or their legal representatives
- (01)**

- (x) Pervaiz agreed to supply hiking equipment for Rs. 300,000 to Gliding Climbs (GC) for a tour on 31 August 2024. GC emphasized to Pervaiz the importance of timely delivery; otherwise, GC would lose the expected profit of Rs. 150,000 from the tour.

On 20 August 2024, Pervaiz informed GC of his business closure and refused to supply the equipment. GC purchased the equipment for Rs. 400,000 on 31 August 2024 from the market and sued Pervaiz for damages.

Under the Contract Act, 1872, determine the amount of damages that GC may claim.

- (a) Rs. 50,000 (b) Rs. 100,000 (c) Rs. 150,000 (d) Rs. 250,000 (1.5)
- (xi) Zia, Zahid and Zeenat formed a partnership called Zee Traders (ZT) and agreed to share profits equally. It was mutually agreed that Zeenat would not participate in the business operations, and in case ZT incurs a loss, it would be shared equally by Zia and Zahid.

Recently, a supplier named Soccer Textiles (ST) has filed a suit for the recovery of Rs. 5 million against all partners.

Under the Partnership Act, 1932, can Zeenat be held liable by ST for payment?

- (a) No, because Zeenat is a partner of ZT in profits only
 (b) No, because only Zia and Zahid share the losses equally
 (c) Yes, because Zeenat being ZT's partner is also severally liable for all acts of ZT
 (d) Yes, but Zeenat is liable only to the extent of her share in the profits (1.5)
- (xii) Aqib and Usama are partners in Tennis Clinics (TC) whose operations are managed by Usama. On 1 August 2024, a vehicle was purchased for Rs. 5 million from an authorized dealer and the purchase price was paid through a cheque from TC's bank account that was signed by Usama. On the same day, the vehicle was delivered directly to Usama's home. Since Usama purchased the vehicle for his personal use, he recorded himself as a debtor for Rs. 5 million in TC's books.

Under the Partnership Act, 1932, would the vehicle be considered as TC's property?

- (a) Yes, because Usama purchased the vehicle on behalf of TC
 (b) Yes, because the vehicle was purchased using TC's funds
 (c) No, because Usama clearly intended to use the vehicle for personal purposes
 (d) No, because Aqib's consent was not taken before the vehicle was purchased (01)

Q.2 Briefly discuss delegated legislation, and state its **two** advantages and **two** disadvantages. Also, describe how control is exercised over delegated legislation. (05)

Q.3 (a) List **four** circumstances under which the State Bank of Pakistan may revoke the designation of a designated payment system under the Payment Systems and Electronic Fund Transfers Act, 2007. (04)

(b) Briefly explain when a person would be considered as an offender and liable for punishment under the Prevention of Electronic Crimes Act, 2016. (05)

Q.4 (a) Under the Partnership Act, 1932, identify the rights and limitations of transferee of a partner's interest. (03)

(b) Under the Negotiable Instruments Act, 1881, explain **three** types of cheque crossings and their respective effects. (03)

Q.5 Squash Management (SM) specializes in organising large-scale destination events, managing all aspects including travel, accommodation and event venue management such as catering and decoration arrangements. Below are some of the key incidents that SM has recently experienced:

- (a) In August 2024, SM paid an advance of Rs. 100,000 to Farhan for purchasing a vending machine from Karate Transports (KT) for office use. KT is a partnership firm with two partners, Haroon and Farhan. When the machine was not delivered within agreed time, SM contacted KT and learned that, under the partnership agreement, Farhan was not authorised to sell KT's assets and that Farhan spent the advance on personal expenses without informing KT. *Under the Partnership Act, 1932, discuss the remedies available to SM, if any.* (04)
- (b) SM agreed to supply customised shields and trophies on 31 August 2024 for a marathon organised by Athletes Association (AA). The customised items, displaying marathon date and name of the organisers, along with other sponsors, were to be manufactured by Frisbee Carvers (FC). However, FC failed to manufacture the items on agreed time due to a labour strike, and SM was unable to deliver them to AA by 31 August 2024. *Under the Contract Act, 1872, evaluate SM's position in this situation.* (03)
- (c) SM agreed to manage a corporate event on 2 September 2024 and received full payment in advance from its customer, Rizwan. On the day of the event, Rizwan additionally requested SM to arrange 500 kg of fresh flowers for venue decoration. SM purchased the flowers from Climbing Florals for Rs. 600,000, agreeing to pay within a week. The flowers were used in the venue decor and Rizwan has promised to pay Rs. 600,000 to SM on 8 September 2024. *Under the Negotiable Instruments Act, 1881, prepare draft of a single negotiable instrument that SM may issue in settlement of both transactions. (Assume necessary details for the preparation of negotiable instrument)* (05)
- (d) On 3 September 2024, a team of four employees of SM reached Paragliding Club (PC) at 8:30 am to set-up its auditorium for PC's annual members' meeting, scheduled at 3:00 pm sharp. However, due to administrative mishandling by PC, access to the venue will not be provided to SM until 2:00 pm. SM's team believes that proper arrangements cannot be made in respect of venue decor, live food station set-up and photography in such a limited timeframe and consequently this will disrepute SM in the market. PC has already paid Rs. 5 million in advance. *Under the Contract Act, 1872, suggest possible course(s) of action for SM.* (04)

Q.6 (a) Surfing Athletics (SA), a partnership firm engaged in the business of manufacturing various types of sports equipment, is managed by its partners, Shahid and Wahaj. SA now wants to expand its business, and they have approached Mohsin primarily to arrange capital investment.

Mohsin is keenly interested in SA, due to the steep profit margins of SA's existing products. However, unfamiliar with SA's business practices and conduct, Mohsin is hesitant to join directly as a partner because he fears this might compromise his established reputation in the market. Mohsin discussed his concerns with SA's partners, and they have asked him to consider the following options for a prospective collaboration:

- (i) Lend money to SA in exchange for an entitlement to receive a fixed profit share.
 (ii) Invest capital into SA through his spouse, Saba, who would then become SA's partner.

Under the Partnership Act, 1932, identify the rights and duties, if any, of Mohsin and Saba separately under respective option to help Mohsin make an informed decision. (09)

- (b) Assume that in (a) above, Mohsin invested capital in SA through his minor son, Aijaz, who was admitted to the benefits of SA in May 2024.

On 1 August 2024, Aijaz reached the age of majority. On 31 August 2024, Aijaz gave a public notice in the newspapers announcing that he has elected not to become SA's partner.

Under the Partnership Act, 1932, identify the rights of Aijaz with regards to SA before and after the issuance of the public notice. (03)

Q.7 Assume that the date today is 30 November 2023.

- (a) Snowboarding Dealers (SD) manufactures and sells winter sports equipment. SD entered into a contract with Alpine Skiing Resort (ASR) to deliver 100 customised snowboards by November 2023 for Rs. 1 million at the resort in Malam Jabba. ASR intends to use the snowboards for the upcoming snow season in December 2023.

SD manufactured the snowboards in early November 2023. However, the weather conditions and the resort's high altitude have made it difficult to deliver the order to ASR. SD does not have specialized vehicles capable of delivering snowboards in such weather conditions. Considering the delivery challenges, on 30 November 2023, SD has asked ASR to either pick up the order from its factory, or wait until the weather conditions improve.

Under the Contract Act, 1872, discuss SD's position and identify the remedies available to ASR, if any. (05)

- (b) Assume that in (a) above, ASR agrees to pick 60 snowboards directly from the factory, for a proportionate contract price of Rs. 0.6 million. Since the snowboards have been customised, SD cannot sell the remaining snowboards to other customers.

Under the Contract Act, 1872, identify the course(s) of action available to SD. (03)

- (c) Being SD's regular customer, ASR's account has two outstanding invoices, of Rs. 1 million each, against the orders delivered in July 2023 and September 2023. In October 2023, SD has received a payment of Rs. 1.5 million from ASR; however, no intimation was given by ASR as to which invoice the payment should be settled against.

Under the Contract Act, 1872, advise how the payment would be adjusted. (03)

Q.8 Malik deals in real estate and has opened his offices in all major cities of Pakistan. Below are some of the recent events related to Malik's business for which he requires your advice:

- (a) Malik has received an offer from a senior citizen to purchase her farm for Rs. 15 million, with a request for acceptance by 30 September 2024. Considering the farm's remote location, Malik believes that it can be purchased for Rs. 12 million. However, Malik is still evaluating the proposed deal at usual pace considering there is ample time to make the decision. Meanwhile, his manager believes that there is a significant chance of losing the deal if acceptance is delayed. *Under the Contract Act, 1872, identify the possible situations in which the offer to sell the farm would be revoked.* (04)

- (b) Malik advised his son Hamid to start his own real estate business. To help cover expenses for running the business, Malik promised to transfer a commercial vehicle to Hamid, by 31 December 2024. Subsequently, Hamid promised to Malik that he would not deal in Karachi from where his father's business was well-known there, and it could be mistaken that he was running his father's business instead of establishing his own identity. *Under the Contract Act, 1872, evaluate the validity of the promises made by Malik and Hamid.* (03)

- Q.9 Under the Contract Act, 1872:
- (a) state the rules regarding performance of joint promises and devolution of joint rights. **(05)**
 - (b) describe contingent contracts and identify the circumstances in which a contingent contract can be enforced. **(05)**
 - (c) define 'fraud' and discuss the enforceability of an agreement when consent to the agreement is caused by fraud. **(04)**
- Q.10 Maaz offered to sell a cricket bat to Furqan, who agreed to purchase it for Rs. 0.5 million after being told by Maaz that the cricket bat was autographed by Wasim Ahmed, a rising cricket star. Furqan paid the contract price in advance, and Maaz promised to deliver the cricket bat by 30 September 2024. Subsequently, Maaz showed the cricket bat to his friend Rashid, who informed him that the cricket bat was actually autographed by Wasim Akram, a cricket legend, and offered to purchase it for Rs. 25 million.
- Realising his error, Maaz sent an apology letter to Furqan, stating that he cannot sell the cricket bat, and enclosed a cheque for Rs. 0.5 million. The letter was delivered to Furqan on 2 September 2024.
- Under the Contract Act, 1872, evaluate Maaz's position and discuss the remedies available to Furqan, if any. **(05)**

(THE END)

Business Law

Suggested Answer

Certificate in Accounting and Finance – Autumn 2024

- | | | | |
|-----|-----------|------------|-----------|
| A.1 | (i) (d) | (ii) (a) | (iii) (c) |
| | (iv) (b) | (v) (a) | (vi) (b) |
| | (vii) (d) | (viii) (c) | (ix) (d) |
| | (x) (b) | (xi) (c) | (xii) (c) |

A.2 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. For example, local authorities are given statutory powers to make bye-laws, which apply within a specific locality.

Advantages of delegated legislation

- As Parliament does not have time to examine matters in detail, delegated legislation helps to make the process faster.
- Much of the content of delegated legislation is technical and is better worked out in consultation with professional, commercial, or industrial groups outside Parliament.
- Delegated legislation is more flexible than an Act of Parliament. It is easy to amend a piece of delegated legislation than to amend an Act of Parliament.

Disadvantages of delegated legislation

- Delegated legislation 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.

Control over delegated legislation

- Parliament has some control over delegated legislation by restriction and defining the power to make rules.
- Rules made under delegated power to make legislation 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. If the objection is valid, the Court declares it void.

- A.3 (a) The State Bank of Pakistan (SBP) may revoke the designation of a designated payment system (DPS) if it is satisfied that:
- the DPS has ceased to operate effectively as a payment system;
 - the operator of the designated system has knowingly furnished information or documents to the SBP in connection with the designation of the payment system which is or are false or misleading in any material particular;
 - the 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 the terms and conditions of the designation or requirements of the Act has been contravened; or
 - the SBP considers that it is in the public interest to revoke the designation.

- (b) A person may be considered an offender by virtue of which such person may be punished under the Prevention of Electronic Crimes Act, 2016, if he with dishonest intention:
- (i) gains unauthorized access to any information system/data or any critical infrastructure information system/data;
 - (ii) without authorization copies or otherwise transmits or causes to be transmitted any data or any critical infrastructure data;
 - (iii) interferes with or damages or causes to be interfered with or damages any part or whole of an information system/data or a critical information system/data.

Furthermore, 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.

A.4 (a) Rights of transferee of a partner's interest

- A transferee of a partner's interest is entitled only to receive the share of profits of the transferring partner, and the transferee shall accept the account of profits agreed to by the partners.
- If the partnership firm is dissolved or if the transferring partner ceases to be a partner, the transferee of a partner's interest is entitled as against the remaining partners to receive the share of the assets of the firm to which the transferring partner is entitled, and, for the purpose of ascertaining that share, to an account as from the date of the dissolution.

Limitations of transferee of a partner's interest

Transferee of a partner's interest is not entitled, during the continuance of the firm, to interfere in the conduct of the business, or to require accounts, or to inspect the books of the firm. Further, such a transferee would not become a partner of the firm and would not be entitled to challenge the accounts of profits agreed to by the partners, nor he can sue for dissolution of the firm.

- (b) Following are the different types of crossing of cheques:

(i) General crossing of a cheque and its effect:

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, or of two parallel transverse lines simply.

Effect: When a cheque is crossed generally the banker on whom it is drawn shall not pay it otherwise than to a banker.

(ii) Special crossing of a cheque and its effect:

A cheque is said to be crossed especially where it bears across its face an addition of the name of the banker (drawing of parallel lines is not necessary).

Effect: When a cheque is crossed specifically the banker on whom it is drawn shall not pay it otherwise than to a banker to whom it is crossed or his collection agent.

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(iii) Restrictive crossing of a cheque and its effect:

Restrictive crossing may be added with general crossing by adding the words “A/c Payee” or “A/c Payee only”.

Effect: Where a cheque is crossed as account payee, it shall cease to be negotiable and the amount collected on the cheque must be credited only to the account of payee named in the cheque.

(iv) ‘Not negotiable’ crossing of a cheque and its effect:

Addition of the words ‘not negotiable’ does not restrict the further transferability of the cheque but it takes away the main feature of negotiability, which is transferability free from defects.

Effect: The effect is that since the title of the transferee of such a cheque cannot be better than that of its transferor, therefore, a holder with a defective title cannot give a good title to a subsequent holder. This affords protection to the drawer/holder of the cheque against miscarriage or dishonesty in the course of transit by making it difficult for the cheque to be cashed until it reaches its destination.

- A.5 (a)** SM has the right to seek remedies against KT because Farhan acted within his apparent authority as a partner of KT’s firm. Since the vending machine is a movable property, the sale of such a machine generally falls within the implied authority of Farhan being KT’s partner. Although the partnership agreement restricted Farhan’s implied authority to sell KT’s assets, SM was unaware of this restriction when the contract was made. As a result, KT is bound by Farhan’s actions concerning the sale of the vending machine.

Since Farhan, acting under his apparent authority, received an advance payment of Rs. 100,000 from SM and misappropriated it for personal use, SM can claim compensation from KT for the misapplied funds. KT, as the liable party, must compensate SM for the loss caused by Farhan’s actions.

Furthermore, since every partner is liable jointly and severally with all the other partners for the acts of the firm done while he is a partner, Haroon would also be jointly and severally liable towards SM, therefore, SM may hold Haroon and Farhan jointly or severally liable to recover the loss.

- (b)** SM would be held liable to AA and would have to pay damages because the default by FC, a third party to the contract on whom the promisor was relying, does not render the contract void due to supervening impossibility.

Furthermore, since a labour strike is not a valid excuse for the non-performance of the contract, SM can recover ordinary damages from FC that occurred due to the breach of contract. SM may also recover special damages that were known to FC at the time of making the contract since FC knew the event date and was informed that the items were to be delivered to AA; such information being displayed on the customised shields and trophies.

The amount of damages in both cases i.e., those claimable from FC and those payable to AA, would depend on the market prices of similar items.

- (c) SM may issue the following negotiable instrument i.e., bill of exchange, in settlement of both transactions:

Draft of the bill of exchange

<p>Rs. 600,000/- only</p> <p>Five days after the date pay to Climbing Florals or to their order the sum of Rupees Six Hundred Thousand only, for the value received.</p> <p>Accepted Signed by Rizwan</p> <p>To Rizwan ABC Road Name of city</p>	<p>Dated: 3 September 2024</p> <p>Sign: _____ Squash Management XYZ Road Name of city</p>
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- (d) The contract between SM and PC contains reciprocal promises. In the given situation, SM is ready and willing to perform the promise of arranging the decor and other tasks, as evident by the fact that the team arrived at the venue well before the event's scheduled time. However, PC's administrative mishandling is actively preventing SM from performing its promise. As a result, the contract becomes voidable at SM's option.

Possible courses of action for SM

- (i) SM may proceed to perform the contract and where it falls short in any aspect of performance, it would be considered an effect of PC's neglect and apparent failure to provide reasonable facilities to SM for the performance of the contract, as PC failed to give adequate time for reasonable performance of the promise.
- (ii) SM may rescind the contract as the contract is voidable at its option. Since time was of the essence of the contract, it was PC's duty to ensure adequate arrangements. In such a case, SM would be entitled to recover ordinary damages from PC. However, SM must ensure that the means available to remedy the inconvenience caused by the non-performance of the contract have been taken into account i.e., reasonable steps are taken to minimize the loss, so that it may claim reasonable compensation from PC for breach of contract.

Moreover, SM would also be entitled to special damages that were known to the parties at the time of making the contract. Such damages may include SM's contracts for arranging services from third party vendors for managing the event.

Where SM opts to rescind the contract and the contract becomes void, then it must restore any benefits received from PC in respect of the contract that may involve returning the advance payment of Rs. 5 million.

- (iii) SM may communicate the challenges to PC and offer alteration of the contract to cover specific areas of performance as per PC's priority. In the given case, PC may agree to dispense with, or remit, in part, the performance of the promise made to it in respect of venue decor, catering, and photography, or may extend time of performance, if possible. However, all such changes must be mutually agreed.

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A.6 (a) The applicable rights and duties, of Mohsin and Saba, under respective options would be as follows:

(i) Mohsin's position as lender of money to SA

Investing money in SA in exchange for an entitlement to receive a fixed share in profit would make Mohsin a lender to the firm. In such situation, as Mohsin would not become a partner of the firm, therefore, he would have no specific duty or right under the Partnership Act.

(ii) Saba's position as a partner of SA

Subject to the contract between partners of SA, the following would be Saba's rights:

- (1) Right to participate in the conduct of the business;
- (2) Right to be consulted in case of disagreements over ordinary business matters;
- (3) Right to decide for change in the nature of SA's business;
- (4) Right to access, inspect, and copy any of SA's books;
- (5) Right to receive interest on the capital contribution, from SA's profits;
- (6) Right to be indemnified for payments made and liabilities incurred in the ordinary and proper conduct of SA's business;
- (7) Entitled to receive an equal share of profits;
- (8) Entitled to receive interest on the additional amount invested in SA @ 6% per annum;
- (9) Entitled to act in an emergency to protect SA from loss, as would be done by a person of ordinary prudence, in his own case, under similar circumstances.

After becoming a partner of SA, the following would be Saba's duties:

- (1) To carry on SA's business to the greatest common advantage;
- (2) To be just and faithful to the other partners of SA i.e., Shahid and Wahaj;
- (3) To render true accounts and full information of all things affecting SA to Shahid, Wahaj, or their legal representative;
- (4) To indemnify SA for any loss caused by her fraudulent conduct in the business;
- (5) To be jointly liable with Shahid and Wahaj, and also severally liable, for all acts of SA done while she is a partner;
- (6) To attend diligently to her duties in the business;
- (7) To contribute equally to any losses sustained by SA;
- (8) To pay personal profits derived by her due to association with SA, or from use of SA's name, property, business connection, or from any competing business carried on by her which is of the same nature as SA;
- (9) To indemnify SA for loss caused by her willful neglect in conducting SA's business.

Saba's duties in respect of (6) - (9) would be subject to the contract between Shahid, Wahaj, and Saba, being the partners of SA.

(b) Rights of Aijaz before the issuance of the public notice

Aijaz, being a minor admitted to the benefits of SA, shall have the following rights:

- Right to receive such a share of SA's property and profits, according to the terms agreed upon by Shahid and Wahaj, being SA's partners.
- Entitled to access, inspect, and make copies of SA's accounts.

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It is pertinent to mention that if Aijaz is admitted to the benefits of the SA while he is a minor, he would get the right to elect to become a partner after he reaches the age of majority. Till such time, he would not incur any personal liability in respect of SA.

Rights of Aijaz after the issuance of the public notice

Aijaz has given the public notice electing not to become a partner within the prescribed time i.e., within six months of having attained majority on 1 August 2024, therefore his position with regards to SA would be affected as follows:

- The rights of Aijaz shall continue to be of those of a minor up to the date of public notice i.e., 31 August 2024, and shall cease from there onwards;
- Aijaz's share of capital in SA shall not be liable for any debts or obligations of SA incurred after the date of public notice i.e., 31 August 2024;
- Aijaz would become entitled to sue Shahid and Wahaj for payment of his share of the property and profits pertaining to SA. In such case, Aijaz's share shall be determined by a valuation carried out under the applicable provisions of the Partnership Act, 1932.

Further, it is pertinent to mention, that Aijaz needs to be careful not to get involved in any such act which renders him to be considered as a partner by holding out.

A.7 (a) SD's position

SD's offer of performance has not been made at a proper place i.e., the agreed place of delivery in Malam Jabba, and further, the alternate delivery option given is conditional which makes SD's offer of performance invalid. The challenging delivery conditions making the performance of the promise difficult due to weather conditions is not an acceptable excuse of non-delivery by SD.

SD promised to deliver 100 snowboards by November 2023, however, as snowboards were not delivered till 30 November 2023, SD has committed a breach of contract, since time was the essence of the contract considering that the snowboards are to be used by ASR for the snow season activities in December 2023.

SD's offer asking ASR to either pick the order directly from its factory or extend the timeline for the delivery is an attempt for alteration to the original terms of the contract which requires ASR's consent in order to become binding on both parties. Until such time, SD's offer would constitute a proposal for which there is no valid acceptance.

