

Foundation Course Study Material

Paper 2

Business Laws

**(Relevant for May, 2025 and
onward Examinations)**



**BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

This Study Material has been prepared by the faculty of the Board of Studies. The objective of the Study Material is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarifications or have any suggestions for further improvement of the material contained herein, they may write to the Joint Director, Board of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the Study Material has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

Permission of the Institute is essential for reproduction of any portion of this material.

© THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

Basic draft of this publication was prepared by CA. (Dr.) Rashmi Goel.

Edition : August, 2024

Committee/Department : Board of Studies

E-mail : bosnoida@icai.in

Website : www.icai.org

Price : ₹ /-

ISBN No. : 978-81-19472-94-9

Published by : The Publication & CDS Directorate on behalf of
The Institute of Chartered Accountants of India
ICAI Bhawan, Post Box No. 7100,
Indraprastha Marg, New Delhi – 110002 (India)

Printed by :

BEFORE WE BEGIN

The contents of the study material for Foundation have been designed and developed by the Board of Studies, ICAI with an objective to synchronize the syllabus with the International Education Standards (IESs) of IFAC (International Federation of Accountants) to instill and enhance the necessary pre-requisites for becoming a well-rounded, competent and globally competitive Accounting Professional.

The requirements of “IES 1 Entry Level Requirements” have been kept in mind while developing the different chapters of study material.

This study material also lays emphasis on National Education Policy 2020 (NEP 2020) initiatives like conceptual clarity rather than rote learning and new pedagogical and curriculum restructuring based on the use of technology while teaching.

Laws in general, regulate the relationship of business and profession with the society. As Business forms an integral part of the society, so, law is essential for regulating the rules by which people and businesses connect with each other. Law affects almost every function and area of business. In order to resolve the conflicts between social groups and commercial establishments, Law has to be in place. Study of Law is also important because it gives a legal framework which is ultimately accepted in society.

This paper on Business Laws intends to make the students aware of legal background relating to business laws. As a student aspiring to become a Chartered Accountant, he should have knowledge of those legal frameworks, which influences the business transactions. The syllabus of Business Laws has been segregated into seven chapters covering the following:

Chapter 1, Indian Regulatory Framework: In this chapter, the students will be familiarised with some of the major Regulators and the laws which are enforced by them.

Chapter 2, The Indian Contract Act, 1872: This Act basically identifies the ingredients of a legally enforceable valid contract in addition to dealing with certain special type of contractual relationships like indemnity, guarantee, bailment, pledge, quasi contracts, contingent contracts, etc.

Chapter 3, The Sale of Goods Act, 1930: This is one of the specific forms of contracts recognized and regulated by law in India. Sale is a typical bargain between the buyer and the seller. The provisions of the Act are applicable to the contracts related to the sale of goods which means movable properties.

Chapter 4, The Indian Partnership Act, 1932: This Act provides Rules and Regulations for a general form of Partnership when two or more people come together as partners.

Chapter 5, The Limited Liability Partnership Act, 2008: This Act provides Rules and Regulations which contains elements of both 'corporate structure' as well as 'partnership firm structure'. In order to acquaint the students with this significant Act, only introduction is covered at this level so they can easily understand its application at Intermediate level.

Chapter 6, The Companies Act, 2013: The Act regulates the functioning of Companies in India. This is the most important piece of legislation that empowers the Central Government to regulate the formation, financing, functioning and winding up of companies. In order to apprise the students with this prominent Act, only introduction is covered at this level so they can easily understand it and apply the same for practical scenarios at further levels.

Chapter 7, The Negotiable Instruments Act, 1881: The Law in India relating to negotiable instruments is contained in the Negotiable Instruments Act, 1881. This is an Act to define and enforce the law relating to promissory notes, bills of exchange and cheques.

We hope that the introduction to Business Laws will set a good foundation for students to understand significant provisions of select business laws and acquire the ability to address basic application- oriented issues.

Also, for the benefit of the students, the chapters are inclusive of following:

- ◆ *Learning outcomes and chapter overview at the beginning of each chapter for better understanding*
- ◆ *Step by step approach is followed in each chapter*
- ◆ *Appropriate explanation of the text through examples*
- ◆ *Summary*
- ◆ *Questions along with their answers*

We hope that students will find this study material user friendly and in case of any queries that they may have while reading the material, they are welcome to write at bosnoida@icai.in

Happy Reading and Best Wishes!

SYLLABUS

PAPER – 2: BUSINESS LAWS (100 MARKS)

Objective:

To develop general legal knowledge of the law of Contracts, Sales and understanding of various forms of businesses and their functioning to regulate business environment and to acquire the ability to address basic application-oriented issues.