Since SD failed to perform its promise within the specified time, the contract for the delivery of the snowboards has become voidable at the option of ASR and if ASR decides to rescind the contract, SD would be liable to pay compensation for damages sustained because of non-fulfillment of the contract.

Remedies available to ASR

ASR may choose to accept delayed performance from SD agreeing to take delivery of the snowboards after the weather conditions improve. However, in such scenario, ASR would not be able to claim compensation for any losses resulting from the delay, unless ASR notifies SD of its intention to claim such compensation at the time of accepting the delayed performance.

Alternatively, ASR can refuse to accept delayed performance and seek compensation for damages incurred due to breach of the contract.

- (b) Considering the Malam Jabba resort's seasonal weather patterns, time was of the essence in this contract. SD's non-delivery on the agreed date constituted a material breach, making the contract voidable at ASR's option. Due to the breach of contract, SD cannot compel ASR to fulfill the original contract terms including the delivery of the remaining snowboards.

ASR's willingness to pick 60 snowboards is indicating a willingness to accept delayed performance at a proportionate price and is a modification of the original contract terms.

In case SD concurs with ASR's offer to pick partial delivery, the original contract need not to be performed and SD would not be liable to pay any compensation for non-performance of the original contract.

If SD rejects ASR's offer, SD would have to bear the loss for the entire 100 snowboards and would have to pay damages to ASR. Nevertheless, SD may choose to pay damages for the non-delivery of snowboards and turn down ASR's offer to accept delivery of 60 snowboards.

- (c) In the absence of any intimation from ASR regarding the application of payments to debts, the following are the two possibilities to determine the settlement:
- (i) SD may apply the payment at its discretion to any of the two lawful debts actually due and payable to it from ASR pertaining to the orders delivered in July and September.
 - (ii) If SD does not make an appropriation, then the payment shall be applied in discharge of the debts in order of time, which means that the outstanding dues in respect of the invoice pertaining to the order delivered in July would be adjusted in full and the remaining Rs. 0.5 million would be adjusted against the September invoice.

- A.8** (a) The offer can be revoked before its acceptance is completed with respect to the farm owner under the following circumstances:

- Although the acceptance may be given by 30 September 2024, however, the farm's owner may still communicate notice of revocation to Malik any time before the acceptance is completed as against the farm owner.
- The farm's owner dies or becomes insane provided that Malik becomes aware of her death or insanity before accepting the deal.
- Malik sends a counter offer to the farm's owner i.e., by either offering to purchase the farm for Rs. 12 million or by attaching terms of his own with the acceptance that require the farm's owner agreement.
- By the lapse of time prescribed in the offer of the farm owner, i.e., the acceptance is not completed as against the farm owner by 30 September 2024.

- (b) Malik's promise to transfer a commercial vehicle to Hamid is void/not binding on him for lack of consideration. However, since Malik and Hamid stand in a near relation to each other, if the promise is made on account of natural love and affection, is expressed in writing, and registered under the law for the time being in force for the registration of documents then it may be enforced. Nevertheless, if the commercial vehicle is transferred to Hamid by 31 December 2024, it would be considered as a completed gift and would constitute a valid transfer.

Hamid's promise to refrain from dealing in Karachi properties for two years is not valid. Firstly, because there is no consideration against the promise. Secondly, no person can be restrained from exercising lawful trade or business, unless there is a sale of goodwill which is not the case here since Hamid intends to establish a separate business identity of his own. Accordingly, if Hamid involves himself in dealing with Karachi properties, Malik cannot hold him liable.

A.9 (a) Rules regarding the performance of joint promises

- In the absence of express agreement to the contrary, when a joint promise is made by two or more persons, the promisee may, compel any one or more of such joint promisors to perform the whole of the promise.
- Unless a contrary intention appears from the contract, each of the joint promisors may compel every other joint promisor to contribute equally with himself to the performance of the promise.
- If any one of two or more joint promisors makes default in contribution, the remaining joint promisors must bear the loss arising from default in equal share.
- Where two or more persons have made a joint promise, a release of any of such joint promisors by the promisee, does not discharge the other joint promisor or joint promisors; neither does it free the joint promisors so released from responsibility to the other joint promisor or joint promisors.

Devolution of joint rights

Unless a contrary intention appears from the contract, in case of several promisees, the following persons may claim performance of the joint promise:

- all the promisees jointly in case all of them are alive;
- representatives of the deceased promisee jointly with the surviving promisee(s) in case of death of any of the joint promisees;
- representatives of all promisees jointly; in case of death of all joint promisees.

- (b)** A contingent contract may be described as a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

In the following circumstances, a contingent contract can be enforced:

- (i) Contingent contracts to do or not to do anything if an uncertain future event happens can be enforced only when the event has happened.
- (ii) Contingent contracts to do or not to do anything if a specified uncertain event happens within a fixed time can be enforced only when the event has happened within such a fixed time.
- (iii) Contingent contracts to do or not to do anything if an uncertain future event does not happen can be enforced only after the happening of that event becomes impossible.
- (iv) Contingent contracts to do or not to do anything if a specified uncertain event does not happen within a fixed time can be enforced by law when the time fixed has expired and such event has not happened, or before the time fixed has expired, it becomes certain that such event will not happen.
- (v) If the future event on which a contract is contingent is the way in which a person will act at an unspecified time, then such contract can be enforced when such person so acts / conducts himself in desired manner.

- (c)** ‘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 another party or his agent, 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.

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

Enforceability of an agreement when consent is caused by fraud

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 unless such fraud did not cause the consent of the party on whom such fraud was practiced or where the contract was caused by fraudulent silence and party to the contract whose consent was caused by such fraudulent silence had the means of discovering the truth with ordinary diligence.

However, a party to a contract, whose consent was caused by fraud, may, if he thinks fit, 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.

A.10 Maaz's position

Furqan's consent to purchase the cricket bat was obtained through misrepresentation by Maaz who had innocently caused Furqan to make a mistake that the cricket bat contained the autograph of Wasim Ahmed, a rising cricket star. Such information was essential to the contract being the subject matter of the agreement and Maaz's statement in this regard was not true, though he believed it to be true.

Accordingly, when the contract was entered between Maaz and Furqan; Maaz being the promisor made a unilateral mistake about subject matter due to which Furqan's consent to the contract was caused by misrepresentation.

While there is no effect of Maaz's unilateral mistake on the validity of the contract, however due to the misrepresentation, the contract becomes voidable at Furqan's option and therefore it cannot be rescinded by Maaz on his own. Maaz's act of sending an apology letter thereby refusing to sell the cricket bat does not invalidate the contract and, therefore, if he does not deliver the bat by 30 September 2024, it would constitute breach of contract.

Remedies available to Furqan

Furqan after becoming aware of the facts, may choose to rescind the contract and accept the payment returned by Maaz signifying his agreement to terminate the contract. In such case, the contract will be considered terminated by mutual consent as the acceptance of refund releases both parties from their contractual obligations. This acceptance indicates that Furqan has decided not to enforce the contract or seek further remedies.

Also, Furqan may insist on a specific performance asserting that the cricket bat must be delivered to him or he may claim damages for the breach of contract. It is pertinent to mention that Furqan may decide to void the contract now and claim remedies or he may wait for the actual delivery date i.e., 30 September 2024 to take the final decision whether to ask for performance or cancel the contract.

(THE END)

BUSINESS LAW
Summary of Marking Key
Certificate in Accounting and Finance – Autumn 2024

Note regarding marking scheme:

The marking scheme is given as a guide. Markers also award marks for alternative approaches to a question and relevant/well-reasoned comments/explanations. Moreover, the available marks in answer may exceed the total marks of a question.

		Mark(s)
A.1	Marks as mentioned on the question paper against each MCQ	15.0
A.2	<ul style="list-style-type: none"> ▪ Describe delegated legislation ▪ State the advantages and disadvantages of delegated legislation ▪ Describe how control is exercised over delegated legislation 	<p>1.5</p> <p>2.0</p> <p>1.5</p>
A.3	(a) 01 mark for identification of each circumstance	4.0
	(b) Up to 1.5 marks for explanation of each offence	5.0
A.4	(a) <ul style="list-style-type: none"> ▪ Up to 01 mark for each right of a transferee of partner's interest ▪ 0.5 mark for each limitation of a transferee of partner's interest 	<p>1.5</p> <p>1.5</p>
	(b) 01 mark for explanation of each type of cheque crossing and its effect	3.0
A.5	(a) <ul style="list-style-type: none"> ▪ Identify that SM was unaware of restriction on Farhan's implied authority ▪ Determine that Farhan misappropriated KT's funds ▪ Discuss that SM can claim compensation from KT ▪ Discuss that SM may hold Haroon and Farhan liable, jointly and severally 	<p>1.0</p> <p>1.0</p> <p>1.0</p> <p>1.0</p>
	(b) <ul style="list-style-type: none"> ▪ Evaluate that SM would be held liable towards AA ▪ Discuss that SM can recover the damages from FC 	<p>1.5</p> <p>1.5</p>
	(c) <ul style="list-style-type: none"> ▪ Identify that SM may issue a bill of exchange to settle both transactions ▪ Prepare a specimen of bill of exchange to be issued by SM 	<p>1.0</p> <p>4.0</p>
	(d) <ul style="list-style-type: none"> ▪ Discuss that PC prevented SM from performing the contract ▪ 01 mark for identification of each possible course of action for SM 	<p>1.0</p> <p>3.0</p>
A.6	(a) <ul style="list-style-type: none"> ▪ Identification of Mohsin's position as lender of money to SA ▪ 0.5 mark for each of Saba's rights with respect to SA after becoming partner ▪ 0.5 mark for each of Saba's duties with respect to SA after becoming partner 	<p>1.0</p> <p>4.0</p> <p>4.0</p>
	(b) <ul style="list-style-type: none"> ▪ 0.5 mark for identification of each right of Aijaz before 31 August 2024 ▪ 0.5 mark for identification of each right of Aijaz after issuance of the public notice 	<p>1.5</p> <p>1.5</p>

BUSINESS LAW
 Summary of Marking Key
 Certificate in Accounting and Finance – Autumn 2024

		Mark(s)		
A.7	(a)	▪ Identify that time was essence of the contract	1.0	
		▪ Determine that SD's offer of performance was not valid	1.0	
		▪ Discuss that the contract has become voidable at the option of ASR	1.0	
		▪ 01 mark for identification of each remedy available to ASR	2.0	
	(b)	▪ Identify ASR's offer to alter the original terms of the contract	1.0	
		▪ 01 mark for identification of each course of action available to SD	2.0	
	(c)	▪ Identify that SD may adjust the payment at its own discretion	1.5	
		▪ Discuss that if payment is not appropriated by SD, it would have to be applied in order of time	1.5	
	A.8	(a)	01 mark for each situation in which the offer would be revoked	4.0
		(b)	▪ Determine that there is no valid consideration to form a binding contract	1.0
	▪ 01 mark to discuss the validity of each of the promise		2.0	
	A.9	(a)	▪ 01 mark for each rule regarding performance of joint promises	4.0
▪ Identification of rules related to devolution of joint rights			1.0	
(b)		▪ Describe contingent contracts	1.0	
		▪ 01 mark for identification of each situation	4.0	
(c)		▪ Define 'fraud'	2.5	
		▪ Discuss enforceability of an agreement when consent is caused by fraud	1.5	
A.10	▪ Determine that Furqan's consent was caused by misrepresentation	1.0		
	▪ Evaluate Maaz's position as the promisor who intends to breach the contract	2.0		
	▪ 01 mark for discussion of each remedy available to Furqan	2.0		

(THE END)

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT Business Law	SESSION Certificate in Accounting and Finance (CAF) Autumn 2024
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Passing %

Question-wise										Overall
1	2	3	4	5	6	7	8	9	10	
69%	64%	53%	76%	27%	26%	18%	37%	51%	10%	43%

General

This session saw an increase in overall results: 43% of examinees secured passing marks, compared to 34% in the previous session.

Below-average performance was noted in questions 7 and 10, primarily due to the examinees' inability to identify and apply relevant knowledge of the law to scenario-based questions. It is strongly advised that when attempting such questions, examinees should first ascertain the core issue(s) and then identify and apply the relevant provisions of law that address the applicable issue. This shortcoming has also been highlighted in previous sessions.

Question-wise common mistakes observed

Question 1

- Performance in MCQ no. (iii), (viii), and (x) was below average.
- Few examinees selected multiple options instead of selecting one correct option due to which marks could not be awarded.

Question 2

Examinees did not mention that delegated legislation is more flexible than an Act of Parliament, as it can be amended more easily.

Question 3(a)

Examinees did not mention that the State Bank of Pakistan may revoke the designation of a designated payment system (DPS) if the operator or settlement institution is in the course of being wound up or dissolved, either in Pakistan or elsewhere.

Question 3(b)

Examinees did not mention that individuals who use information systems or devices to glorify an offence relating to terrorism may be considered offenders and punished under the Prevention of Electronic Crimes Act, 2016.

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Question 4(a)

Examinees correctly identified the rights of transferee of a partner's interest, but ignored to mention the limitations, which was a specific requirement of this part of the question.

Question 4(b)

Examinees correctly identified the types of cheque crossings but failed to explain their respective effects, which were specifically required in this part of the question.

Question 5(a)

Examinees did not identify that SM, being unaware of the restrictions on Farhan's implied authority, could hold KT liable for the sale of the vending machine. Some examinees incorrectly stated that only Farhan would be liable towards SM.

Question 5(b)

Examinees did not determine that SM, as the promisor, would be liable and required to pay damages to AA for non-performance, as FC's default would not render the contract void, even though SM relied on a third party (FC) to fulfill the contract.

Question 5(c)

Examinees incorrectly suggested the use of a promissory note when a bill of exchange would be more appropriate to settle both transactions.

Question 5(d)

Examinees correctly identified that SM could claim ordinary damages from PC. However, they did not discuss additional remedies available to SM, including the option to rescind the contract, as the contract between SM and PC had become voidable at SM's option.

Question 6(a)

Examinees incorrectly concluded that Mohsin would have the same rights and duties as other SA partners. Furthermore, while evaluating Saba's position, examinees focused on identifying her rights and ignored to mention Saba's duties as a partner of SA.

Question 6(b)

Examinees incorrectly discussed Aijaz's hypothetical rights in a scenario where Aijaz would have elected to become SA's partner, neglecting the fact that he had already opted not to become a partner by issuing a public notice.

Question 7(a)

Examinees did not recognize that SD's offer of alternate delivery options i.e., pick up the snowboards from its factory or waiting for delayed delivery constituted a material alteration to the original terms of the contract, that would require ASR's consent. Examinees incorrectly mentioned that ASR was obligated to accept the snowboards merely because they were manufactured within the specified time frame.

Question 7(b)

Examinees did not determine that due to SD's breach of contract, SD cannot compel ASR to accept the original contract terms. Additionally, if SD rejects ASR's offer to pick up sixty snowboards for a proportionate price, SD will bear the entire loss.

Question 7(c)

Examinees did not mention that if SD does not make any appropriation on its own, the payment would be applied to the discharge of the debts in order of time i.e., the July invoice would be fully adjusted, and the remaining Rs. 0.5 million would be adjusted against the September invoice.

Question 8(a)

Examinees did not mention that the offer could be revoked if Malik sent a counteroffer to the farm's owner, by offering to purchase the farm for Rs. 12 million.

Question 8(b)

Examinees did not discuss that even Hamid's promise to refrain from real estate dealings in Karachi for a specified period of two years lacked consideration, making it unenforceable. Therefore, Malik cannot hold Hamid liable for breach of contract.

Question 9(a)

Examinees stated the rules concerning the devolution of joint liabilities instead of mentioning the rules related to the devolution of joint rights. Examinees are advised to carefully read the requirements of each part of the question to avoid such mistakes.

Question 9(b)

Examinees did not comprehensively identify the circumstances under which contingent contracts can be enforced. They did not mention that contingent contracts to do or not to do anything if an uncertain future event does not happen can only be enforced after the event becomes impossible.

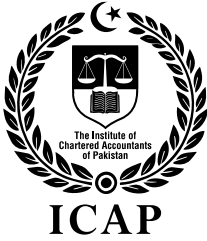
Question 9(c)

Examinees did not mention that when consent to an agreement is caused by fraud, such contract becomes voidable at the option of the deceived party unless the fraud did not materially affect the consent of the party.

Question 10

Examinees failed to identify that, due to misrepresentation by Maaz, the contract would be voidable at Furqan's option and cannot be rescinded by Maaz alone. Examinees incorrectly concluded that Furqan had no remedies available if the cricket bat was not delivered to him as per the contract.

(THE END)



Certificate in Accounting and Finance Stage Examination

4 March 2025

3 hours – 100 marks

Additional reading time – 15 minutes

Business Law

Instructions to examinees:

- (i) Answer all **TEN** questions.
 - (ii) Answer in **black** pen only.
 - (iii) Multiple Choice Questions must be answered in answer script only.
-

Q.1 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions.

- (i) Wasim and Kashif are partners in Rain Publishers (RP), a book publishing company. Shoaib is a renowned author who has published many of his books through RP. Unknown to Wasim, Kashif owns a real estate business in Sargodha.

On 1 February 2025, in Wasim's presence, Kashif advised Shoaib to purchase a farmhouse in Sargodha at an attractive price. Shoaib agreed and paid a token amount of Rs. 700,000 in cash to Kashif. Subsequently, Kashif refused to honor his commitment and utilized the funds to settle personal accounts.

Under the Partnership Act, 1932, can Shoaib hold RP liable for Rs. 700,000?

- (a) Yes, because the partnership firm is bound by the acts of its partners
- (b) Yes, because Wasim was aware of the payment made by Shoaib to Kashif
- (c) No, because the payment was not made in the ordinary course of RP's business
- (d) No, because Wasim was not aware that Kashif owns a real estate business **(1.5)**

- (ii) In June 2024, Javaid agreed to deliver 500 raincoats to Water Designs (WD) before 28 June 2024 for Rs. 150,000 at its factory. On 15 June 2024, Javaid placed an order for 500 raincoats with a supplier for WD's order and requested expedited delivery. On the same day, Javaid met an accident and died.

On 26 June 2024, Javaid's daughter Saima attempted to deliver 500 raincoats to WD. However, WD refused to accept the delivery, citing that the order had been placed with Javaid and, due to his demise, it had to be transferred to another vendor.

Under the Contract Act, 1872, can Saima compel WD to accept delivery of raincoats?

- (a) No, because the contract became void upon the death of the promisor, Javaid
- (b) No, because Saima did not obtain prior approval from WD before attempting to deliver the raincoats
- (c) Yes, because the contract was still valid and WD was bound to accept delivery from Javaid's representative, Saima
- (d) Yes, because WD did not communicate revocation of order by 26 June 2024 **(1.5)**

- (iii) Which of the following statements about delegated legislation in Pakistan is correct?

- (a) The rules made under delegated legislation cannot be challenged in court
- (b) An act of Parliament is more flexible to amend than delegated legislation
- (c) In delegated legislation, power is given to the elected members of the Senate to make laws for [Sindh and Punjab](https://sce-learning.com/ca/)
- (d) Delegated legislation is often worked out in consultation with professional, commercial or industrial groups outside the Parliament **(01)**

- (iv) Under the Anti-Money Laundering Act, 2010, which of the following acts would **NOT** be considered an offence of money laundering?
- (a) Saad sold a building, knowing that the buyer paid the price from proceeds of crime
 - (b) Jabbar gained unauthorized access to a critical infrastructure system
 - (c) Ali earned a commission on a house sale, aware that it was funded through bribery
 - (d) Zahida facilitated the concealment of her brother's criminal funds
- (01)**
- (v) Which of the following practices constitute an abuse of a dominant position under the Competition Act, 2010?
- (a) Setting predatory prices to prevent new market entry
 - (b) Offering bulk discounts to selected repeat customers in a competitive market
 - (c) Adjusting prices of goods frequently in response to market competition
 - (d) Charging different prices for the same product based on geographic location
- (01)**
- (vi) On 1 January 2025, Kamran contracted River Builders (RB) to remodel his catering business kitchen for Rs. 500,000, with a four-week completion deadline.
- On 15 January 2025, Kamran received a catering order from Salman worth Rs. 200,000 requiring delivery on 10 February 2025. He contacted RB to expedite the work and informed them that he expected to earn a profit of Rs. 50,000 from the order. However, RB handed over the kitchen to Kamran on 1 March 2025. Upon inspection, Kamran found substandard kitchen cabinets, requiring Rs. 30,000 for replacements.
- In February 2025, Kamran incurred Rs. 15,000 for using third-party kitchen and Rs. 170,000 for outsourcing Salman's catering order, due to the delayed kitchen completion.
- Under the Contract Act, 1872, which of the following amounts can Kamran recover from RB as damages?
- (a) Rs. 45,000
 - (b) Rs. 50,000
 - (c) Rs. 65,000
 - (d) Rs. 95,000
- (02)**
- (vii) Ali resigned from an advertising agency due to various disagreements with the agency's management. Fahad, a skilled trainer and expert in data science and machine learning, promised to provide Ali with a three-month training course worth Rs. 100,000, free of charge. After completing the training, Ali secured managerial position at a software house due to the knowledge and skills gained from Fahad.
- Subsequently, Ali invited Fahad to his house for dinner where he promised to pay the training fee.
- Under the Contract Act, 1872, can Fahad hold Ali liable if the fee is not paid?
- (a) No, because Ali did not make a written promise to pay the fee
 - (b) No, because Ali was not legally bound to pay the fee since Fahad had provided voluntary services
 - (c) Yes, because Ali was legally bound to pay Fahad after securing employment at a software house
 - (d) Yes, because Ali promised to compensate Fahad for his voluntary services
- (1.5)**
- (viii) During a business trip to Lahore, Nasir draws a bill of exchange on Uzma, residing in Faisalabad. The bill of exchange states: 'Uzma, pay Rs. 90,000 to Zulfiqar or his order, if Zulfiqar accepts the employment offer.' Uzma accepts the instrument.
- Under the Negotiable Instruments Act, 1881, the bill of exchange drawn by Nasir is:
- (a) valid because it contains a specific amount payable
 - (b) valid because it was accepted by Uzma
 - (c) invalid because it is drawn and accepted in different cities
 - (d) invalid because it contains a conditional order to pay the amount
- (1.5)**

- (ix) In June 2024, Usama purchased Ocean Treasures (OT), a cold storage factory near the Karachi Fish Harbor, from Rehan. OT was well-reputed for supplying frozen seafood to customers across Karachi. Rehan was paid a premium price for OT's goodwill and, as part of the agreement, promised not to engage in any similar business within Karachi for three years. In January 2025, Usama sold OT to Zia and settled abroad.

However, in March 2025, Rehan, in partnership with his friend, established a cold freeze factory and started supplying frozen fruits, vegetables and seafood across Karachi.

Under the Contract Act, 1872, would Rehan be liable for breach of contract?

- (a) Yes, because Rehan had sold goodwill of OT with a promise not to engage in any similar business
- (b) Yes, because Rehan did not inform Usama and Zia before starting a competing business
- (c) No, because Usama's agreement with Rehan was in restraint of trade
- (d) No, because the terms agreed between Rehan and Usama were not reasonable (1.5)
- (x) Drizzle Sweets (DS) was supplied with 500 kg of organic honey by Faizan on three occasions: 10 December 2024, 15 December 2024, and 20 December 2024, at Rs. 1,600 per kg. All invoices were due thirty days after the date of supply; however, DS kept delaying the payments. On 4 March 2025, Faizan received a payment of Rs. 800,000 from DS without any indication of which outstanding invoices should be settled.

Under the Contract Act, 1872, which of the following statements is correct regarding appropriation of the payment by Faizan?

- (a) The payment cannot be applied to the invoice dated 20 December 2024, as receivables must be settled in order of time
- (b) The payment must be applied proportionately to each invoice, as all invoices are of equal amount and standing
- (c) The payment may be applied to any invoice at Faizan's discretion, as all invoices are lawfully due to him
- (d) The payment can be appropriated by Faizan, only after he receives confirmation from DS regarding which invoice should be settled (1.5)
- (xi) With reference to 'misrepresentation', as explained in the Contract Act, 1872, which of the following statements is **NOT** correct?
- (a) The contract is voidable at the option of the party whose consent was obtained through misrepresentation
- (b) An act of misrepresentation includes making a promise under a contract without the intention of performing it
- (c) Misrepresentation includes unintentionally causing a party to make a mistake about the key element of an agreement
- (d) A contract induced by misrepresentation is voidable if the affected party had no means of discovering the truth through ordinary diligence (01)

Q.2 Explain the main sources of law in Pakistan. Also, briefly discuss the role of the Senate in the legislation process. (05)

Q.3 (a) Under the Payment Systems and Electronic Fund Transfers Act, 2007, state the operational arrangements that designated payment system operators are mandated to establish. (04)

(b) Specify the practices that are classified as deceptive marketing practices under the Competition Act, 2010. (04)

- Q.4 (a) Under the Contract Act, 1872, explain when the consideration or object of an agreement would not be considered as lawful. (04)
- (b) Under the Negotiable Instruments Act, 1881, explain the circumstances under which a banker must refuse payment of a cheque. (03)

Q.5 Zahid and Shakir, both renowned medical doctors, have been running a partnership firm named 'Steam Clinics and Research Centre' (SCRC) to carry out medical research and provide clinical care facilities to patients. SCRC has its own laboratories, where medical tests are conducted for diagnostic purposes.

The following matters related to SCRC require your attention:

- (a) Zahid is in the process of establishing a private clinic adjacent to SCRC's building in partnership with his brother. Zahid plans to manage any shortages of medical supplies or funds by using resources of SCRC and the private clinic interchangeably. *Under the Partnership Act, 1932, advise on the precautions Zahid should take in respect of SCRC's property.* (03)
- (b) Shakir became aware of Zahid's plan to establish a private clinic. Upon learning this, Shakir demanded that Zahid should not take part in another competing business unless Zahid offers him a management role in the private clinic with a share in its profits. *Under the Partnership Act, 1932, evaluate whether Shakir's demand is justified.* (04)
- (c) Zahid invited Qasim, a renowned surgeon working with SCRC, to join SCRC as a partner, considering that Zahid would have limited time for SCRC's operations after the private clinic's inauguration. Qasim promised to communicate his decision by 31 March 2025. Meanwhile, Zahid, representing Qasim as an SCRC's partner, purchased medical supplies for both SCRC and the private clinic from Brook Traders (BT). *Under the Partnership Act, 1932, discuss whether BT can recover the payment from Qasim if the dues remain unpaid.* (04)
- (d) Consider that in (c) above, Qasim agreed to join SCRC as a partner. *Under the Partnership Act, 1932, advise Qasim about his mutual rights and liabilities, concerning SCRC after becoming a partner.* (05)
- Q.6 In November 2024, Fog Waters (FW) agreed to supply 1,000 bottles of filtered water each week at Rs. 250 per bottle to a two-story office building occupied by Haroon and Rehan, for one year. Both jointly promised to settle monthly dues on the invoice date. FW was informed that Haroon's office was on the first floor and Rehan's office on the second floor.

The November invoice was settled on 2 December 2024. On 31 December 2024, Rehan informed FW that Haroon had defaulted and his business has been taken over by Shoaib, who has already assumed related liabilities. He requested FW to issue separate invoices for December, one for him and other for Shoaib.

On 2 January 2025, FW issued the December invoice of Rs. 1 million for 2,400 bottles delivered to the first floor and 1,600 bottles to the second floor in December. However, the payment was not made within the agreed timeframe. Rehan later demanded for a revised invoice of Rs. 0.4 million, mentioning that he was responsible to pay for 1,600 bottles only.

Under the Contract Act, 1872, discuss FW's position, and evaluate Rehan's demand. (05)

- Q.7 Answer the following under the provisions of the Contract Act, 1872:
- (a) Describe constructive contracts and identify the circumstances under which a constructive contract may be formed. (05)
- (b) Explain the effect(s) of a contract when the promisor does not provide a valid offer of performance on the agreed time. (05)
- (c) Discuss the enforceability of an agreement when consent is caused by mistake. (04)

Q.8 Drizzle Imported Oils (DIO) is engaged in the business of supplying imported cold-pressed oils, including cooking oils and essential oils, to a wide range of customers. Below are the details of some matters pertaining to DIO:

- (a) DIO signed an agreement with a newly opened restaurant to supply 100 liters of olive oil every month for a year at Rs. 2,800 per liter, specifying that in case of any default in delivery, a penalty of Rs. 100,000 shall be levied. When first delivery of imported olive oil was sent to the restaurant, it was rejected on the ground that the restaurant uses locally extracted olive oil. DIO imports olive oil in bulk quantity, whereas procuring locally extracted olive oil is significantly more expensive. *Under the Contract Act, 1872, evaluate DIO's position in this situation.* (04)
- (b) On 1 March 2025, DIO offered to sell 100 liters of lavender oil to Dawood at a discounted rate, with delivery to be made by 25 March 2025. The offer contains clear instructions that a signed confirmation letter must be sent by 4 March 2025 if the offer was accepted. On 4 March 2025, Dawood contacted on DIO's official number, agreeing to purchase the oil. However, he stated that he could not send the signed letter as he was out of country. *Under the Contract Act, 1872, discuss whether DIO is bound to deliver the oil to Dawood by 25 March 2025.* (03)
- (c) DIO signed an agreement with Cloud Cosmetics (CC) which states 'Deliver 100 liters of castor oil for Rs. 500 per liter by 15 March 2025.' DIO's production department has packed the consignment and marked it as ready for delivery. The head office of CC is situated in Islamabad, while its cosmetic production factories are located in Faisalabad and Sialkot. *Under the Contract Act, 1872, identify the conditions that DIO must fulfil to make a valid delivery offer.* (03)
- (d) DIO agreed to sell eucalyptus oil worth Rs. 600,000 to Nadia for Rs. 800,000, with delivery promised on 28 February 2025. Prior to signing the contract, Nadia informed DIO that she urgently needed the oil to supply to her customer on 2 March 2025. On 4 March 2025, DIO attempted to deliver the oil to Nadia during business hours, as the oil could not be delivered on 28 February 2025. *Under the Contract Act, 1872, discuss the course of action available to Nadia.* (04)

Q.9 In January 2020, Arif, a geologist residing in Islamabad, was advised by his cousin Bilal to purchase Glacier Tours (GT). Arif proceeded with the purchase, and due to his busy schedule, appointed Bilal to manage GT's operations. They agreed to share GT's profits equally.

In February 2025, while Arif was on a research expedition in a remote location of Antarctica, he received devastating news of a fire incident in his residential building. His family suffered severe burns and required specialized medical care. Arif was severely distressed upon learning that the next flight out of Antarctica was scheduled in thirty days.

Since Arif had just arranged the research expedition, he lacked immediate funds to cover the substantial medical expenses for his family's specialized burn treatment. Knowing Arif's position, Bilal offered to pay all medical bills in exchange for ownership rights to GT, to which Arif agreed.

Upon arrival, Arif discovered that Bilal had paid only Rs. 500,000 in medical bills, whereas GT's market value was Rs. 5 million. Arif claimed that Bilal had committed fraud by remaining silent about these details. Bilal argued that Arif had access to such financial details.

Under the Contract Act, 1872, evaluate whether Arif's accusation is valid and discuss the validity of the contract between Arif and Bilal. (06)

Q.10 Mist Traders (MT), a partnership firm engaged in the business of production and sale of industrial chemicals. In March 2025, MT held a meeting in Islamabad which was attended by all the partners, namely Mohsin, Umair, Yasir, and Zia.

As MT's consultant, you have been forwarded the following matters discussed in the meeting for your advice under the Partnership Act, 1932:

- (a) Yasir informed that Farah, who was admitted to the benefits of MT in October 2024, is now likely to issue a public notice electing to become MT's partner, as she has attained the age of majority. Considering Farah's interest in MT's business, Yasir proposed to involve her in MT's operations, to which Umair agreed. Mohsin suggested that, given Farah's lack of experience in business management, the partners should consider restricting her authorities, to protect MT from potential liabilities. Zia commented on Mohsin's suggestion that certain restrictions are already imposed on implied authority of a partner under the Partnership Act, 1932.

Discuss the restrictions imposed on Farah's implied authority as a partner in light of Zia's comment. **(05)**

- (b) Zia announced his plans to join his family business of fertilizer production. He expressed his intention to transfer his rights in MT to Dew Equipment (DE) in exchange for the credit purchase of machinery for fertilizer production. As part of the arrangement, DE's charge would be created over Zia's interest in MT, and Zia requested that his share of profit be paid directly to DE after the charge is established. Umair, however, argued that the profits of MT cannot be paid to any person other than a partner.

Evaluate whether Umair's argument is justified. Also, describe DE's rights and limitations in respect of MT, when the charge over Zia's interest in MT would be created. **(05)**

(THE END)

- A.1**
- | | | |
|-----------|------------|-----------|
| (i) (c) | (ii) (c) | (iii) (d) |
| (iv) (b) | (v) (a) | (vi) (a) |
| (vii) (d) | (viii) (d) | (ix) (a) |
| (x) (c) | (xi) (b) | |

A.2 Main sources of law in Pakistan

The main sources of law in Pakistan are as follows:

- **Legislation:** The law created by the Parliament and other bodies to whom it has delegated authority. It includes the Act of Parliament, the Ordinance promulgated by the President of Pakistan and the delegated legislation.
- **Precedent (case law):** Precedents are judgments or decisions of a superior court, which are binding on the subordinate courts.
- **Customs:** Certain customs, practices, and beliefs are so vital and an intrinsic part of a social and economic system that they are treated as if they were laws, e.g., Sharia laws.
- **Agreement:** Parties in their agreement stipulate terms for themselves which constitute law for the contracting parties.

Role of the Senate

The role of the Senate is to promote national cohesion and harmony and to alleviate fears of the smaller provinces regarding domination by any one province because of its majority, in the National Assembly. All statutes passed by the National Assembly are also approved by the Senate with the exception of money bills. The Senate may also originate a bill in respect of any matter, other than a money bill.

- A.3**
- (a)** Under the Payment Systems and Electronic Fund Transfers Act, 2007, the operational arrangements which are required to be made by the operators of a designated payment system (DPS) are as follows:
- (i) rules and procedures setting out the rights and liabilities of the operator and the participant and the financial risks the participants may incur;
 - (ii) procedures, controls and measures for the management of credit, liquidity and settlement risk, including rules determining the time when a payment instruction and a settlement is final;
 - (iii) criteria for participation in the DPS; and
 - (iv) measures to ensure the safety, security, and operational reliability of the DPS, including contingency arrangements.
- (b)** The practices that are classified as deceptive marketing practices under the Competition Act, 2010, include:
- (i) distributing false or misleading information that is capable of harming the business interests of another undertaking;
 - (ii) distributing false or misleading information to consumers, including information lacking a reasonable basis, related to the price, characteristics, production method or place, properties, suitability for use, or quality of goods;
 - (iii) making false or misleading comparisons of goods during the advertising process;
 - (iv) fraudulently using another's trademark, firm name, or product labelling or packaging.

- A.4 (a)** The consideration or object of an agreement would not be considered as lawful, if it:
- (i) is forbidden by law; or
 - (ii) is of such a nature that, 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
 - (vi) the Court regards it as opposed to public policy.
- (b)** Following are the circumstances under which a banker must refuse payment of a cheque:
- (i) where a bank has received a countermand of payment;
 - (ii) where a bank has received notice of the customer's death;
 - (iii) where a bank has received notice of adjudication of the customer as insolvent;
 - (iv) where a bank has received a cheque that has been specially crossed more than once and is presented for payment.

- A.5 (a)** Subject to contract between Zahid and Shakir, SCRC's property shall be held and used by the partners exclusively for the business purposes of SCRC. Accordingly, Zahid must share his plans with Shakir to establish clear boundaries between both businesses.

Zahid must take caution that the resources such as medical supplies that are purchased from the funds of SCRC are not used in his private clinic, as such assets would then be considered SCRC's property and could only be used for its business.

Subject to the contract between Zahid and Shakir, SCRC's property in context of resources would include goodwill of the business, as well as all property, rights and interests in property acquired by purchase or otherwise by or for SCRC, or for the purposes and during the course of SCRC's business. Therefore, Zahid's plan to manage the shortages interchangeably would not work unless Shakir gives his consent.

- (b)** The partnership firm of Zahid and Shakir is engaged in medical research and clinical care facilities for patients. Therefore, private clinic operations would be considered a competing business unless medical consultancy areas do not overlap.

Shakir's demand to restrict Zahid from engaging in a competing business may be valid only if such a restriction is explicitly present in the partnership agreement. If the agreement includes a clause prohibiting partners from running another business while being part of the firm, Zahid cannot proceed with establishing the private clinic.

Shakir's alternative demand for a management role in the private clinic is not valid, as his involvement would depend on the decision of the private clinic's partners, i.e., Zahid and his brother.

However, his demand for a share in the private clinic's profits would be valid only to the extent of Zahid's share of profits, where the private clinic's business competes with SCRC, subject to the partnership contract between Zahid and Shakir in respect of SCRC. Conversely, if Shakir is provided a management role and agrees that the profit need not be paid to SCRC, Zahid will not be required to do so.

Further, it is pertinent to note that if Zahid, while operating the private clinic, derives any profit from any SCRC's transaction, he shall account for and pay such profits to SCRC. However, if both partners agree that private clinic's profits will not be paid to SCRC, only profits belonging to the specified transactions would need to be paid unless waived.

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Business Law

Suggested Answer

Certificate in Accounting and Finance – Spring 2025

- (c) BT can recover the payment from Qasim if Qasim represents himself, through spoken or written words, conduct, or by lending his name, as a partner in SCRC's business, he would be liable as if he were a partner. This would be the case if BT extends credit to SCRC based on the belief that Qasim is a partner whether Qasim knows or does not know that the representation had reached BT.

In this scenario, Qasim would be regarded as a 'partner by estoppel' (or holding out) and BT would be able to recover the outstanding amount from him.

However, BT would not be able to recover the outstanding amount from Qasim if:

- he did not represent himself as being SCRC's partner; or
- he denied any claim by Zahid that suggested him as a partner; or
- he was unaware of Zahid's representation of him as a partner in the business.

However, BT would not be able to recover the outstanding amount from Qasim in respect of payment of dues pertaining to the private clinic in any case since Zahid did not represent him as a partner of the private clinic.

- (d) Subject to contract between the partners, mutual rights and liabilities will be as follows:
- (i) Qasim would be entitled to equally share the profits generated from SCRC's operations and would be required to equally contribute to the losses sustained by SCRC;
 - (ii) Qasim would be entitled to receive interest on the capital subscribed by him, and such interest would be paid only out of profits generated from the operations of SCRC;
 - (iii) If Qasim makes any payment or advance for the purposes of SCRC's business, beyond the amount of capital he has agreed to subscribe, then he would be entitled to interest on such payment or advance @ 6% per annum;
 - (iv) Qasim would be entitled to be indemnified by SCRC in respect of payments made and liabilities incurred by him in the ordinary and proper conduct of business;
 - (v) Qasim would be entitled to be indemnified by SCRC in respect of payments made and liabilities incurred by him in case of an emergency, for the purpose of protecting SCRC from loss, as would be done by a person of ordinary prudence, in his own case, under similar circumstances;
 - (vi) Qasim will be liable to indemnify SCRC for any loss caused to it by his willful neglect in the conduct of the business of SCRC; and
 - (vii) Qasim would not be entitled to receive remuneration for taking part in the conduct of SCRC's business.

A.6 The following principles are relevant to assessing FW's position and Rehan's demand:

- The initial agreement in November 2024 was made with both Haroon and Rehan jointly. When two or more persons make a joint promise, the obligation is joint and several, meaning the creditor (FW) can demand full payment from any one of the joint promisors unless a specific agreement exists stating otherwise.
- With regards to novation, rescission, and alteration of contract, an original party's liability can be discharged only if all parties, including the creditor (FW), consent to such substitution.

FW's position

- Since the contract did not specify separate liabilities, FW has the right to demand the full outstanding amount from either Haroon or Rehan due to joint liability. FW's decision to issue a single invoice rather than separate invoices remains valid and enforceable as per the original contract terms.

- Since the agreed terms of payment were breached, the contract for supply of water for the remaining tenure of the contract i.e., from January 2025 till October 2025, is now voidable at the option of FW, and FW may rescind the contract and claim for damages.

Rehan's demand

- Rehan's intimation to FW on 31 December 2024 that Haroon's business was taken over by Shoaib does not automatically transfer Haroon's liability to Shoaib. Since FW was merely informed of this change and did not explicitly accept Shoaib as a replacement debtor, Haroon and Rehan would remain jointly liable.
- Rehan's request for separate invoices after Haroon's default does not change his contractual liability. The original contract was joint, and unless FW formally accepted the division of liabilities, Rehan remains jointly liable for the full amount.
- Rehan's argument that he is responsible for only Rs. 0.4 million is not valid because the contract did not divide payments based on floor-wise supply. Rehan would be liable to pay Rs. 1 million, however, after making the payment, he may recover Rs. 0.6 million from Shoaib or Haroon's estate.

- A.7 (a)** In certain situations, the law of contract imposes obligations on a person in the absence of any agreement, where such obligations resemble those as created by a contract. These are called constructive contracts wherein the concept of constructive contract is that of a contract that should have been formed even though in actuality it was not formed.

In the following circumstances, a constructive contract may be formed:

- (i) **Supply of necessities:** 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 necessities 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.
 - (ii) **Reimbursement of 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.
 - (iii) **Person enjoying benefit of 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.
 - (iv) **Finder of goods:** A person who finds goods belonging to another and takes them into his custody, is subject to the same responsibilities as a bailee.
 - (v) **Payment or delivery 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.
- (b)** The effects of promisor's failure to perform a contract without a valid offer of performance at the agreed time are determined by whether time is of the essence or not, and this distinction is crucial. The effects for both situations are discussed as follows:

Effect(s) of failure to perform a contract where time is essential

When a party to a contract promises to do a certain thing at a specified time, and fails to do it, the contract, or so much of it as has not been performed, becomes voidable at the option of the promisee, who may demand compensation for such losses that naturally arise from the breach of contract, or were anticipated at the time of the contract formation, or were stipulated in the contract through a penalty clause.

If, in case of a contract voidable on account of the promisor's failure to perform his promise at the time agreed, the promisee accepts performance of such promise at any time other than that agreed, the promisee cannot claim compensation for any loss occasioned by the non-performance of the promise at the time agreed, unless, at the time of acceptance he gives notice to the promisor of his intention to do so.

Effect(s) of failure to perform a contract where time is not essential

When a party to a contract promises to do a certain thing at a specified time, and fails to do it, the contract does not become voidable by such failure, however, the promisee is entitled to compensation from the promisor of losses occasioned to him by such failure that naturally arise from the breach of contract or were anticipated at the time of formation of the contract or were stipulated in the contract through a penalty clause.

- (c) The enforceability of an agreement when consent is caused by mistake under different situations is as follows:

Unilateral mistake

Regarding the enforceability of an agreement, when that agreement forms a valid contract and one party's consent is caused by a unilateral mistake as to a matter of fact essential to the contract, the contract is not voidable and remains a valid contract.

Bilateral mistake

Regarding the enforceability of an agreement, where both the parties to an agreement are under a mistake as to a matter of fact essential to the agreement, the agreement is void. However, an erroneous opinion as to the value of the thing which forms the subject-matter of the agreement is not deemed to be a mistake as to a matter of fact.

Mistake as to any law in force in Pakistan

Regarding the enforceability of an agreement, when that agreement forms a valid contract and consent is caused by a mistake as to a law in force in Pakistan, the contract is not voidable and remains a valid contract.

Mistake as to a law not in force in Pakistan

Regarding the enforceability of an agreement, when that agreement forms a valid contract and consent is caused by a mistake as to a law not in force in Pakistan, this mistake has the same effect as a mistake of fact which may be unilateral or bilateral. A unilateral mistake will not render the contract voidable, while a bilateral mistake may render it void.

- A.8 (a) DIO has made a valid offer of performance to the restaurant as it deals in imported oils only, therefore, there was no uncertainty on DIO's part. However, the customer made a unilateral mistake of fact related to the subject matter of the agreement thinking that it would be supplied by locally extracted oil, even though, DIO's name itself clearly indicates that it deals in imported oils.

The contract is effective and not voidable at the option of the restaurant merely because it was caused by one of the parties to it being under a mistake as to a matter of fact. However, since there was a breach of contract by the restaurant, the contract is now voidable at the option of DIO.

DIO can hold the restaurant liable for breach of contract and claim damages, which naturally arose due to the breach of the contract, that may include the delivery charges of bringing the consignment back.

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It is pertinent to mention that DIO will not be liable to pay the penalty of Rs. 100,000 as the contract has been breached by the restaurant.

- (b) DIO's offer contained specific instructions regarding the mode of acceptance, however, Dawood has not conveyed acceptance in the prescribed manner. After receiving the verbal acceptance of Dawood, DIO may within a reasonable time insist that the offer should be accepted only after receiving the signed confirmation letter.

Where DIO sends out intimation to Dawood insisting to accept the offer in prescribed manner, then DIO would not be bound to deliver the order to Dawood by 25 March 2025.

However, in case DIO does not insist on the acceptance of offer in the prescribed manner, then DIO will be considered to have accepted the acceptance of Dawood in which case DIO would be bound to deliver 100 liters of lavender oil to Dawood by 25 March 2025.

- (c) The valid offer of performance to deliver the oil to CC should be made as follows:
- DIO is required to request CC to designate a reasonable place for the delivery of the order and must then arrange for delivery at that place, which may be in Islamabad, Faisalabad, Sialkot or elsewhere.
 - DIO must deliver the complete order, i.e., 100 liters, during CC's usual business hours on or before the agreed date, i.e., 15 March 2025, at the designated place.
 - CC must be given a reasonable opportunity to verify that the consignment contains the required quantity of castor oil.
- (d) In the given situation, since time was the essence of the contract between DIO and Nadia, where DIO failed to deliver the oil to Nadia, the contract becomes voidable at the option of Nadia.

Nadia may accept the delivery of the oil and claim compensation on account of the delayed supply if, at the time of acceptance, Nadia gives notice to DIO of its intention to claim damages.

However, if she accepts the oil without giving any notice of compensation, it means she accepts the performance of the promise and consequently cannot claim compensation for any loss occasioned by the non-delivery by DIO at the agreed date.

Nadia may decide not to accept performance beyond the stipulated time and claim compensation for any damages which it may have sustained due to nonfulfillment of the contract by DIO.

A.9 Arif's accusation on Bilal of committing fraud

Arif's accusation of fraud against Bilal is invalid, as Bilal neither misrepresented facts which he believed to be false nor did he actively conceal any information from Arif. He fulfilled his promise, and there was no evident deception or any fraudulent act on his part.

Arif's claim that Bilal remained silent about the difference between the hospital bill and GT's market price is not valid. Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud unless Bilal had the duty to disclose or if his silence itself amounted to misrepresentation. Both of these situations were non-existent.

Moreover, Arif may have discovered this information through ordinary due diligence. As a result, Arif remains bound to sell GT.

Validity of contract between Arif and Bilal

The validity of the contract between Arif and Bilal would depend on whether or not undue influence was exercised by Bilal. Arif may argue that Bilal obtained his consent through undue influence, as Bilal was in a position to dominate his will. It is pertinent to note that Arif's mental capacity may have been temporarily impaired due to distress over his family's distressed situation, and Bilal could have exploited Arif's position to secure an unfair transaction. Accordingly, Arif may assert that the agreement to sell GT was not a valid contract as his consent was not freely given in the circumstances.

Arif would not be liable to sell GT to Bilal if undue influence is established, supported by the apparent unconscionability of the transaction, unless Bilal proves that the contract was not induced by undue influence as the burden of proof would be on Bilal. In such a situation, the agreement would be voidable at Arif's option and, if Arif rescinds the contract, he would have to reimburse Rs. 500,000 to Bilal.

A.10 (a) Restriction on Farah's implied authority after becoming a partner of MT

After becoming a partner, Farah will be subject to all rights and liabilities of a partner of MT and will have the implied authority of a partner under the Partnership Act. The acts of Farah undertaken to carry on the business of firm in the usual way would be binding on MT by way of Farah's implied authority, however, in absence of any usage or custom of trade to the contrary, Farah's implied authority in relation to third parties does not empower her to do following acts:

- (a) submit a dispute relating to the business of MT to arbitration,
- (b) open a banking account on behalf of the firm in her own name,
- (c) compromise or relinquish any claim or portion of a claim by MT,
- (d) withdraw a suit or proceeding filed on behalf of MT,
- (e) admit any liability in a suit or proceeding against MT,
- (f) acquire immovable property on behalf of MT,
- (g) transfer immovable property belonging to MT, or
- (h) enter into partnership on behalf of MT.

The partners of MT may by contract amongst themselves, extend or restrict the implied authority of Farah. However, any act done by Farah on behalf of the firm which falls within her implied authority binds MT, unless the person with whom she is dealing knows of such restrictions or does not know or believe Farah to be a partner.

(b) Evaluation of Umair's argument

Umair's argument is invalid as there is no restriction as to whom profits of a partnership firm can be paid. DE can be paid a share of MT's profit pertaining to Zia, however, receipt of such share of profit would not make DE a partner of MT.

Rights and limitations of DE after creation of charge on Zia's interest in MT

Zia's intention to transfer his interest in MT against credit purchase of machinery by creation of a charge on his interest would entitle DE to receive Zia's profit share, in respect of which DE would be bound to accept the account of profits agreed to by the partners of MT.

However, DE shall not be entitled to interfere in the conduct of business of MT during continuance of MT's business, or require accounts of MT, or inspect the books of MT, or sue for dissolution of MT, or challenge the accounts of profits agreed to by the partners.

If MT is dissolved or if Zia ceases to be a partner, then DE would be entitled to receive the share of the assets of MT against the remaining partners to which Zia was entitled, and, for the purpose of ascertaining that share, DE would also be entitled to an account as from the date of the dissolution.

(THE END)

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| A.1
(i) (c)
(iv) (b)
(vii) (d)
(x) (c) | (ii) (c)
(v) (a)
(viii) (d)
(xi) (b) | (iii) (d)
(vi) (a)
(ix) (a) |
|---|---|-----------------------------------|

A.2 Main sources of law in Pakistan

The main sources of law in Pakistan are as follows:

- **Legislation:** The law created by the Parliament and other bodies to whom it has delegated authority. It includes the Act of Parliament, the Ordinance promulgated by the President of Pakistan and the delegated legislation.
- **Precedent (case law):** Precedents are judgments or decisions of a superior court, which are binding on the subordinate courts.
- **Customs:** Certain customs, practices, and beliefs are so vital and an intrinsic part of a social and economic system that they are treated as if they were laws, e.g., Sharia laws.
- **Agreement:** Parties in their agreement stipulate terms for themselves which constitute law for the contracting parties.

Role of the Senate

The role of the Senate is to promote national cohesion and harmony and to alleviate fears of the smaller provinces regarding domination by any one province because of its majority, in the National Assembly. All statutes passed by the National Assembly are also approved by the Senate with the exception of money bills. The Senate may also originate a bill in respect of any matter, other than a money bill.

- A.3 (a)** Under the Payment Systems and Electronic Fund Transfers Act, 2007, the operational arrangements which are required to be made by the operators of a designated payment system (DPS) are as follows:
- (i) rules and procedures setting out the rights and liabilities of the operator and the participant and the financial risks the participants may incur;
 - (ii) procedures, controls and measures for the management of credit, liquidity and settlement risk, including rules determining the time when a payment instruction and a settlement is final;
 - (iii) criteria for participation in the DPS; and
 - (iv) measures to ensure the safety, security, and operational reliability of the DPS, including contingency arrangements.
- (b)** The practices that are classified as deceptive marketing practices under the Competition Act, 2010, include:
- (i) distributing false or misleading information that is capable of harming the business interests of another undertaking;
 - (ii) distributing false or misleading information to consumers, including information lacking a reasonable basis, related to the price, characteristics, production method or place, properties, suitability for use, or quality of goods;
 - (iii) making false or misleading comparisons of goods during the advertising process;
 - (iv) fraudulently using another's trademark, firm name, or product labelling or packaging.

- A.4 (a)** The consideration or object of an agreement would not be considered as lawful, if it:
- (i) is forbidden by law; or
 - (ii) is of such a nature that, 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
 - (vi) the Court regards it as opposed to public policy.
- (b)** Following are the circumstances under which a banker must refuse payment of a cheque:
- (i) where a bank has received a countermand of payment;
 - (ii) where a bank has received notice of the customer's death;
 - (iii) where a bank has received notice of adjudication of the customer as insolvent;
 - (iv) where a bank has received a cheque that has been specially crossed more than once and is presented for payment.

- A.5 (a)** Subject to contract between Zahid and Shakir, SCRC's property shall be held and used by the partners exclusively for the business purposes of SCRC. Accordingly, Zahid must share his plans with Shakir to establish clear boundaries between both businesses.

Zahid must take caution that the resources such as medical supplies that are purchased from the funds of SCRC are not used in his private clinic, as such assets would then be considered SCRC's property and could only be used for its business.

Subject to the contract between Zahid and Shakir, SCRC's property in context of resources would include goodwill of the business, as well as all property, rights and interests in property acquired by purchase or otherwise by or for SCRC, or for the purposes and during the course of SCRC's business. Therefore, Zahid's plan to manage the shortages interchangeably would not work unless Shakir gives his consent.

- (b)** The partnership firm of Zahid and Shakir is engaged in medical research and clinical care facilities for patients. Therefore, private clinic operations would be considered a competing business unless medical consultancy areas do not overlap.

Shakir's demand to restrict Zahid from engaging in a competing business may be valid only if such a restriction is explicitly present in the partnership agreement. If the agreement includes a clause prohibiting partners from running another business while being part of the firm, Zahid cannot proceed with establishing the private clinic.

Shakir's alternative demand for a management role in the private clinic is not valid, as his involvement would depend on the decision of the private clinic's partners, i.e., Zahid and his brother.

However, his demand for a share in the private clinic's profits would be valid only to the extent of Zahid's share of profits, where the private clinic's business competes with SCRC, subject to the partnership contract between Zahid and Shakir in respect of SCRC. Conversely, if Shakir is provided a management role and agrees that the profit need not be paid to SCRC, Zahid will not be required to do so.

Further, it is pertinent to note that if Zahid, while operating the private clinic, derives any profit from any SCRC's transaction, he shall account for and pay such profits to SCRC. However, if both partners agree that private clinic's profits will not be paid to SCRC, only profits belonging to the specified transactions would need to be paid unless waived.

Business Law

Suggested Answer

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Nadia may accept the delivery of the oil and claim compensation on account of the delayed supply if, at the time of acceptance, Nadia gives notice to DIO of its intention to claim damages.

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A.9 Arif's accusation on Bilal of committing fraud

Arif's accusation of fraud against Bilal is invalid, as Bilal neither misrepresented facts which he believed to be false nor did he actively conceal any information from Arif. He fulfilled his promise, and there was no evident deception or any fraudulent act on his part.

Arif's claim that Bilal remained silent about the difference between the hospital bill and GT's market price is not valid. Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud unless Bilal had the duty to disclose or if his silence itself amounted to misrepresentation. Both of these situations were non-existent.

Moreover, Arif may have discovered this information through ordinary due diligence. As a result, Arif remains bound to sell GT.

Validity of contract between Arif and Bilal

The validity of the contract between Arif and Bilal would depend on whether or not undue influence was exercised by Bilal. Arif may argue that Bilal obtained his consent through undue influence, as Bilal was in a position to dominate his will. It is pertinent to note that Arif's mental capacity may have been temporarily impaired due to distress over his family's distressed situation, and Bilal could have exploited Arif's position to secure an unfair transaction. Accordingly, Arif may assert that the agreement to sell GT was not a valid contract as his consent was not freely given in the circumstances.

Arif would not be liable to sell GT to Bilal if undue influence is established, supported by the apparent unconscionability of the transaction, unless Bilal proves that the contract was not induced by undue influence as the burden of proof would be on Bilal. In such a situation, the agreement would be voidable at Arif's option and, if Arif rescinds the contract, he would have to reimburse Rs. 500,000 to Bilal.

A.10 (a) Restriction on Farah's implied authority after becoming a partner of MT

After becoming a partner, Farah will be subject to all rights and liabilities of a partner of MT and will have the implied authority of a partner under the Partnership Act. The acts of Farah undertaken to carry on the business of firm in the usual way would be binding on MT by way of Farah's implied authority, however, in absence of any usage or custom of trade to the contrary, Farah's implied authority in relation to third parties does not empower her to do following acts:

- (a) submit a dispute relating to the business of MT to arbitration,
- (b) open a banking account on behalf of the firm in her own name,
- (c) compromise or relinquish any claim or portion of a claim by MT,
- (d) withdraw a suit or proceeding filed on behalf of MT,
- (e) admit any liability in a suit or proceeding against MT,
- (f) acquire immovable property on behalf of MT,
- (g) transfer immovable property belonging to MT, or
- (h) enter into partnership on behalf of MT.

The partners of MT may by contract amongst themselves, extend or restrict the implied authority of Farah. However, any act done by Farah on behalf of the firm which falls within her implied authority binds MT, unless the person with whom she is dealing knows of such restrictions or does not know or believe Farah to be a partner.

(b) Evaluation of Umair's argument

Umair's argument is invalid as there is no restriction as to whom profits of a partnership firm can be paid. DE can be paid a share of MT's profit pertaining to Zia, however, receipt of such share of profit would not make DE a partner of MT.

Rights and limitations of DE after creation of charge on Zia's interest in MT

Zia's intention to transfer his interest in MT against credit purchase of machinery by creation of a charge on his interest would entitle DE to receive Zia's profit share, in respect of which DE would be bound to accept the account of profits agreed to by the partners of MT.

However, DE shall not be entitled to interfere in the conduct of business of MT during continuance of MT's business, or require accounts of MT, or inspect the books of MT, or sue for dissolution of MT, or challenge the accounts of profits agreed to by the partners.

If MT is dissolved or if Zia ceases to be a partner, then DE would be entitled to receive the share of the assets of MT against the remaining partners to which Zia was entitled, and, for the purpose of ascertaining that share, DE would also be entitled to an account as from the date of the dissolution.

(THE END)

BUSINESS LAW

Summary of Marking Key
Certificate in Accounting and Finance – Spring 2025

Note regarding marking scheme:

The marking scheme is given as a guide. Markers also award marks for alternative approaches to a question and relevant/well-reasoned comments/explanations. Moreover, the available marks in the answer may exceed the total marks of a question.

		Mark(s)
A.1	Marks as mentioned on the question paper against each MCQ	15.0
A.2	▪ 01 mark for each source of law in Pakistan	4.0
	▪ Discuss the role of the Senate in the legislation process	1.0
A.3	(a) 01 mark for each operational arrangement to be established by DPS operators	4.0
	(b) 01 mark for each practice that can be classified as a deceptive marketing practice	4.0
A.4	(a) 0.75 mark for each situation in which the consideration or object of an agreement would not be considered as lawful	4.0
	(b) 01 mark for each circumstance under which a banker must refuse payment of a cheque	3.0
A.5	(a) ▪ Identify that SCRC's property must be used exclusively for the business purposes of SCRC, subject to the contract between Zahid and Shakir	2.0
	▪ Identify when Zahid can use the resources of SCRC and the private clinic interchangeably	1.0
	(b) ▪ Identify that SCRC and the private clinic are competing businesses	1.0
	▪ 01 mark to evaluate each aspect of Shakir's demand	3.0
	(c) ▪ Discuss the situation in which BT can recover the dues from Qasim	2.0
	▪ Discuss when Qasim would not be liable towards BT for payment of dues	2.0
	(d) Up to 01 mark for each mutual right and liability of Qasim, concerning SCRC	5.0
A.6	▪ Identify that Haroon and Rehan are jointly and severally liable towards FW	1.0
	▪ Discuss FW's position for recovery of dues amounting to Rs. 1 million	2.0
	▪ Evaluate Rehan's demand, claiming responsibility to pay Rs. 0.4 million only	2.0
A.7	(a) ▪ Describe constructive contracts	1.0
	▪ 01 mark for each circumstance under which a constructive contract may be formed	4.0
	(b) Explain the effects of the promisor's failure to provide a valid offer of performance on the agreed time, in each of the following situations:	
	▪ When time is the essence of a contract	2.5
	▪ When time is not the essence of a contract	2.5

<p>BUSINESS LAW Summary of Marking Key Certificate in Accounting and Finance – Spring 2025</p>

		Mark(s)
	(c) Discuss the enforceability of an agreement when consent is caused by a:	
	▪ unilateral mistake as to a matter of fact essential to the contract	2.0
	▪ bilateral mistake as to a matter of fact essential to the contract	2.0
A.8	(a) Identify that the restaurant's consent was caused due to unilateral mistake	2.0
	▪ Discuss the remedies available to DIO	2.0
	(b) Discuss that DIO may insist on acceptance of an offer in the prescribed manner	2.0
	▪ Identify that if DIO does not insist on the acceptance of an offer in the prescribed manner, then it will be bound to deliver the oil to Dawood	1.0
	(c) 01 mark for each condition to be fulfilled for making a valid delivery offer	3.0
	(d) Identify that the contract has become voidable at the option of Nadia	1.0
	▪ 01 mark for each remedy available to Nadia	3.0
A.9	▪ Identify that Arif's accusation against Bilal of committing fraud is invalid	2.5
	▪ Discuss that Bilal may have exercised undue influence to obtain Arif's consent	1.5
	▪ Evaluate the validity of the contract where undue influence was applied by Bilal	2.0
A.10	(a) 0.5 mark for each restriction imposed on Farah's implied authority	4.0
	▪ Identify that the partners may extend or restrict Farah's implied authority, by way of a contract amongst the partners	1.0
	(b) Evaluate that Umair's argument is invalid	0.5
	▪ Describe the rights of DE in respect of MT, after the creation of the charge	2.5
	▪ Discuss DE's limitations with respect to MT, after the creation of the charge	2.0

(THE END)

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Business Law	Certificate in Accounting and Finance (CAF) Spring 2025

Passing %

Question-wise										Overall
1	2	3	4	5	6	7	8	9	10	Overall
82%	57%	41%	37%	12%	19%	55%	36%	20%	37%	40%

General

A slight decrease in the overall result was observed in this session, as 40% of the examinees secured passing marks compared to 43% in the previous session.

Below-average performance was noted in question numbers 5, 6, and 9, primarily due to the examinees' inability to apply relevant knowledge of the law to scenario-based questions. It is strongly advised that when attempting such questions, examinees should first ascertain the core issue(s), giving due attention to the specific requirements of each question, and then apply the relevant provisions of law to address the identified issue.

Question-wise common mistakes observed

Question 1

- Performance in MCQs no (ii), (vi), and (ix) was below average.
- A few examinees selected multiple options instead of selecting one correct option, due to which marks could not be awarded.
- A few examinees did not write their selected option, especially since the options (a) and (d) were written very similarly.

Question 2

Examinees explained the main sources of law in Pakistan but did not discuss the role of the Senate in the process of legislation.

Question 3(a)

Examinees did not mention that operators of the designated payment system (DPS) are required to establish measures that ensure the safety, security, and operational reliability of the DPS, including contingency arrangements.

Question 3(b)

Examinees were not able to specify that the act of distributing false or misleading information that is capable of harming another undertaking's business interests, as well as fraudulently using another undertaking's trademark, firm name, product labelling, or packaging, would be classified as deceptive marketing practices.

Question 4(a)

Examinees did not mention that the consideration or object of an agreement would not be considered as lawful if the Court regards it immoral, or opposed to public policy.

Question 4(b)

Examinees were not able to identify that a banker must refuse payment if the bank has received notice of the customer's death.

Question 5(a)

Examinees did not discuss that, subject to the contract between Zahid and Shakir, SCRC's property shall be used exclusively for the business purposes of SCRC, therefore, Zahid must ensure that the medical supplies purchased with SCRC's funds are not used in his private clinic as such assets remain SCRC's property and must only be used for its business purposes.

Question 5(b)

Examinees were not able to establish that if Zahid, while operating the private clinic, derives any profit from SCRC's transaction, he must account for and pay such profits to SCRC unless there is a contract to the contrary wherein Zahid and Shakir mutually agree that the private clinic's profits arising from such transactions need not be paid to SCRC.

Question 5(c)

Examinees did not discuss that BT would have no grounds to recover the outstanding amount from Qasim, as Qasim would not be regarded as a 'partner by estoppel' (or holding out) if he had not represented himself as SCRC's partner; had denied Zahid's claim suggesting that he was a partner; or was unaware of Zahid's representation of him as a partner in SCRC.

Question 5(d)

Examinees correctly identified the mutual rights of Qasim concerning SCRC upon becoming a partner but failed to discuss his mutual liabilities, which were specifically asked for in this part of the question.

Question 6

Examinees were not able to establish that Rehan informing FW of Shoaib taking over Haroon's business does not automatically transfer Haroon's liability to Shoaib without FW's explicit agreement. Furthermore, they did not conclude that Rehan's claim of being liable to pay only Rs. 0.4 million is not valid, and he remains liable for the full invoice amount of Rs. 1 million, of which he may recover Rs. 0.6 million from Haroon's estate.

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Question 7(a)

Examinees did not identify the formation of a constructive contract in cases where a person benefits from a non-gratuitous act. Specifically, this occurs when someone lawfully does something for another, or delivers something without intending it to be free, and the other person enjoys the benefit. In such cases, the latter is obligated to compensate the former or restore what was done or delivered.

Question 7(b)

Examinees did not adequately explain that the consequences of a promisor's failure to perform a contract at the agreed time depend on whether time is of the essence. While they discussed the effects when time is essential, they failed to address scenarios where time is not of the essence, which is a crucial distinction.

Question 7(c)

Examinees overlooked the point that a mutual mistake regarding an essential fact makes an agreement void. Furthermore, they did not mention that an erroneous opinion about the value of the thing which forms the subject matter of the agreement is not considered a mistake of fact.

Question 8(a)

Examinees incorrectly concluded that DIO breached the contract. Instead, they should have identified that the restaurant's breach made the contract voidable at DIO's option. Consequently, DIO could hold the restaurant liable for the breach and claim damages, including the return delivery charges, which naturally resulted from the restaurant's failure.

Question 8(b)

Examinees did not discuss that DIO has the right to demand acceptance of the offer in the prescribed manner. Alternatively, if DIO does not insist on this, it will be bound to deliver 100 liters of lavender oil to Dawood.

Question 8(c)

Examinees did not identify that DIO was obligated to deliver the complete order to CC during CC's usual business hours by 15 March 2025, at the designated place, and allow CC a reasonable opportunity to verify the quantity and quality of the castor oil.

Question 8(d)

Examinees incorrectly concluded that time was not of the essence. They should have discussed that because time was of the essence of the contract, DIO's failure to deliver on the agreed date made the contract voidable at Nadia's option. Consequently, Nadia could either accept the delayed delivery and claim compensation if notice was given upon acceptance or reject the delivery.

Question 9

Examinees failed to identify that Arif's accusation of Bilal committing fraud is invalid unless undue influence by Bilal in obtaining Arif's consent is proven. Furthermore, they did not establish that Arif's claim regarding Bilal's silence on the price difference is also invalid, as mere silence about facts likely to affect a person's willingness does not constitute fraud.

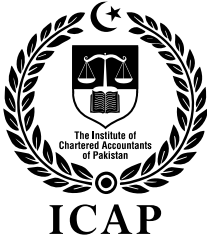
Question 10(a)

Examinees did not specify that MT's partners can modify Farah's implied authority through their internal contract. Moreover, they also missed that any action Farah takes on behalf of MT within her implied authority will bind MT, unless the other party is aware of those restrictions or does not know or believe Farah is an MT partner.

Question 10(b)

Examinees correctly identified DE's rights in respect of MT after the creation of a charge over Zia's interest. However, they failed to discuss DE's limitations, a key requirement of this part of the question.

(THE END)



Certificate in Accounting and Finance Stage Examination

2 September 2025

3 hours – 100 marks

Additional reading time – 15 minutes

Business Law

Instructions to examinees:

- (i) Answer all **TEN** questions.
 - (ii) Answer in **black** pen only.
 - (iii) Multiple Choice Questions must be answered in answer script only.
-

Q.1 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions.

- (i) Apricot Fruits (AF) offered to sell 800 kg of dried apricots to Zahid at a discounted price of Rs. 240 per kg. Zahid proposed that he would purchase 400 kg of apricots at the offered price if the apricots are delivered in August 2025.

AF agreed to deliver 400 kg of apricots by 31 August 2025, informing that the price would be determined at the time of delivery, which might be Rs. 270 per kg (10% discount) or Rs. 240 per kg (20% discount). Zahid agreed to this arrangement.

On 31 August 2025, AF delivered the apricots with an invoice charging Rs. 270 per kg, but Zahid insisted that he would pay only Rs. 240 per kg.

Under the Contract Act, 1872, can AF hold Zahid liable for breach of contract?

- (a) Yes, because Zahid had agreed to the payment terms when contract was formed
- (b) Yes, because AF delivered the apricots in August 2025 as agreed
- (c) No, because a valid contract was not formed due to uncertainty of price
- (d) No, because AF had made an alternative promise to sell the apricots for Rs. 240 per kg

(1.5)

- (ii) On 1 August 2025, Sarim, a supplier of electronic equipment, drew a bill of exchange stating: “Fatima, please pay Rs. 450,000 to Kamran or his order upon the successful installation of our equipment at your Karachi warehouse.” The equipment is expected to be installed at the designated premises by 5 September 2025.

Fatima accepted the instrument, and Sarim delivered it to his own supplier, Kamran, in settlement of an outstanding payment.

Under the Negotiable Instruments Act, 1881, determine the status of the instrument.

- (a) It is a valid negotiable instrument because it was accepted by Fatima
- (b) It is a valid negotiable instrument since Kamran accepted it in good faith
- (c) It will become an invalid negotiable instrument if the equipment is not installed at the designated premises by 5 September 2025
- (d) It is an invalid negotiable instrument because the order to pay is dependent on the installation of equipment

(1.5)

- (iii) With reference to the concept of ‘consideration’ as explained in the Contract Act, 1872, which of the following statements is **NOT** correct?

- (a) The consideration must be provided exclusively by the promisee
- (b) The consideration must be given at the desire of the promisor
- (c) The consideration may comprise of a promise to perform an act in the future
- (d) The consideration may be past, present or future as per the contract terms

(01)

- (iv) On 1 August 2025, Bilal agreed to supply 900 kg of Syrian pistachios to a customer. Bilal approached his younger brother Usman to arrange the pistachios, and Usman agreed to supply them for Rs. 4 million by 31 August 2025.

Usman informed Bilal that he expected to earn profit of Rs. 0.5 million from the supply. They mutually agreed that, in the event of any dispute, no legal action would be taken to protect the business and family reputation.

On 20 August 2025, Bilal informed Usman that the pistachios were no more needed as customer had cancelled the order. He paid Rs. 0.2 million as compensation in full and final settlement.

Under the Contract Act, 1872, is Usman entitled to sue Bilal for the remaining Rs. 0.3 million?

- (a) Yes, because Bilal exercised undue influence while determining the amount of final settlement
 - (b) Yes, because the agreement not to take legal action in case of dispute is void
 - (c) No, because the order was cancelled before the delivery date
 - (d) No, because Usman and Bilal had mutually agreed not to take legal action **(1.5)**
- (v) On 1 August 2025, Azlan agreed to sell 100 Taiwanese drones to Moiz, promising delivery by 31 August 2025. Moiz insisted on timely delivery as he would be travelling abroad immediately afterwards. To fulfil the agreement, Azlan immediately placed an order with Almond Equipment (AE) for the supply of drones, instructing to deliver directly to Moiz by 31 August 2025.

On 31 August 2025, Azlan informed Moiz that, due to a prolonged labor strike in AE's manufacturing facility, the drones could not be manufactured till date. Moiz sent a notice to Azlan claiming damages for breach of contract.

Under the Contract Act, 1872, would Azlan be liable to pay damages to Moiz?

- (a) No, because Azlan is not bound to deliver on account of supervening impossibility
 - (b) No, because the contract has become void due to AE's breach
 - (c) Yes, because Azlan is bound to deliver the drones irrespective of AE's breach
 - (d) Yes, because Azlan did not inform Moiz of the situation before 31 August 2025 **(1.5)**
- (vi) Hina, Zara, and Mehreen are partners in Hazelnut Café (HC), which runs a breakfast café. On 1 January 2025, the partners signed a written agreement designating Zara as HC's managing partner. The partnership agreement also stipulated that all contracts above Rs. 1 million must be made with the mutual consent of all partners.

On 1 July 2025, Zara, without informing the other partners, signed a contract to procure organic produce from Pine Farms (PF) for Rs. 2 million. Subsequently, when Hina and Mehreen became aware of the contract, they objected on the violation of the partnership agreement and refused to pay PF's invoice from HC's funds.

Under the Partnership Act, 1932, which of the following statements is correct?

- (a) HC is not liable to pay the invoice as Zara's implied authority was restricted under the partnership agreement
- (b) PF is not entitled to receive payment as it did not seek consent of all partners as per the partnership agreement
- (c) HC must pay the invoice as the contract was made in the ordinary course of business
- (d) Only Zara can pay the invoice from her own funds as she violated the partnership agreement **(1.5)**

- (vii) Which of the following is a disadvantage of delegated legislation?
- Delegated legislation is less flexible than an Act of Parliament
 - The power to make law is given to unelected civil servants working under the supervision of a government minister
 - It is difficult to amend delegated legislation than to amend an Act of Parliament
 - Rules made under delegated power to move legislation cannot be challenged in courts on any ground
- (01)**
- (viii) On 1 August 2025, Mukhtar sent an offer letter to Jamal, offering to sell his truck for Rs. 2 million and asking Jamal to send the acceptance letter to his son Ali before 31 August 2025.
- On 15 August 2025, Jamal came to know about Mukhtar's death in an accident that had occurred on 10 August 2025. Subsequently, on 17 August 2025, Jamal sent a letter to Ali offering his condolences and accepting to purchase the truck for Rs. 2 million. With his letter, Jamal also enclosed Mukhtar's offer letter dated 1 August 2025.
- Under the Contract Act, 1872, which of the following statements is correct?
- Ali, being Mukhtar's legal representative, must sell the truck to Jamal
 - Ali can refuse to sell the truck as Mukhtar's offer was revoked on 10 August 2025
 - Ali can refuse to sell the truck as Mukhtar's offer was revoked on 15 August 2025
 - Ali can refuse to sell the truck to Jamal if he was unaware of Mukhtar's offer
- (1.5)**
- (ix) In the absence of any contract to the contrary, which of the following is **NOT** a mutual right of a partner under the Partnership Act, 1932?
- Right to receive remuneration for taking part in the conduct of the business
 - Right to be indemnified for liabilities incurred by a partner in the ordinary and proper conduct of the business
 - Right to receive agreed interest on the capital subscribed by a partner, to be paid out of the profits earned by the partnership firm
 - Right to receive an equal share of the profits earned by the partnership firm
- (01)**
- (x) As per the Prevention of Electronic Crimes Act, 2016, which of the following acts would **NOT** be considered as an act to carry out 'data damage'?
- Any act that involves relocation or suppression of data
 - Any act that would result in alteration or deletion of data
 - Any act that would make the data temporarily unavailable
 - Any act that involves duplicating the data on multiple devices
- (01)**
- (xi) On 1 August 2025, Noman promised to deliver 1,000 kg of cashew nuts to Cashew Delicacies (CD) on 30 August 2025 at Rs. 1,200 per kg.
- On 28 August 2025, CD promised to supply cashew nut sweets to a customer on 31 August 2025 and informed Noman that, to complete the order, 1,000 kg of cashew nuts promised by him must be delivered on time as CD expected to earn a profit of Rs. 50,000 from the sweets order.
- Noman failed to deliver the cashew nuts on the agreed time. CD immediately purchased 1,000 kg of the cashew nuts from the market at Rs. 1,600 per kg and fulfilled the sweets order on 31 August 2025. The market price of cashew nuts on 28 August 2025 was Rs. 1,500 per kg.
- Under the Contract Act, 1872, what amount of damages can CD recover from Noman?
- Rs. 300,000
 - Rs. 350,000
 - Rs. 400,000
 - Rs. 450,000
- (02)**

- Q.2 Describe how an Ordinance is promulgated in Pakistan and explain the effect of such Ordinance. (04)
- Q.3 (a) Under the Arbitration Act, 1940, explain 'arbitration agreement' and state any **three** powers of an umpire appointed by the arbitrators to settle the differences between them. (04)
- (b) Under the Competition Act, 2010, list any **five** practices that prevent, restrict, reduce or distort competition in a particular market through abuse of a dominant position. (05)
- Q.4 (a) Under the Partnership Act, 1932, explain the principle of 'Holding out', and state its exception(s). (04)
- (b) Under the Negotiable Instruments Act, 1881, explain the essential elements of a valid endorsement, after which a negotiable instrument is considered to be properly endorsed. (04)
- Q.5 Asim, Bilal, and Dawood are partners in Nuts & Seeds Associates (NSA), a partnership firm engaged in the wholesale of premium dry fruits sourced from across Pakistan.

On 30 June 2024, with an intent to carry on their legacy and equip the future generation with skills to manage NSA's business, all the partners of NSA mutually decided to admit their children to the benefits of NSA. The following particulars were shared:

Name	Date of attaining majority	Relation with partners
Farhan Asim	30 June 2025	Son of Asim
Ghaffar Bilal	31 August 2025	Son of Bilal
Hina Dawood	2 September 2025	Daughter of Dawood

On 2 September 2025, all the partners met and the following discussions took place:

- (a) Bilal proposed that NSA should consider to install manufacturing plant and dehydrating machinery to process their products into edible energy bars with added dehydrated fruits and vegetables, to be sold at premium prices. He also proposed that freshness seals should be added to the existing packaging to ensure that products remain fresh for a longer period. Dawood rejected both proposals, however, Asim supported their implementation. *Under the Partnership Act, 1932, evaluate the situation and advise whether the proposals can be implemented.* (04)
- (b) Asim informed the partners that Farhan is not willing to join NSA and has publicly announced his decision today. Dawood said that Hina wants to become a partner of NSA but has not yet decided when to make a public announcement of her decision. *Under the Partnership Act, 1932, advise Farhan and Hina, in light of their decisions regarding NSA partnership, on their rights, liabilities and limitations in relation to NSA, as applicable.* (08)
- (c) Bilal informed that his son Ghaffar had inquired about the circumstances in which, if he opted to become a partner, he would have to indemnify NSA, and conversely, when NSA would be liable to indemnify him. *Under the Partnership Act, 1932, respond to Ghaffar's query by providing the required information.* (05)
- Q.6 Under the Contract Act, 1872:
- (a) identify the circumstances in which an agreement without consideration is deemed a valid contract. (05)
- (b) explain any **four** rules regarding the performance of reciprocal promises. (04)
- (c) define 'misrepresentation' and discuss the enforceability of an agreement where consent has been obtained through misrepresentation. (04)

Q.7 On 1 August 2025, Ayesha agreed to provide customised nutrition plans for a period of three months to Walnut Athletic Club (WAC). Each set of plans was to be delivered on the last day of each respective month at a fee of Rs. 200,000. WAC paid an advance of Rs. 100,000. Ayesha engaged her colleague, Dr. Yahya, a certified nutritionist with relevant academic qualifications, to prepare the plans. The first set of plans, prepared by Dr. Yahya, was delivered to WAC on 31 August 2025.

On 2 September 2025, upon learning that Dr. Yahya had prepared the plans, WAC returned the submitted plans, issued a letter cancelling the agreement and demanded a refund of the advance payment. Ayesha refused, stating that the agreement cannot be unilaterally cancelled, as the first set of plans had already been delivered in accordance with the agreed terms.

Under the Contract Act, 1872, analyse the relative positions of Ayesha and WAC, and identify any remedies available to each party. (05)

Q.8 Fig Traders (FT) specializes in providing innovative cooling solutions for various industries. Its operations include the manufacture of dry ice, the supply of cold storage packages and the provision of specialized delivery services for temperature-sensitive items.

Following matters relate to FT:

(a) FT agreed to provide cold storage trucks to transfer ice sculptures for an art exhibition scheduled for 3 September 2025. The contract price of Rs. 2 million was paid in advance. The trucks were required to arrive at the pick-up venue 48 hours before the exhibition, but they reached only 36 hours before the exhibition. *Under the Contract Act, 1872, explain the remedies available to FT and to the customer, if time was the essence of the contract, and also, if time was not the essence of the contract.* (06)

(b) FT agreed to deliver 500 kg of dry ice to Farah and Sarah jointly, to store their homemade desserts for a carnival scheduled for 3 September 2025. Shortly before the delivery date, FT's production facilities halted due to a technical fault. FT therefore purchased the dry ice from another factory, which offered to deliver directly on FT's behalf. *Under the Contract Act, 1872, identify the conditions that must be satisfied for this delivery arrangement to constitute a valid tender of performance to Farah and Sarah.* (04)

(c) Zain owed Rs. 3 million to FT for multiple deliveries made between March 2022 and December 2022. Despite repeated requests, Zain kept delaying the payments and eventually stopped responding. Recently, Zain's spouse obtained details of the unpaid invoices and has started sending weekly payments to FT for clearing the dues. However, she has not advised how the payments should be appropriated. *Under the Contract Act, 1872, advise how the payments would be applied against the outstanding invoices to be paid by Zain.* (04)

Q.9 Macadamia Laboratories (ML) approached Cranberry Distributors (CD) to purchase new X-ray machines for its laboratory. During negotiation, CD informed ML that the medical equipment supplied by it is generally German-made and reportedly has the longest useful life. ML agreed to purchase 50 X-ray machines from CD. These machines were to be imported from the UAE.

At the time of delivery, ML discovered that the machines were manufactured in Italy, while ML was under the impression that the machines would be manufactured in Germany.

Under the Contract Act, 1872, discuss the course(s) of action available to ML. (04)

Q.10 Raisins Surgical Equipment (RSE) is engaged in the trading of medical equipment, surgical instruments and related accessories. RSE has a strong customer base, both locally and internationally.

Following matters relate to RSE:

- (a) On 1 August 2025, RSE paid an advance of Rs. 100,000 to Zia, who promised to supply 100 ventilators manufactured by Peanut Equipment (PE) on or before 31 August 2025. On 15 August 2025, Zia informed RSE that he has now joined PE as a partner and offered to supply 500 ultrasound machines manufactured by PE, with delivery promised on 31 August 2025. RSE accepted this additional offer and paid him advance of Rs. 500,000. However, Zia used these advances to pay his personal expenses and failed to deliver any of the machines to RSE. ***Under the Partnership Act, 1932, discuss whether RSE can hold PE liable for the deliveries or recovery of Rs. 600,000 in total.*** (03)
- (b) In a meeting with Pecan Traders (PT) to discuss the upcoming World Expo 2025, RSE agreed to sell 100 cartons of surgical gloves at Rs. 10,000 per carton, subject to PT obtaining permission to set-up an exclusive stall at the Expo. Subsequently, RSE also agreed to give a discount of 10% on the selling price if the Pakistani pavilion wins the best design award at the conclusion of the Expo. ***Under the Contract Act, 1872, discuss the enforceability of the agreement.*** (04)
- (c) RSE, in collaboration with Date Medicals (DM), delivered 500 surgical scissors to Prunes Healthcare (PH) in China. The sale agreement provided that PH would issue a promissory note made in China, which shall be sent to PH's branch office in Pakistan, through which all payments are made. While discussing payment details, DM stated that the promissory note, being an inland instrument, can only be made payable to either RSE or DM. ***Under the Negotiable Instruments Act, 1881, evaluate DM's statement.*** (04)

(THE END)

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- | | | |
|---|---|-----------------------------------|
| A.1
(i) (c)
(iv) (b)
(vii) (b)
(x) (d) | (ii) (d)
(v) (c)
(viii) (c)
(xi) (c) | (iii) (a)
(vi) (c)
(ix) (a) |
|---|---|-----------------------------------|

A.2 Promulgation of an Ordinance in Pakistan

The President may promulgate an Ordinance when either the Senate or the National Assembly is not in session and immediate legislative action is deemed necessary.

Once promulgated, an Ordinance shall stand repealed after 120 days, unless it is:

- laid before and passed by the National Assembly in case of a Money Bill; or
- passed by both the Houses of Parliament if it is other than a Money Bill.

The National Assembly may extend the Ordinance for another period of 120 days by passing a resolution to that effect.

Moreover, if the National Assembly, before the expiration of above 120 days, passes a resolution disapproving the Ordinance, it shall expire on the day such resolution is passed.

Effect of an Ordinance

An Ordinance promulgated, during its validity period, shall have the same force and effect as an Act of Parliament. It is binding and enforceable across Pakistan unless repealed or disapproved earlier.

- A.3 (a)** An arbitration agreement means a written agreement between parties to refer present or future differences to arbitration, irrespective of whether an arbitrator is named therein.

Where an umpire is appointed by the arbitrators to settle differences between them, unless a different intention is expressed in the arbitration agreement, the umpire shall have the power to:

- (i) administer the oath to the parties and witnesses appearing;
- (ii) state a special case for the opinion of the 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 the opinion of the Court;
- (iii) make the award conditional or in the alternative;
- (iv) correct in an award any clerical mistake or error arising from any accidental slip or omission;
- (v) administer to any party to the arbitration such interrogatories as may, in the opinion of the umpire, be necessary.

- (b)** The following are the practices that prevent, restrict, reduce, or distort competition in a particular market through abuse of a dominant position:

- (i) Unfair trading conditions, i.e., limiting the production, sales and unreasonable increases in price, etc.;
- (ii) Price discrimination by charging different prices for the same goods or services to different customers in the absence of objective justifications that may justify different prices;
- (iii) Tie-ins, where the sale of goods or services is made conditional on the purchase of other goods or services;

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- (iv) Making a 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;
- (v) Applying dissimilar conditions to equivalent transactions on other parties, placing them at a competitive disadvantage;
- (vi) Predatory pricing to drive competitors out of a market, prevent new entry, and monopolize the market;
- (vii) Boycotting or excluding any other undertaking from the production, distribution, or sale of any goods or the provision of any service; or
- (viii) Refusing to deal.

A.4 (a) Principle of holding out

A person who, by words (spoken or written) or by conduct, represents himself, or knowingly permits himself to be represented, as a partner in a firm, shall be liable as a partner in that firm to any person who, on the faith of such representation, has extended credit to the firm. This liability arises regardless of whether the person making or permitting the representation is aware that it has reached the person extending credit.

Exception to the principle of holding out

The principle of holding out does not apply where, after a partner's death, the business is continued in the old firm name. In such a case, the continued use of the deceased partner's name shall not, by itself, render his legal representatives or his estate liable for any acts of the firm carried out after his death.

- (b)** The essentials of a valid endorsement, after which a negotiable instrument such as a promissory note or bill of exchange will be considered properly endorsed, are as follows:
- (i) **Place of endorsement:** The endorsement must be made on the face of the negotiable instrument. If there is no space available on the face, it may be made on either the back of the instrument or on a slip of paper attached to it, known as an 'allonge'.
 - (ii) **Signature of the endorser:** The instrument must be signed by the endorser for negotiation, or by any person who becomes the holder of the instrument. A mere signature of the endorser, without any additional words, is sufficient.
 - (iii) **Extent of endorsement:** The endorsement must relate to the entire instrument. An endorsement for only part of the amount, or in favor of two or more endorsees severally, is invalid.

- A.5 (a)** NSA is presently engaged in the wholesale supply of dry fruits. Entering into a manufacturing business would constitute a change in the nature of NSA's business, which requires the consent of all partners, unless there is an express or implied contract to the contrary among the partners. Accordingly, this proposal cannot be implemented due to Dawood's rejection.

In contrast, Dawood's rejection of Bilal's proposal of introducing freshness seals in packaging falls within the category of ordinary matters connected with the conduct of the firm's business, that may be decided by a majority of the partners (i.e., at least 2 partners), unless there is an express or implied contract to the contrary among the partners. Accordingly, with the support of both Asim and Bilal, the proposal may validly be carried into effect despite Dawood's rejection.

(b) Rights, liabilities, and limitations of Farhan

Farhan attained majority on 30 June 2025 and gave public notice on 2 September 2025, within six months, electing not to become a partner of NSA. His position is as follows:

- **Rights:**
He is entitled to sue the partners of NSA for payment of his share in the property and profits. His share is to be determined by valuation in accordance with the Partnership Act, 1932. Up to the date of his public notice, i.e., 2 September 2025, he retained the rights of a minor admitted to the benefits of NSA that ceased from there onwards.
- **Liabilities:**
His share in NSA remains liable for all acts of the firm up to 2 September 2025. His share is not liable for debts or obligations of NSA incurred after that date. He bears no personal liability for the acts of the NSA, since he elected not to become a partner.
- **Limitations:**
From 2 September 2025, he ceased to have any rights as a minor admitted to benefits of NSA. He cannot claim any future profits or property beyond his settled share and has no role in the management or decision-making.

Rights, liabilities, and limitations of Hina

Hina attained majority on 2 September 2025. She has decided to become a partner of NSA, but has not yet given public notice of this decision. Her position is as follows:

- **Rights:**
She remains entitled to her agreed share in NSA's property and profits. She may access, inspect, and make copies of NSA's accounts, but not other books. Until public notice is given, she continues with the rights of a minor admitted to the benefits; however, after expiry of six months, i.e., by 2 March 2026, she will be deemed a partner.
- **Liabilities:**
Until public notice, only her share in the NSA is liable for firm acts; she has no personal liability. However, upon giving public notice, or if she fails to do so within that period, she will become personally liable to third parties for all acts of NSA done since her admission to its benefits.
- **Limitations:**
Until public notice, she is not yet a partner in NSA for management purposes. She cannot sue NSA's partners for profits or property while she continues to be associated with the firm. Her inspection rights are restricted to NSA's accounts. She must avoid any conduct amounting to 'holding out' as a partner, as this would render her personally liable to third parties.

(c) Ghaffar's obligation to indemnify NSA

If Ghaffar opts to become a partner, he would be required to indemnify the firm (NSA) under the following circumstances:

- **In case of fraud:** Ghaffar must indemnify NSA for any loss caused to the firm by his fraudulent acts in the conduct of NSA's business.
- **In case of willful neglect:** Subject to any agreement between the partners, Ghaffar is liable to indemnify NSA for any loss caused by his willful neglect in the conduct of NSA's business.

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NSA's obligation to indemnify Ghaffar

Subject to the partnership agreement, NSA is required to indemnify Ghaffar for any payments made or liabilities incurred by him in the following situations:

- in the ordinary and proper conduct of NSA's business;
- in doing an act in an emergency to protect NSA from loss, as would be done by a person of ordinary prudence, in his own case, under similar circumstances.

- A.6 (a)** An agreement without consideration is considered to be a valid contract if it is:
- (i) 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; or
 - (ii) 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; or
 - (iii) a promise, made in writing and signed by the person to be charged therewith, or by his agent generally or specially authorized on that behalf, to pay wholly or in part a debt of which the creditor might have enforced payment but for the law for the limitation of suits; or
 - (iv) a gift already made by the donor to the donee.
- (b)** The rules regarding the performance of reciprocal promises are as follows:
- (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 contract, they must be performed in that order as fixed by the contract, and where the order is not expressly fixed by the contract, they must be performed in that order which the 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 non-performance of the contract.
 - (iv) **Mutual and dependent reciprocal promises**
When a contract consists of reciprocal promises, such that one of them cannot be performed, or that its performance cannot be claimed till the other has been performed, and the promisor of the promise last mentioned fails to perform it, such promisor cannot claim the performance of the reciprocal promise, and must make compensation to the other party to the contract for any loss which such other party may sustain by the non-performance of the contract.
 - (v) **Promise to do legal and 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.

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(c) Misrepresentation means and includes:

- 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;
- Any breach of duty which, without an intent to deceive, gains advantage to the person committing it, or any one claiming under him, by misleading another to his prejudice or to the prejudice of any one claiming under him;
- Causing, however innocently, a party to an agreement to make a mistake as to the substance of the thing which is the subject of the agreement.

Enforceability of an agreement when consent is caused by misrepresentation

When consent to an agreement is caused by misrepresentation, the agreement is a contract voidable at the option of the party whose consent was so caused unless such misrepresentation did not cause the consent of the party to whom such misrepresentation was made or where the contract was caused by misrepresentation and party to the contract whose consent was caused by such misrepresentation had the means of discovering the truth with ordinary diligence.

However, a party to a contract, whose consent was caused by misrepresentation, may, if he thinks fit, 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.

A.7 Ayesha's position

- A promisor may perform the promise personally or through a competent person, unless the nature of the contract indicates that personal performance was intended. As the agreement only states that Ayesha would provide customised nutrition plans. It does not expressly require her personal skill or bar delegation.
- By engaging Dr. Yahya, a certified nutritionist with relevant academic qualifications, Ayesha ensured the plans were professionally prepared. Unless WAC can prove that the agreement was based specifically on Ayesha's personal expertise, her performance through Dr. Yahya constitutes a valid discharge of her obligation.
- Ayesha, the promisor, delivered the first set of plans in accordance with the agreed schedule and her performance was valid.

Remedies for Ayesha

If the agreement is not treated as one for personal skills, Ayesha may claim payment for the first set of plans delivered on 31 August 2025, along with damages for wrongful cancellation of the agreement by WAC of the remaining two months' agreement.

WAC's position

If WAC can establish that the agreement was based on Ayesha's personal involvement, then delegation to Dr. Yahya amounted to a breach. In such a case, WAC was entitled to treat the contract as rescinded.

Remedies for WAC

Since WAC has already exercised cancellation, if the above argument is successfully established, the contract would be treated as voidable at the option of WAC and rescinded. In such a case, WAC has rightly demanded a refund of the advance. WAC may also claim damages for any loss suffered due to the breach of the contract by Ayesha.

A.8 (a) If time was the essence of the contract

If time was the essence of the contract, the contract would become voidable at the option of the customer since the trucks failed to reach the pick-up venue on agreed time.

Remedies available to the customer

- (i) The customer may accept delayed performance from FT as the trucks have already reached the venue and claim compensation on account of delays if, at the time of acceptance, such notice is given to FT regarding the intention to claim damages.

However, if the sculptures are transferred without any notice of compensation from the customer, it implies that the delayed performance is accepted altogether, in which case the customer cannot later claim compensation for loss occasioned by the late arrival of the trucks.

- (ii) The customer may decide not to accept performance beyond the stipulated time, in which case, the customer can claim the advance of Rs. 2 million along with compensation for damages sustained due to FT's delayed performance.

The damages above would include those that naturally arose in the usual course of business from the breach, and special damages, if any, that were known to the parties at the time of making the contract.

It is pertinent to mention that in estimating the loss or damage arising from the breach of contract, the means that existed of remedying the inconvenience caused by the non-performance of the contract must be taken into account. Accordingly, reasonable care would be given to the fact that the alternate facility has not been arranged yet. If further loss is incurred due to non-transfer of sculptures on time, no such loss could be claimed by the customer, as necessary measures to limit the losses were not taken.

If time is not the essence of the contract

If time was not the essence of the contract, and the trucks sent by FT failed to reach the pick-up venue on agreed time, the contract would not become voidable due to FT's failure to perform at the specified time.

Remedies available to the customer

The customer would be entitled to compensation from FT for damages occasioned by the failure of the trucks to arrive at the specified time. The damages above would include those that naturally arose in the usual course of business from the breach, and special damages, if any, that were known at the time of making the contract.

- (b) To ensure a valid delivery offer, the following conditions must be satisfied for the delivery arrangement to constitute a valid offer of performance on FT's behalf:

- An unconditional delivery offer is made to Farah and Sarah.
- The delivery offer is made at an appropriate time, i.e., at or before the starting time of the carnival scheduled on 3 September 2025.
- The delivery offer is made at an appropriate place, i.e., at the delivery address agreed at the time of formation of the contract, or at the carnival's address.
- Farah and Sarah are given a reasonable opportunity to verify the quantity and quality of the dry ice being offered to be delivered by the vendor on FT's behalf.
- The delivery offer should be made either to Farah or Sarah, being the promises to the contract, as an offer of performance to one of the joint promisees carries the same legal consequences as an offer made to all the promisees.

- (c) Where the payments sent by Zain's spouse imply that the payment is intended for a particular debt, i.e., the payment matches the invoices in descending or ascending order of time or matches in exact amounts, then payments would be applied in such implied order.

In the absence of instructions from Zain's spouse, and with no other factors indicating which debt the payment should be applied to, FT would have the discretion to apply the payment to any valid debt owed by Zain, whether or not such debt is time-barred under current laws governing the limitation of legal action for debt recovery.

If FT does not allocate the payment to a specific debt, the payment would be applied to the debts in order of time, regardless of whether the debts are or are not time-barred by the laws on the limitation of legal action for debt recovery.

In such a case, the schedule of invoices would also need to be analyzed, and where multiple debts are found to have the same priority, the payments will be divided proportionally among such debts to discharge them.

A.9 Possible situations with respect to the contract between CD and ML

CD stated that the medical equipment supplied by it is generally German-made, which led ML to believe that the machines being purchased from CD would be manufactured in Germany. There could be the following two possibilities:

- Firstly, where CD innocently misled ML, causing it to make a mistake as to the substance of the thing which is the subject of the agreement, i.e., the manufacturing origin of the purchased machines, then CD would be considered to have taken ML's consent through misrepresentation.
- Secondly, if CD knew the machines were manufactured in Italy, and that ML required the machines to be manufactured in Germany, then CD would be considered to have taken ML's consent through fraud, by way of active concealment of a key fact.

Course(s) of action available to ML

In both of the above cases, the contract would become voidable at ML's option, in which situation, ML would be entitled either to accept the machines manufactured in Italy, refuse to accept delivery of the machines manufactured in Italy, or insist on the delivery of machines manufactured in Germany to be put in the position in which the representations made were true.

Where ML refuses to accept delivery, it may demand compensation for any loss or damage caused to it, which naturally arose in the usual course of business from such breach, or which the parties knew to likely result from such breach, at the time of formation of the contract. However, compensation would not be given for any remote or indirect loss or damage sustained by reason of the breach.

BUSINESS LAW
Summary of Marking Key
Certificate in Accounting and Finance – Autumn 2025

Note regarding marking scheme:

The marking scheme is given as a guide. Markers also award marks for alternative approaches to a question and relevant/well-reasoned comments/explanations. Moreover, the available marks in the answer may exceed the total marks of a question.

		Mark(s)
A.1	Marks as mentioned on the question paper against each MCQ	15.0
A.2	<ul style="list-style-type: none"> ▪ Describe how an Ordinance is promulgated in Pakistan ▪ Explain the effect of an Ordinance promulgated in Pakistan 	3.0 1.0
A.3	(a) 01 mark for each power of an umpire appointed by the arbitrators	4.0
	(b) 01 mark for each practice that prevents, restricts, reduces, or distorts competition through abuse of a dominant position	5.0
A.4	(a) <ul style="list-style-type: none"> ▪ Explain the principle of 'Holding out' ▪ State exception to the principle of 'Holding out' 	2.5 1.5
	(b) Up to 1.5 marks to explain each of the essential elements of a valid endorsement	4.0
A.5	(a) Evaluate the following proposals and assess their implementation: <ul style="list-style-type: none"> ▪ Install a manufacturing plant and dehydrating machinery ▪ Add freshness seals to the existing packaging 	2.0 2.0
	(b) <ul style="list-style-type: none"> ▪ Up to 0.5 mark for each right, liability, limitation in relation to Farhan ▪ Up to 0.5 mark for each right, liability, limitation in relation to Hina 	4.0 4.0
	(c) 01 mark for each circumstance that would create the following: <ul style="list-style-type: none"> ▪ Ghaffar's obligation to indemnify NSA ▪ NSA's obligation to indemnify Ghaffar 	2.0 3.0
A.6	(a) Up to 1.5 marks for each circumstance in which agreement without consideration is deemed a valid contract	5.0
	(b) 01 mark for each rule regarding the performance of the reciprocal promise	4.0
	(c) <ul style="list-style-type: none"> ▪ Define 'misrepresentation' ▪ Discuss the enforceability of an agreement where consent has been obtained through misrepresentation 	1.5 2.5
A.7	<ul style="list-style-type: none"> ▪ Analyse Ayesha's position with respect to the contract ▪ Evaluate WAC's position with respect to the contract ▪ 01 mark to identify the remedies available to each party 	1.5 1.5 2.0

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<p>BUSINESS LAW Summary of Marking Key Certificate in Accounting and Finance – Autumn 2025</p>

		Mark(s)	
A.8	(a)	▪ Explain the remedies available to the customer	4.0
		▪ Explain the remedies available to FT	2.0
	(b)	01 mark for each condition that must be satisfied for the delivery arrangement to constitute a valid tender of performance	4.0
	(c)	▪ Identify that in the absence of implied indications, FT can apply the payments at its own discretion	2.0
		▪ Advise that where FT does not itself allocate the payments, they would be either applied in order of time or proportionately if they are of equal standing	2.0
	A.9	▪ Discuss the possible situations with respect to the contract between CD and ML	2.0
▪ 01 mark to discuss each course of action available to ML		2.0	
A.10	(a)	▪ Discuss PE's liability in respect of the contract to supply ventilators	1.0
		▪ Discuss PE's liability in respect of the contract to supply ultrasound machines	2.0
	(b)	▪ Discuss that the contract to sell surgical gloves is a contingent contract	2.0
		▪ Identify that the agreement to give a 10% discount is not valid	2.0
	(c)	▪ Identify that DM's statement is invalid	2.0
		▪ Discuss that the payment instrument would be a foreign instrument and that it is not mandatory for it to be made payable to either RSE or DM	2.0

(THE END)

A.10 (a) First contract

Zia was neither a partner of PE, nor he implied any intention to make the supply on behalf of PE when the contract to supply ventilators was made on 1 August 2025. PE cannot be held liable for this transaction, and the liability to compensate RSE would rest solely with Zia.

Second contract

Since a partner is the agent of the firm for the business of the firm, Zia's promise to supply the ultrasound machines to RSE would bind the firm because an act done by a partner on behalf of the partnership firm, which is done in the firm's name, with an intention to bind the firm, binds the firm.

Zia, being a partner of PE, acted within his apparent authority since the supply of ultrasound machines manufactured by PE is within the scope of PE's ordinary business. He received the amount from RSE and misapplied it; therefore, PE shall be liable to make the reimbursement to RSE.

- (b)** The agreement between RSE and PT for the supply of 100 cartons of surgical gloves at Rs. 10,000 per carton, conditional upon PT obtaining permission to set up an exclusive stall at the World Expo 2025, is a contingent contract which is enforceable only if the uncertain future event happens i.e., PT obtains the permission to set-up an exclusive stall at the World Expo 2025. Here, both parties have a genuine interest in performance once the condition precedent is satisfied.

However, where the event becomes impossible, the contract would become void, i.e., PT is denied the permission, or it becomes impossible to obtain such permission in case of event cancellation.

RSE's subsequent promise to grant a 10% discount if the Pakistani pavilion wins the best design award has the characteristics of a wager since PT's only interest in the uncertain future event is to secure the discount. Since wagering agreements are void, this term would be unenforceable, though it would not affect the validity of the main contract where the primary condition is met, i.e., PT obtains permission to set up its stall at the World Expo 2025.

- (c)** Evaluation of DM's statement has been carried out as follows:

- A promissory note, made in China, would be a foreign instrument, since a promissory note can only be considered an inland instrument if it is made in Pakistan and is payable in Pakistan. Here, the promissory note issued by PH would be made in China; therefore, it would be considered a foreign instrument, and DM's statement is invalid on this account.
- The promissory note to be issued as a valid negotiable instrument may be made payable to RSE and DM jointly, or made in alternative to one of two. Therefore, it is not compulsory for the promissory note to be issued in favor of either RSE or DM, and DM's statement is invalid on this account.

(THE END)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Certificate in Accounting and Finance Stage Examination

Business Law

Examiners' Comments

Autumn 2025

PASSING %

Question-wise										Overall
1	2	3	4	5	6	7	8	9	10	
71%	52%	60%	28%	10%	69%	13%	56%	48%	19%	43%

GENERAL COMMENTS

A slight increase in the overall result was observed in this session, as 43% of the examinees secured passing marks compared to 40% in the previous session.

Below-average performance was noted in question numbers 5, 7, and 10, primarily due to the examinees' inability to apply relevant knowledge of the law to scenario-based questions. It is strongly advised that when attempting such questions, examinees should first ascertain the core issue(s), giving due attention to the specific requirements of each question, and then apply the relevant provisions of law to address the identified issue.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1

- Performance in MCQs no. (i), (viii), and (xi) was below average.
- Examinees selected multiple options instead of selecting one correct option, due to which marks could not be awarded.
- Examinees wrote the entire text of the selected option, whereas only mentioning the selected option, such as (a), (b), (c), or (d), would have been sufficient.

Question 2

Examinees correctly described how an Ordinance is promulgated in Pakistan; however, they failed to explain the effect of the Ordinance.

Question 3(a)

Examinees did not mention that the umpire shall have the power to correct in an award any clerical mistake or error arising from any accidental slip or omission.

Question 3(b)

Examinees were not able to identify the practices, such as unfair trading conditions, predatory pricing, and price discrimination, as those that prevent, restrict, reduce, or distort competition in a particular market through abuse of a dominant position.

Question 4(a)

Examinees correctly explained the principle of 'holding out'; however, they did not state the exception to this principle, which was a specific requirement of this part of the question.

Question 4(b)

Examinees did not mention that the endorsement must relate to the entire instrument and that an endorsement for only a partial amount would be invalid.

Question 5(a)

Examinees were not able to establish that the proposal to install a manufacturing plant and dehydrating machinery to further process NSA's products into edible energy bars would be a change in the nature of the partnership firm's business; therefore, such a proposal cannot be implemented due to Dawood's rejection, as such a change requires the consent of all partners.

Question 5(b)

Examinees correctly identified the respective rights and liabilities of Farhan and Hina; however, the limitations applicable to them, in light of their respective decisions, were not adequately addressed.

Question 5(c)

Examinees did not discuss that subject to the partnership agreement, NSA would be required to indemnify Ghaffar for any payments made or liabilities incurred by him in the ordinary and proper conduct of NSA's business.

Question 6(a)

Examinees did not mention that an agreement without consideration is considered a valid contract when it constitutes a promise to compensate, wholly or in part, a person who has already voluntarily done something for the promisor, or has done something which the promisor was legally compellable to do.

Question 6(b)

Examinees correctly identified the rules regarding the performance of reciprocal promises; however, instead of explaining them adequately, they mentioned only a few aspects, such as simultaneous performance, order of performance, and preventing the promise, due to which full marks could not be awarded.

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Question 6(c)

Examinees did not mention the following:

- Misrepresentation includes causing, however, innocently, a party to an agreement to make a mistake as to the substance of the thing which is the subject of the agreement.
- A party to a contract, whose consent was caused by misrepresentation, may 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.

Question 7

Examinees did not discuss that, where it is established that the agreement was awarded based on Ayesha's personal involvement, then delegating the work to Dr. Yahya constituted a breach of contract, and that in such a case, WAC would be entitled to treat the contract as rescinded and to claim damages for any loss suffered due to the breach of contract.

Question 8(a)

Examinees did not explain that if time was not of the essence in the contract, the customer would be entitled to claim compensation from FT for the damages caused by the failure of the trucks to arrive at the specified time.

Question 8(b)

Examinees did not identify that, in order to ensure that a valid delivery offer is made on FT's behalf, it is essential that the delivery offer is made to Farah and Sarah at an appropriate time and place, providing them with a reasonable opportunity to verify the quantity and quality of the dry ice being delivered under the contract.

Question 8(c)

Examinees did not mention that if FT does not allocate the payment to a specific debt, the payment would be applied to the outstanding debts in order of time, and where multiple debts are found to have the same priority, the payment will be divided proportionally among them to discharge those debts.

Question 9

Examinees did not discuss that, if CD had obtained ML's consent through misrepresentation or fraud, the contract would become voidable at ML's option, and in such a case, ML may either accept the machines manufactured in Italy or choose to insist on the delivery of machines manufactured in Germany.

Question 10(a)

Examinees mentioned that RSE can hold PE liable for the recovery of Rs. 600,000 in total, which was not correct since Zia did not make the contract on PE's behalf when he promised to supply 100 ventilators to RSE on or before 31 August 2025. For More kindly visit <https://sce-learning.com/ca/>

Question 10(b)

Examinees did not identify that the agreement to sell 100 cartons of surgical gloves to PT at Rs. 10,000 per carton was a valid contingent contract. The examinees incorrectly concluded that the contract became invalid when RSE agreed to give a discount of 10% on the selling price if the Pakistani pavilion wins the best design award at the conclusion of the Expo.

Question 10(c)

Examinees failed to identify that DM's statement was incorrect on both accounts, and that the instrument to be issued by PH would be a foreign instrument which could be made payable either jointly to RSE and DM, or alternatively to either of them.

(THE END)

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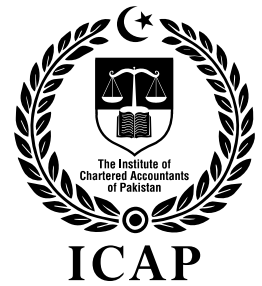
Certificate in Accounting and Finance Stage Examination

Business Law Dynamics

4 March 2026

100 marks

3 hours and 15 minutes (including 15 minutes' reading time)



Instructions to examinees:

- (i) Answer all **TEN** questions.
- (ii) Answer in **black** pen only.
- (iii) Use the first page of the answer script to answer the Multiple-Choice Questions.

SECTION A

QUESTION 1

Select the most appropriate answer from the options provided for each of the following Multiple-Choice Questions.

- (i) Under the Contract Act, 1872, which of the following is **NOT** an essential requirement for a valid offer of performance in respect of supplying raw material to joint promisees?
 - (a) The offer must be made at the proper time and place
 - (b) The offer must be expressly accepted by all of the joint promisees
 - (c) The offer must be made to any one or all of the joint promisees
 - (d) The offer must be unconditional **(01 mark)**
- (ii) Under the Partnership Act, 1932, which of the following statements is correct?
 - (a) All persons who have entered into a partnership are collectively called a firm, and the name under which their business is carried on is called a particular partnership
 - (b) All persons who receive a share of the profits of a partnership firm automatically become partners with the other persons carrying on the business of the partnership firm
 - (c) The relation of partnership arises from a contract among the persons and not merely from the status
 - (d) An act of a partnership firm does not include an act done by an agent of the firm which gives rise to a right enforceable by or against the firm **(01 mark)**
- (iii) Consider the following statements:
 - (I) If the payee of a bill of exchange is a fictitious or non-existing person, then such bill of exchange may be treated as payable to bearer.
 - (II) A holder in due course means a person who without consideration becomes the possessor of a bill of exchange, before it becomes overdue.

Under the Negotiable Instruments Act, 1881, which of the following is correct?

- (a) Only statement (I) is correct
 - (b) Only statement (II) is correct
 - (c) Both statements are correct
 - (d) Both statements are incorrect **(01 mark)**
- (iv) Which **TWO** of the following statements about civil laws in Pakistan are **NOT** correct?
 - (a) A suit filed under civil law by a claimant cannot succeed if the wrongdoing is proven on balance of probabilities
 - (b) Any violation of civil law constitutes a crime because it regulates society through punishment
 - (c) Civil courts can order damages or remedies such as specific performance or injunction
 - (d) Civil law provides a means for an injured party to obtain compensation or other remedies for a wrongdoing suffered **(01 mark)**

- (v) Under the Contract Act, 1872, which **TWO** of the following statements regarding contingent contracts are correct?
- (a) A contingent contract to perform an act if an uncertain future event collateral to such contract happens cannot be enforced by law until that event has actually happened
 - (b) A contingent contract to perform an act upon an impossible collateral event is void, unless the parties were aware of the impossibility at the time of contract
 - (c) A contingent contract to perform an act upon an uncertain collateral event happening within a year cannot be enforced if it becomes certain that the event will not occur within the year
 - (d) All contingent contracts become void if the uncertain future events collateral to such contracts do not happen **(01 mark)**

- (vi) Hamid offered to sell his sports car to Shoaib for Rs. 20 million. Under the Contract Act, 1872, in which of the following situations would Hamid's proposal be considered to have been terminated?
- (a) Hamid sends a notice of revocation to Shoaib's brother, but the revocation does not come to Shoaib's knowledge before Shoaib accepts the proposal
 - (b) Hamid subsequently sends a notice to Shoaib requiring him to accept the proposal within one week
 - (c) Hamid sends a notice of revocation to Shoaib, but the revocation does not come to Shoaib's knowledge
 - (d) Shoaib proposes to transfer his vintage car to Hamid in exchange for the sports car **(1.5 marks)**

- (vii) On 30 June 2025, Zara, a minor, was admitted to the benefits of partnership in Gold Silver Associates (GSA), a partnership firm. On 1 January 2026, Zara attained the age of majority, and the partners of GSA required her to decide whether she wished to become a partner of the firm. On 3 March 2026, Zara gave a public notice declaring that she had elected to become a partner of GSA.

Under the Partnership Act, 1932, which of the following dates correctly states the commencement of Zara's personal liabilities towards third parties for all acts of GSA?

- (a) 30 June 2025
 - (b) 1 January 2026
 - (c) 3 March 2026
 - (d) 30 June 2026 **(1.5 marks)**
- (viii) Mustard Paints (MP) agreed to supply 1,000 buckets of oil paints to Lemon Artists (LA) at a discounted price of Rs. 10,000 per bucket. The delivery was to be made on or before 1 March 2026. In case of delay, MP agreed to pay LA a sum of Rs. 500,000 as stipulated compensation. On the date of the agreement, the market price of each bucket was Rs. 10,300.

Subsequently, LA entered into a separate contract to paint the backdrop stage for an art exhibition, expecting a profit of Rs. 50,000, and intended to use the paint ordered to MP for that purpose. MP failed to supply the paint by 1 March 2026. As a result, LA could not complete the backdrop stage for the exhibition held on 2 March 2026.

On 4 March 2026, LA purchased 1,000 buckets of similar paint from the market at Rs. 10,700 per bucket.

Under the Contract Act, 1872, determine LA's entitlement to compensation.

- (a) LA is entitled to recover reasonable compensation not exceeding Rs. 500,000, even though the actual loss suffered by LA due to the market price difference exceeds that amount
- (b) LA is entitled to recover the stipulated sum of Rs. 500,000, together with Rs. 50,000 towards loss of profit for not delivering the backdrop stage
- (c) LA can recover the market price difference of Rs. 700,000 only, since the contract for the art exhibition was not known to MP at the time of formation of the contract
- (d) LA can recover Rs. 400,000 only, being the difference between the market price on the date of the agreement and the price at which the buckets were purchased **(02 marks)**

- (ix) Under the Companies Act, 2017, which of the following particulars is **NOT** required to be included in the statutory report of a listed company?
- (a) The total number of shares allotted, distinguishing between shares allotted for cash and shares allotted for consideration other than cash
 - (b) The nature and details of the company's assets, including their cost and book value, duly ascertained by a registered valuer
 - (c) The particulars of any contract to be modified, for which the approval of the statutory meeting is required, together with the proposed modification
 - (d) The extent to which underwriting contracts have been carried out, together with the reasons for their non-performance, if any **(01 mark)**

- (x) Consider the following statements:

- (I) At the time of formation of Gold Fabrics (Pvt) Ltd (GFL), Akhtar undertakes to subscribe 5,000 shares of Rs. 20 each. This amount shall be a debt due from him and shall be paid at the time of subscribing to GFL's memorandum of association.
- (II) Upon the change of name of Teal Foods Ltd to Teal Foods Processing Ltd, the registrar shall enter Teal Foods Processing Ltd on the register in place of Teal Foods Ltd, and shall issue a fresh certificate of incorporation altered to meet the circumstances of the case.

Which of the following is correct under the Companies Act, 2017?

- (a) Only statement (I) is correct
- (b) Only statement (II) is correct
- (c) Both statements are correct
- (d) Both statements are incorrect **(01 mark)**

- (xi) Amber Plastic Ltd (APL) has obtained a long-term loan from Blue Bank Ltd (BBL) against a first charge on its three factory buildings. The charge was duly created, but certain statutory compliances were not properly made. One of the factory buildings was later sold to Maroon Plastics Ltd (MPL).

Under the Companies Act, 2017, which of the following statements is **NOT** correct?

- (a) APL was required to file the prescribed particulars of the charge with the registrar within thirty days of its creation
- (b) If APL failed to register the charge within the prescribed period, BBL could apply for registration and recover the registration fees from APL
- (c) The registrar may, on evidence of purchase produced by MPL, record the release of the charge relating to the factory building sold to MPL and make the entries in the register
- (d) Once the debt has been paid in full, the registrar may, despite no intimation from APL, record satisfaction of the charge upon being satisfied with the evidence produced by MPL **(01 mark)**

- (xii) Beige Construction (Pvt) Limited (BCL) requires specialized services for a project. Akbar Ghazi, the Chief Operating Officer of BCL, proposes that the required services be procured from his partnership firm, Gray Associates (GA), which provides such services. The CEO instructed the relevant department to inspect GA's facilities and finalize the terms of the proposed arrangement for approval.

Under the Companies Act, 2017, which of the following statements is correct regarding the proposed arrangement?

- (a) The agreement shall become binding upon execution by the CEO, as the CEO has authority to approve arrangements of this nature on behalf of the company
- (b) The matter must be placed with BCL's board before the execution of the agreement, with disclosure of Akbar Ghazi's interest in the proposed transaction
- (c) Since BCL and GA are not associated undertakings and the transaction is routine in nature, and the CEO is fully aware of Akbar Ghazi's involvement, no further disclosure is required
- (d) As BCL and GA are not associated undertakings, the agreement may be executed, and Akbar Ghazi's interest may be disclosed at the next board meeting **(01 mark)**

- (xiii) Under the Companies Act, 2017, which of the following statements is correct regarding the filing of annual return containing the prescribed particulars with the registrar?
- Every company shall file such return on or before the date of the annual general meeting
 - Every company shall file such return within thirty days from the date of the annual general meeting held in the year unless there is no change in particulars during the year
 - A company not having a share capital shall file such return as on the date of the annual general meeting or, where no such meeting is held, on the last day of the calendar year
 - Every company, for special reasons, is entitled for the extension of the period of such filing with the registrar, not exceeding fifteen days **(01 mark)**
- (xiv) Green Foods Limited (GFL), a listed company, has a paid-up capital of Rs. 450 million divided into shares of Rs. 10 each. GFL issued a notice on 16 February 2026 for its annual general meeting to be held on 18 March 2026.

On 2 March 2026, Abdul Ghani, who holds 2.26 million shares of GFL, submitted a notice proposing a resolution to modify the powers and duties of directors as contained in the articles of association of the company.

Under the Companies Act, 2017, is Abdul Ghani eligible to give such notice of resolution?

- Yes, because he holds more than the prescribed shareholding threshold and the notice was given within the required time limit
 - Yes, because any member of a company is entitled to propose a resolution for consideration by the members
 - No, because a member may only give notice of a resolution if the meeting is requisitioned by the members and the notice is sent along with such requisition
 - No, because the proposed resolution relates to alteration of articles, which can only be initiated by the board of directors **(1.5 marks)**
- (xv) Orange Textile Ltd (OTL) is a public unlisted company. On 7 December 2025, one of its directors, Azhar Zulfikar, died, as a result of which the number of directors fell below the statutory minimum requirement. The articles of association of OTL are silent on the filling of casual vacancies. On 27 January 2026, the name of Kamran was suggested for appointment as a director.

Under the Companies Act, 2017, which of the following statements is correct regarding the appointment of a director to fill the casual vacancy?

- The casual vacancy must be filled by appointing Kamran not later than 6 March 2026
 - OTL's directors should approve a resolution for the appointment of Kamran as a director for three years
 - Kamran is required to give his written consent to act as a director, and the directors may fill the casual vacancy by passing a resolution at a duly convened directors' meeting
 - The casual vacancy shall be filled only on the date a special resolution is passed approving Kamran's appointment **(1.5 marks)**
- (xvi) Consider the following entities:
- Pink Technologies Limited, incorporated in 1958 under the Companies Act, 1913
 - Rose River Co-operative Housing Society Limited, registered in 2010 in Lahore under the Co-operative Societies Act, 1925
 - National Highway Authority, established in 1992 under the National Highway Authority Act, 1991
 - Violet Systems Inc., incorporated in 1997 in the State of Delaware, USA

Which of the following correctly identifies the entities that fall within the definition of "body corporate" under the Companies Act, 2017?

- Entities (I) and (IV) only
- Entities (III) and (IV) only
- Entities (I), (II) and (III) only
- Entities (I), (III) and (IV) only **(02 marks)**

SECTION B

QUESTION 2

- (a) Briefly explain what is meant by delegated legislation and describe the main methods of control exercised over it. **(03 marks)**
- (b) Under the Anti-Money Laundering Act, 2010, explain when a person may be held accountable for committing a money laundering offence. **(04 marks)**

QUESTION 3

Under the Contract Act, 1872:

- (a) discuss who may be appointed as an agent by a principal and explain how the authority of an agent is determined. **(05 marks)**
- (b) differentiate between a contingent contract and a wagering agreement. **(04 marks)**

QUESTION 4

- (a) Indigo Travel Services (ITS) is a professional travel management company engaged in providing comprehensive travel-related services to its corporate and individual clients. These services include flight bookings, accommodation arrangements, and on-ground travel support.

The following matters relate to ITS:

- ITS arranged an international trip for its loyal customer, Rehman. During the trip, Rehman became mentally incapacitated due to a medical emergency and was stranded abroad without access to funds. To ensure Rehman's safe return to Pakistan, ITS arranged basic accommodation for an extended stay of two days, provided healthy meals and prescribed medicines, and purchased a first-class air ticket for him.
- ITS arranged accommodation in Italy for its customer, Shahroze, during his prolonged stay. Upon check-out, Shahroze refused to pay to hotel the applicable tourism fee levied on tourists for the duration of their stay. ITS paid the tourism fee to the hotel on Shahroze's behalf, as failure to do so would have exposed Shahroze to legal action by the Italian authorities causing reputational damage to ITS.

After the safe return of Rehman and Shahroze to Pakistan, ITS approached Rehman's family and Shahroze to recover the respective amounts paid on their behalf. However, they argued that the payments were unauthorised and ITS had not been instructed to incur such expenses.

Under the Contract Act, 1872, discuss the legal rights of ITS and evaluate the validity of the arguments raised by Rehman's family and Shahroze. **(07 marks)**

- (b) Haris, Bilal and Saad jointly agreed to construct a two-storey building for Daniyal, who promised to pay Rs. 15 million to them jointly upon completion.

During construction, Haris, Bilal, and Saad jointly purchased construction material from Cyan Traders (CT) and promised to pay Rs. 9 million within one year. Before payment became due, Saad died, leaving assets worth Rs. 2 million to his legal heir, Fahad.

After completion of the building, CT demanded full payment from Haris, who paid the entire amount of Rs. 9 million. Daniyal later refused to pay Rs. 15 million, and Haris on his own filed a suit against him.

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Under the Contract Act, 1872, discuss the rights and liabilities of Haris against Bilal, Saad, and Fahad. Also, discuss whether Haris is entitled to recover Rs. 15 million from Daniyal. **(06 marks)**

QUESTION 5

Crimson Trading and Distribution (CTD) is a partnership firm engaged in the sale and distribution of sesame oil and other edible oils, both locally and internationally. The firm consists of three partners, Ahmed, Noman, and Moiz, who share profits equally.

The following matters have arisen in connection with the affairs of the firm:

- (a) Moiz introduced a promotional scheme whereby customers purchasing 50 drums of sesame oil from CTD were entitled to buy 10 litres of vegetable ghee at a 15% discount. Since CTD does not ordinarily deal in vegetable ghee, Moiz entered into a separate arrangement with Turquoise Ghee & Co. (TGC), pursuant to which a commission of Rs. 300 per litre sold under the scheme was paid directly to Moiz.

Ahmed later observed that the commission received from TGC had not been recorded in the books of CTD. Moiz responded that the arrangement with TGC was entered into by him in his personal capacity and further contended that TGC's business does not compete with that of CTD.

Under the Partnership Act, 1932, evaluate the validity of Moiz's response and advise on the appropriate treatment of the commission received from TGC. **(04 marks)**

- (b) CTD entered into a contract to supply 10,000 drums of customised sesame oil to a customer based in Tokyo, with delivery due on or before 28 February 2026. Due to a delay in shipment, the consignment arrived in Tokyo in March 2026, following which the customer refused to accept delivery.

To mitigate the loss, Moiz immediately arranged the sale of the said consignment to another customer in Yokohama, granting a total discount of Rs. 100,000 along with free delivery. The transportation cost of Rs. 75,000 was paid by Moiz using his personal credit card.

Noman contends that Moiz acted against the interests of CTD by granting an excessive discount and further claims that Moiz is not entitled for reimbursement of the transportation cost. Noman is of the view that Moiz should instead compensate CTD by Rs. 100,000.

Under the Partnership Act, 1932, evaluate Noman's contention and determine rights and liabilities of Moiz, if any, in this regard. **(03 marks)**

- (c) With a view to improving CTD's market position and international presence, Ahmed intends to undertake the following actions on behalf of the firm:

- Expand CTD's product range by adding other oil products.
- Open a foreign currency bank account of CTD in his own name to facilitate the receipt of payment from overseas customers.
- Admit and settle claims against CTD to the extent of Rs. 200,000.
- Submit all existing and future disputes of CTD to arbitration.
- Purchase warehouses in China and Italy for the storage of CTD's products.

Under the Partnership Act, 1932, assess whether Ahmed is authorized to undertake each of the above actions on behalf of CTD. **(04 marks)**

SECTION C

QUESTION 6

- (a) The license of a company formed for not-for-profit objects has been revoked by the SECP. Under the Companies Act, 2017, discuss the consequences of revocation of license and state the procedures required to be followed by the company. **(05 marks)**
- (b) Under the Companies Act, 2017, list the circumstances under which a person who is not a member of the company may be eligible for appointment as a director. **(03 marks)**

QUESTION 7

- (a) Aqua Bike (Pvt) Limited (ABL), a motorcycle assembling company, was incorporated on 1 July 2019 with a paid-up capital of Rs. 2 million, divided into shares of Rs. 10 each. The company currently has five directors.

ABL had acquired 50,000 shares of Black Tyres (Pvt) Limited (BTL) on 1 April 2025. BTL has a paid-up capital of 80,000 shares of Rs. 10 each. Both ABL and BTL have the same financial year-end, i.e., 31 March, and all statutory requirements relating to the share transfer have been duly completed.

At a board meeting held on 2 March 2026, the directors discussed the finalization of the annual financial statements and resolved to hold the Annual General Meeting (AGM) on 29 July 2026. The board was informed that no special business would be transacted at the AGM.

Under the Companies Act, 2017, discuss the requirements relating to the preparation and approval of ABL's financial statements, and outline the statutory filing requirements. **(05 marks)**

- (b) Assume that, at the same board meeting discussed in part (a) above, the Chairman informed the board that he would be unable to attend the AGM due to unavoidable reasons. Shoaib Ali, a director, proposed that the AGM be rescheduled to 13 August 2026. However, another director, Zafar Ahmed, suggested that the matters be approved through circulation instead of rescheduling the AGM.

Under the Companies Act, 2017, explain the requirements that must be complied with for holding the AGM at an extended date, and evaluate the suggestion made by Zafar Ahmed. **(03 marks)**

QUESTION 8

Yellow Telecom Limited (YTL) is a public unlisted company with a paid-up share capital of Rs. 30 million. YTL has ten members, each holding 10% of the voting power.

The board of directors is of the view that, in light of the strong prospects for revenue growth, YTL should diversify into media and broadcasting services and discontinue its existing telecom business. This new line of business requires obtaining a specific licence from the Pakistan Electronic Media Regulatory Authority (PEMRA).

- (a) Under the Companies Act, 2017, advise on the steps required to be taken by YTL in order to engage in the proposed business. **(05 marks)**

An extraordinary general meeting (EOGM) was convened by YTL on 25 February 2026 at 5:00 p.m. to consider and approve the aforesaid proposal. Out of ten members, three members including Zia, attended the meeting in person. Farid, one of the members, had deposited a proxy in favour of Zia with the company secretary at 11:00 a.m. on 24 February 2026. Zia was the only member who voted against the proposal.

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- (b) Under the Companies Act, 2017, discuss the effects of non-participation of members in the EOGM and evaluate the validity of the resolution passed at the meeting. **(05 marks)**

QUESTION 9

Under the Companies Act, 2017:

- (a) describe the manner in which the rights of shareholders of a company may be varied. **(03 marks)**
- (b) discuss the restrictions imposed on a subsidiary company in respect of non-cash transactions with a director of its holding company. **(03 marks)**

QUESTION 10

- (a) Under the Companies Act, 2017, discuss the requirements that must be complied with by a borrower in the event of modification of charges previously registered in favour of a bank. **(03 marks)**
- (b) White Rice Limited (WRL) is an unlisted public company engaged in the export of rice. In the previous year, WRL acquired a 15% shareholding in Charcoal Bags Limited (CBL) and nominated one of its directors, Zafar, to the board of directors of CBL.

Based on Zafar's recommendation, CBL plans to import new machinery to improve the quality of bags supplied to WRL and has requested WRL on 23 February 2026, to provide financial assistance of Rs. 50 million for a period of three years.

Under the Companies Act, 2017, specify all the conditions that must be satisfied by WRL before it can grant the proposed financial assistance to CBL. **(05 marks)**

(THE END)

BUSINESS LAW DYNAMICS

Suggested Answer

Certificate in Accounting and Finance - Spring 2026

SECTION A

ANSWER 1

- | | | | |
|---------------|-----------|-----------|----------------|
| (i) (b) | (ii) (c) | (iii) (a) | (iv) (a) & (b) |
| (v) (a) & (c) | (vi) (d) | (vii) (a) | (viii) (a) |
| (ix) (b) | (x) (b) | (xi) (c) | (xii) (b) |
| (xiii) (b) | (xiv) (a) | (xv) (c) | (xvi) (d) |

SECTION B (Business Law Section)

ANSWER 2

(a) 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. For example, local authorities are given statutory powers to make bye-laws, which apply within a specific locality.

Control over delegated legislation

- Parliament has some control over delegated legislation by restricting and defining the power to make rules.
- Rules made under delegated power to move legislation 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. If the objection is valid, the Court declares it void.

(b) In the following situations, a person may be held accountable for a money laundering offence:

- If the person acquires, converts, possesses, uses, or transfers property, knowing or having reason to believe that such property is proceeds of crime;
- If the 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;
- If the 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;
- If the person participates in, associates with, conspires to commit, attempts to commit, aids, abets, facilitates, or counsels the commission of the acts specified above.

ANSWER 3

- (a)** As between the principal and third persons any person may become an agent, however, only a person who has attained the age of majority and is of sound mind can become an agent so as to be responsible to his principal, according to the provisions in that behalf as contained in the Contract Act, 1872.

An agent's authority may be express or implied

- Express authority is given by words, whether spoken or written.
- Implied authority is to be inferred from the circumstances of the case; and things spoken or written, or the ordinary course of dealing, may be accounted circumstances of the case.

Extent of agent's authority

- An agent having the authority to do an act has authority to do every lawful thing which is necessary in order to do it. For more kindly visit <https://sce-learning.com/ca/>
- 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.

BUSINESS LAW DYNAMICS

Suggested Answer

Certificate in Accounting and Finance - Spring 2026

The agent's authority in case of an emergency

In case of an emergency, the agent has authority 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.

- (b) The main points of distinction between a contingent contract and a wagering agreement are as follows:

	Contingent Contract	Wagering Agreement
(i)	It is a valid contract and legally enforceable by law.	It is a void and illegal agreement which is not enforceable by law.
(ii)	The parties have a real interest in the occurrence or non-occurrence of the event (e.g., insurable interest in the property insured).	The parties are not interested in the occurrence or non-occurrence of the event, except for winning or losing the wagering amount.
(iii)	The future uncertain event is merely collateral to the main contract.	The uncertain event is the sole determining factor of the agreement.
(iv)	A suit can be filed, and damages can be claimed in case of breach of a contingent contract.	A suit cannot be filed, and damages cannot be claimed in case of breach of a wagering agreement.
(v)	Contingent contracts generally consist of reciprocal promises forming part of a valid contract.	Wagering agreements may or may not consist of reciprocal promises.
(vi)	There is no mutuality of gain or loss; it is often a contract of indemnity.	There is mutuality of gain or loss; one party must win and the other must lose.

ANSWER 4

- (a) Although no express agreement was made between ITS and the customers regarding the payments made on their behalf, the Contract Act, 1872, recognizes certain obligations resembling contractual duties that arise under quasi-contracts. These obligations arise by operation of law to prevent one person from being unjustly enriched at the expense of another. The respective positions of ITS in relation to Rehman and Shahroze are discussed below:

Payments made by ITS on behalf of Rehman

At the time the expenses were incurred, Rehman had become mentally incapacitated due to a medical emergency during the trip, and was therefore incapable of entering into a contract at that time.

To ensure Rehman's well-being and safe return, ITS arranged basic accommodation for two days, healthy meals, and prescribed medicines. These items qualify as necessities, since they were essential for Rehman's health, safety, and survival during the period of incapacity. Accordingly, ITS is entitled to recover the reasonable cost of the aforementioned necessities from Rehman's property.

However, the first-class air ticket may not automatically qualify as a necessity. Necessaries must be reasonable and appropriate in the circumstances. Unless ITS can establish that first-class travel was medically required due to Rehman's condition, or that it matched the standard of living consistent with Rehman's status and circumstances, recovery may be limited to the cost that would reasonably have been incurred for an economy-class ticket.

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BUSINESS LAW DYNAMICS

Suggested Answer

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Payments made by ITS on behalf of Shahroze

In this case, the tourism fee imposed by the Italian authorities was legally payable by Shahroze in connection with his stay at the hotel. His refusal to pay the fee could have exposed him to legal action by the Italian authorities. As the travel management company responsible for arranging the trip, ITS had a legitimate interest in ensuring compliance with the local regulations. Failure to pay the tourism fee could have led to legal complications and reputational damage to ITS.

By paying the tourism fee on Shahroze's behalf, ITS discharged an obligation that Shahroze was legally required to fulfil. Therefore, ITS is entitled to recover the amount of tourism fee from Shahroze.

Validity of the arguments

The argument that payments were unauthorized as ITS had no instruction to incur such expenses is legally untenable, as quasi-contractual obligations arise by operation of law rather than mutual consent. Consequently, the lack of express instructions neither prevents ITS from recovering the reasonable value of necessities from Rehman's property, nor absolves Shahroze of his personal liability to reimburse payments he was legally bound to discharge.

(b) Rights and liabilities of Haris

Haris, Bilal, and Saad were joint promisors for the payment of Rs. 9 million to CT. Therefore, CT, being entitled to recover the entire amount from Haris, recovered payment from him, and this payment discharged the joint liability of all the promisors.

After paying the entire amount, Haris acquires a right of contribution against the other joint promisors. In the absence of contrary agreement, liability as between themselves is equal; therefore, each promisor's share would be Rs. 3 million.

However, due to Saad's death, his liability devolves upon his legal representatives only to the extent of the property inherited. Fahad is thus liable up to Rs. 2 million only. The burden of the deficiency of Rs. 1 million, i.e., Saad's unpaid share, must be shared equally by the surviving joint promisors.

Accordingly, Bilal must pay Rs. 3.5 million to Haris, who himself would ultimately bear Rs. 3.5 million and recover Rs. 2 million from Saad's estate through Fahad.

Recovery of Rs. 15 million from Daniyal

Daniyal made a joint promise to pay Rs. 15 million to Haris, Bilal, and Saad. Where a promise is made to two or more persons jointly, the right to claim performance rests jointly with them. However, after Saad's death, the right of performance has passed to Haris, Bilal, and Fahad (Saad's legal representatives) jointly.

The joint rights must be enforced jointly. Since Haris filed the suit alone, the suit is defective for non-joinder of necessary parties, and he cannot recover Rs. 15 million alone unless Bilal and Fahad are joined as co-plaintiffs.

It is pertinent to mention that both of the above positions hold true unless a contrary intention appears from any of the contracts.

BUSINESS LAW DYNAMICS

Suggested Answer

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ANSWER 5

- (a) Subject to any contract between the partners, if a partner derives any personal profit from a firm transaction, or from the use of the firm's name, property, or business connections, they are legally required to account for that profit and pay it over to the firm. This rule applies regardless of whether the other business competes with the firm.

In this scenario, Moiz utilized CTD's existing customers and its sale of sesame oil (a firm transaction) to facilitate the deal with TGC. The promotional scheme was directly tied to CTD's sales; therefore, the commission was only possible because of the firm's business connection with its customers.

Validity of Response: Moiz's contention is invalid. While TGC may not be a direct competitor, the profit was earned by leveraging CTD's commercial operations. The 'personal capacity' argument is not sustainable when the opportunity arose directly from the firm's activities.

Appropriate Treatment: Moiz is bound to surrender the entire commission received from TGC to the firm. This amount must be recorded in CTD's books as income.

- (b) Under the Partnership Act, 1932, a partner is entitled to be indemnified by the firm for payments made or liabilities incurred in the ordinary and proper conduct of business, or in an emergency to protect the firm from loss.

Additionally, a partner making an advance beyond their agreed capital for business purposes is entitled to receive interest at 6% per annum on such amount. The Partnership Act, 1932, also requires partners to act for the greatest common advantage of the firm.

The rejection of customized goods in a foreign port i.e., Tokyo, constituted an emergency. Moiz's decision to sell the goods at a discount in Yokohama was a prudent move to mitigate a total loss. As he acted in good faith to protect CTD's interests, his actions fall under the proper conduct of business.

Accordingly, Noman's contention that Moiz acted against the interests of the firm is not valid. Moiz is not liable to compensate the firm for the discount. He is entitled to full reimbursement of the transportation cost of Rs. 75,000 from the firm.

- (c) Under the Partnership Act, 1932, a partner has an 'implied authority' to bind the firm for acts done in the ordinary course of business. However, certain actions are specifically restricted by law and cannot be performed unilaterally unless there is a specific contract or trade custom allowing them. Additionally, ordinary business decisions are decided by a majority of the partners.

Assessment of Ahmed's Proposed Actions

Expanding Product Range: Since CTD already deals in oils, adding other oil products is considered an ordinary matter of business. Ahmed can proceed with this if he has the consent of the majority partners i.e., at least one other partner agrees to expand.

Restricted Actions: Ahmed cannot undertake the following acts on his own, as these do not fall within the ambit of his implied authority as partner of CTD:

- Opening a firm's bank account in his own name.
- Unilaterally admit any liability or claim in a legal proceeding against the firm.
- Submit business disputes to arbitration.
- Purchase immovable property (warehouses) for the firm.

For the restricted actions listed above, Ahmed requires the express authority or mutual consent of all partners. His response is only valid regarding the product expansion, provided a majority agrees.

BUSINESS LAW DYNAMICS

Suggested Answer

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SECTION C (Company Law Section)

ANSWER 6

- (a) Under the Companies Act, 2017, where the licence of a company formed for not-for-profit objects is revoked by the SECP, the following consequences arise:
- (i) **Cessation of activities:** The company shall cease to carry on its operations except for activities necessary for the disposal of its affairs in accordance with the directions of the SECP.
 - (ii) **Prohibition on donations:** The company shall not solicit or accept any further donations or contributions after the revocation of its licence.
 - (iii) **Transfer of assets:** After satisfaction of all debts and liabilities, the remaining assets of the company shall, within ninety days of the revocation of the licence or within such extended period as may be allowed by the SECP, be transferred to another company licensed under section 42 of the Act, preferably having similar or identical objects, as directed by the SECP. Such assets shall not be distributed among the members of the company.

The procedures to be followed by the company

Submission of report to the registrar: Upon compliance with the above requirements, the board shall, within fifteen days thereof, submit a report to the registrar containing the prescribed information and supporting compliance documents.

Winding-up or striking off: Where the company has assets and liabilities, the board shall initiate voluntary winding-up proceedings within thirty days of the registrar's acceptance of the report. However, where the company has no assets and liabilities, the board shall, within the same period, apply to the registrar for striking off the name of the company from the register.

- (b) Under the Companies Act, 2017, a person who is not a member of a company may be appointed as a director in the following circumstances:
- (i) where he represents a member who is not a natural person;
 - (ii) where he is appointed as a whole-time director and is an employee of the company;
 - (iii) where he is appointed as the chief executive of the company; or
 - (iv) where he represents a creditor or other special interest pursuant to contractual arrangements.

ANSWER 7

- (a) **Preparation of financial statements**

ABL is required to prepare financial statements for the financial year ending 31 March 2026, i.e., from 1 April 2025 till 31 March 2026.

Since ABL acquired 50,000 out of 80,000 shares (62.5%) in BTL, BTL is a subsidiary of ABL. Accordingly, ABL is required to prepare separate financial statements as well as consolidated financial statements incorporating the financial position and results of BTL (collectively referred to as the financial statements).

The financial statements must comply with the relevant schedule of the Companies Act, 2017, the financial reporting standards notified by the SECP, and must be audited by the auditor of ABL.

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BUSINESS LAW DYNAMICS

Suggested Answer

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Approval of financial statements

The financial statements must be approved by the board of directors and signed on behalf of the board by the chief executive and at least one director.

The financial statements must be laid before the members at the AGM for adoption. The AGM must be held within 120 days of the close of the financial year. Since ABL's financial year is ending on 31 March 2026, the proposed AGM date of 29 July 2026 falls within the prescribed period and therefore, complies with this requirement.

Statutory filing requirements

ABL is a private company with a paid-up capital of Rs. 2 million, which is below the prescribed threshold of Rs. 10 million. Accordingly, it is not required to file its audited financial statements with the registrar. Although ABL is required to prepare consolidated financial statements due to its subsidiary relationship with BTL, such consolidated financial statements are subject to the same procedural requirements as the company's separate financial statements. Therefore, the exemption from filing continues to apply, and ABL is not required to file either its separate or consolidated financial statements with the registrar.

- (b) **Requirements to hold AGM at an extended date:** ABL is required to hold its AGM within 120 days of the close of its financial year, i.e., on or before 29 July 2026. Holding the AGM on 13 August 2026 would exceed this statutory limit.

Therefore, ABL must apply to the registrar for an extension of time, stating the special reasons for seeking such extension. The registrar may grant the extension subject to such conditions as deemed appropriate. Without such approval, holding the AGM after the prescribed period would constitute non-compliance with the Companies Act, 2017.

Evaluation of Zafar's suggestion: The suggestion to approve the matters through circulation is not valid. Since only ordinary businesses are to be transacted at the AGM, such as adoption of financial statements, appointment of auditors, etc., these matters must be transacted at a properly convened general meeting of the members. The Companies Act, 2017, does not permit ordinary businesses to be approved through resolutions passed by members through circulation in place of holding an AGM.

Therefore, ABL must obtain an extension from the registrar.

ANSWER 8

- (a) **Steps required for YTL to engage in the proposed business:**

Since YTL intends to discontinue its existing telecom business and adopt media and broadcasting services, this constitutes a change in its principal line of business. Accordingly, YTL must take the following steps:

Alteration of memorandum: YTL must alter its memorandum of association to reflect the new principal line of business. Since the existing name "Yellow Telecom Limited" reflects telecom activities and would no longer correspond with the company's principal line of business, YTL must also change its name. For this purpose, the board should convene an EOGM and obtain the approval of the members by passing a special resolution for the alteration of the principal line of business and the change of name.

Approval of the registrar: Following the approval of members, YTL must obtain the approval of the registrar for the proposed change of name. Upon such approval, the registrar will issue a fresh certificate of incorporation reflecting the new name. For a period of ninety days from the date of that certificate, the company must continue to use its former name together with its new name on the outside of every office or place where its business is carried on and, in every document or notice required under the relevant provisions of the Companies Act, 2017.

BUSINESS LAW DYNAMICS

Suggested Answer

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Confirmation of alteration: Since the proposed business of media and broadcasting services can only be carried on after obtaining a licence from PEMRA, YTL must seek confirmation of the alteration from SECP in this regard, before undertaking the new business.

Filing with the registrar: A copy of the special resolution must be filed with the registrar within fifteen days, duly authenticated by YTL's director or the company secretary.

Regulatory licence: Before commencing the new business, YTL must obtain the requisite licence from PEMRA.

Intimation to the registrar: YTL must also notify the registrar of the change in its principal line of business in the prescribed form within thirty days of the change.

(b) Effects of non-participation of members

Since YTL is a public company, the quorum for a general meeting, unless the articles of association provide for a larger number, is at least two members present personally or through video link, collectively representing not less than 25% of the total voting power, either of their own account or as proxies.

Out of ten members, three members, including Zia, attended the EOGM in person. Farid had deposited a proxy in favour of Zia at 11:00 a.m. on 24 February 2026, which is less than 48 hours before the meeting held at 5:00 p.m. on 25 February 2026. Therefore, the proxy is invalid, and Farid was not represented at the meeting.

Accordingly, only three members were present, representing 30% of the voting power. Since this exceeds the minimum quorum requirement of 25%, the quorum was validly constituted. Therefore, the non-participation of the remaining members does not affect the validity of the meeting.

Validity of the resolution

The proposal involved alteration of the memorandum, which requires approval through a special resolution. A special resolution is considered passed only if not less than three-fourths of the votes cast are in favour of the resolution. In the present case, two members voted in favour while Zia voted against the proposal. Accordingly, two-thirds (66.67%) of the voting power represented at the EOGM was in favour of the resolution, which is less than the required threshold of 75%.

Therefore, although the EOGM was validly held, the special resolution was not validly passed and cannot be implemented.

ANSWER 9

- (a)** The rights of shareholders of a company may be varied by altering the articles of association through a special resolution of the members.

However, where such alteration affects the substantive rights of members or of a class of members, the variation shall not be effective unless it is approved by at least three-fourths of the members or of the affected class of members, voting either personally or through proxy in favour of such variation.

BUSINESS LAW DYNAMICS

Suggested Answer

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- (b) Pursuant to the restrictions imposed by the Companies Act, 2017, a subsidiary company shall not enter into any arrangement involving non-cash transactions with a director of its holding company whereby it:
- (i) disposes of, or agrees to dispose of, its assets to such director; or
 - (ii) acquires, or agrees to acquire, assets from such director.

However, such an arrangement may be entered into if prior approval is obtained via resolutions passed by the members of both the holding company and the subsidiary company in their respective general meetings.

The notice for each meeting must include the full particulars of the arrangement, including the value of the assets involved as determined by a registered valuer.

ANSWER 10

- (a) The requirements that must be complied with by a borrower in the event of modification of charges previously registered in favour of a bank are as follows:
- **Execution of instrument of modification:** The borrower company shall execute an instrument evidencing the modification of the charge, duly verified in the prescribed manner.
 - **Filing with the registrar:** The borrower company shall, within thirty days of the date of such modification, file with the registrar the prescribed particulars of the modification together with a copy of the duly verified instrument evidencing such modification.
 - **Maintenance at the registered office:** The borrower company shall keep at its registered office a copy of every instrument evidencing modification of the charge.
- (b) WRL holds 15% shares in CBL and has nominated one of its directors, Zafar, to the board of directors of CBL. Due to the common directorship of Zafar, CBL is considered an associated company of WRL. Accordingly, the proposed financial assistance of Rs. 50 million to CBL will be treated as an investment in an associated company.

Before granting such financial assistance, WRL must comply with the following requirements:

Special resolution: The investment must be approved by WRL's members through a special resolution, specifying the nature, amount, period of three years, and the terms and conditions of the loan.

Written agreement: A written agreement must be executed specifying:

- nature, purpose, period of the loan,
- rate of return, fees, or commission,
- repayment schedule for principal and return,
- penalty clause in case of default or late repayments, and
- security, if any, for the loan.

Minimum rate of return: The rate of return on such financial assistance shall not be less than WRL's borrowing cost or the rate prescribed by the SECP, whichever is higher, and shall be recovered from CBL on a regular basis in accordance with the terms of the agreement.

Directors' due diligence certificate: Prior to disbursement of the loan, WRL's directors must certify that due diligence has been conducted and that CBL has the ability to repay the loan in accordance with the terms of the agreement.

(THE END)

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Business Law Dynamics

Summary of Marking Key

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Note regarding marking scheme:

The marking scheme is given as a guide. Markers also award marks for alternative approaches to a question and relevant/well-reasoned comments/explanations. Moreover, the available marks in the answer may exceed the total marks of a question.

		Mark(s)	
A.1	Marks as mentioned on the question paper against each MCQ	20.0	
A.2	(a) <ul style="list-style-type: none"> ▪ Explain delegated legislation ▪ Describe the method of control exercised over delegated legislation 	1.0 2.0	
	(b) 01 mark to explain each situation in which a person may be held accountable for committing a money laundering offence	4.0	
	A.3	(a) <ul style="list-style-type: none"> ▪ Discuss who may be appointed as an agent by a principal ▪ Explain the agent's express and implied authority ▪ Explain the extent of the agent's authority ▪ Discuss the authority of an agent in case of an emergency 	1.0 1.5 1.5 1.0
(b) Up to 01 mark for each distinction between a contingent contract and a wagering agreement		4.0	
A.4		(a) <ul style="list-style-type: none"> ▪ Determine the nature of the obligations imposed on ITS under the quasi-contracts ▪ Discuss the legal rights of ITS with respect to Rehman ▪ Discuss the legal rights of ITS with respect to Shahroze ▪ Evaluate the validity of the arguments raised by Shahroze and the family of Rehman 	1.0 3.0 2.0 1.0
		(b) <ul style="list-style-type: none"> ▪ Up to 01 mark to discuss each of the rights and liabilities of Haris against Bilal, Saad, and Fahad ▪ Discuss whether Haris is entitled to recover the amount from Daniyal 	3.0 3.0
	A.5	(a) <ul style="list-style-type: none"> ▪ Evaluate the given scenario and the validity of Moiz's response ▪ Advise the appropriate treatment of the commission received from TGC 	3.0 1.0
		(b) <ul style="list-style-type: none"> ▪ Evaluate the contention of Noman regarding the action taken by Moiz ▪ Determine the rights and liabilities of Moiz 	1.0 2.0
		(c) <ul style="list-style-type: none"> ▪ Discuss the implied authority and its restrictions ▪ 0.5 mark to assess each specified action that Ahmed is authorized to undertake 	1.5 2.5
A.6	(a) <ul style="list-style-type: none"> ▪ Discuss the consequences of the revocation of the license of a company formed for not-for-profit objects ▪ State the procedures required to be followed by such a company on the revocation of its license 	3.0 2.0	
	(b) 0.75 mark for each circumstance under which a person who is not a member of the company may be appointed as a director	3.0	

<p>Business Law Dynamics Summary of Marking Key Certificate in Accounting and Finance – Spring 2026</p>
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		Mark(s)	
A.7	(a)	▪ Up to 01 mark to discuss the requirements for preparation and approval of ABL's financial statements	4.0
		▪ State the statutory filing requirements for ABL's financial statements	1.0
	(b)	▪ Explain the requirements for holding AGM on an extended date	1.5
		▪ Evaluate the suggestion of Zafar Ahmed regarding the approval of matters through circulation	1.5
A.8	(a)	Up to 01 mark for each step required to be taken by YTL to engage in the proposed business	5.0
	(b)	▪ Discuss the effects of the non-participation of members in the EOGM	3.0
		▪ Evaluate the validity of the resolution passed at the EOGM	2.0
A.9	(a)	1.5 marks for each description regarding the manner in which shareholder rights are varied under normal circumstances, versus the specific requirements where such changes affect the substantive rights of a particular class of members	3.0
	(b)	Up to 0.75 mark to discuss each restriction imposed on a subsidiary company for non-cash transactions with a director of its holding company	3.0
A.10	(a)	01 mark to discuss each requirement to be complied with by a borrower in the event of modification of charges	3.0
	(b)	Up to 01 mark to specify each condition to be met by WRL before granting financial assistance to CBL	5.0

(THE END)