Contents:

1. **Indian Regulatory Framework-** Major Regulatory Bodies such as Ministry of Finance, Ministry of Corporate Affairs, SEBI, RBI, IBBI, Ministry of Law and Justice etc.
2. **The Indian Contract Act, 1872:** General nature of contract, Consideration, Other essential elements of a valid contract, Performance of contract, Breach of contract, Contingent and Quasi Contract, Contract of Indemnity and Guarantee, Contract of Bailment and Pledge, Contract of Agency.
3. **The Sale of Goods Act, 1930:** Formation of the contract of sale, Conditions and Warranties, Transfer of ownership and Delivery of goods, Unpaid seller and his rights.
4. **The Indian Partnership Act, 1932:** General Nature of Partnership, Rights and Duties of partners, Reconstitution of firms, Registration and Dissolution of a firm.
5. **The Limited Liability Partnership Act, 2008:** Introduction-covering nature and scope, Essential features, Characteristics of LLP, Incorporation and Differences with other forms of organizations.
6. **The Companies Act, 2013:** Essential features of company, Corporate veil theory, Classes of companies, Types of share capital, Incorporation of company, Memorandum of Association, Articles of Association, Doctrine of Indoor Management.
7. **The Negotiable Instruments Act, 1881:** Meaning of Negotiable Instruments, Characteristics, Classification of Instruments, Different provisions relating to Negotiation, Presentment of Instruments, Rules of Compensation.

Note: *If new legislations are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from dates notified by the Institute.*

The specific inclusions/ exclusions in the various topics covered in the syllabus will be effected every year by way of Study Guidelines, if required.

CONTENTS

CHAPTER – 1: INDIAN REGULATORY FRAMEWORK1.1

Chapter Overview.....	1.2
1. Introduction.....	1.3
2. What Is Law?.....	1.3
3. Sources of Law	1.4
4. The Process of Making A Law.....	1.5
5. Enforcing The Law	1.6
6. Structure of The Indian Judicial System.....	1.11
Test Your Knowledge	1.13

CHAPTER – 2: THE INDIAN CONTRACT ACT 1872.....2.1

Unit– I: Nature of Contracts2.1

Unit Overview.....	2.2
1.1 What is Contract ?.....	2.4
1.2 Essentials of Valid Contract.....	2.5
1.3 Types of Contracts	2.9
1.4 Proposal/Offer [Section 2(a) of the Indian Contract Act, 1872]	2.15
1.5 Acceptance.....	2.22
1.6 Communication of Offer and Acceptance.....	2.26
1.7 Communication of Performance.....	2.30
1.8 Revocation of Offer and Acceptance.....	2.30
Summary.....	2.33
Test Your Knowledge	2.38

Unit– 2:Consideration	2.46
Unit Overview.....	2.46
2.1 What is Consideration?.....	2.47
2.2 Legal Rules Regarding Consideration	2.48
2.3 Suit by a Third Party to a Contract.....	2.50
2.4 Validity of an Agreement without Consideration.....	2.52
Summary.....	2.54
Test Your Knowledge	2.55
Unit– 3:Other Essential Elements of a Contract.....	2.58
Unit Overview.....	2.58
3.1 Capacity to Contract.....	2.59
3.2 Free Consent.....	2.64
3.3 Elements Vitiating Free Consent.....	2.65
3.4 Legality of Object and Consideration.....	2.73
3.5 Void Agreements.....	2.77
Summary.....	2.82
Test Your Knowledge	2.86
Unit– 4:Performance of Contract	2.95
Unit Overview.....	2.95
4.1 Performance of Contract.....	2.96
4.2 Conditions to Be Satisfied for A Valid Tender or Attempted Performance	2.96
4.3 By Whom a Contract May Be Performed (Section 40, 41 And 42)	2.97
4.4 Distinction Between Succession and Assignment.....	2.98
4.5 Liability of Joint Promisor & Promisee	2.99
4.6 Time and Place for Performance of the Promise.....	2.101
4.7 Performance of Reciprocal Promise.....	2.102

4.8	Appropriation of Payments	2.106
4.9	Contracts, Which Need not be Performed – with the consent of both the parties.....	2.107
4.10	Discharge of a Contract.....	2.110
	Summary.....	2.113
	Test Your Knowledge	2.115
Unit– 5:Breach of Contract and its Remedies		2.122
	Unit Overview.....	2.122
5.1	Anticipatory Breach of Contract.....	2.123
5.2	Actual Breach of Contract.....	2.124
5.3	Suit for Damages.....	2.125
5.4	Penalty and Liquidated Damages (Section 74)	2.127
	Summary.....	2.131
	Test Your Knowledge	2.132
Unit– 6: Contingent and Quasi Contracts		2.138
	Unit Overview.....	2.138
6.1	Contingent Contracts.....	2.138
6.2	Rules Relating to Enforcement.....	2.140
6.3	Quasi Contracts	2.143
	Summary.....	2.146
	Test Your Knowledge	2.149
Unit– 7: Contract of Indemnity and Guarantee		2.154
	Unit Overview.....	2.154
7.1	Contract of Indemnity	2.155
7.2	Contract of Guarantee	2.157
7.3	Types of Guarantees	2.159
7.4	Distinction Between a Contract of Indemnity and A Contract of Guarantee	2.160

7.5	Nature and Extent of Surety's Liability [Section 128]	2.161
7.6	Liability of Two Persons, Primarily Liable, Not Affected by Arrangement Between Them That One Shall Be Surety on other's Default	2.161
7.7	Discharge of A Surety	2.162
7.8	Rights of A Surety	2.166
	Summary.....	2.169
	Test Your Knowledge	2.171
Unit- 8: Bailment and Pledge		2.178
	Unit Overview.....	2.178
8.1	What Is Bailment?	2.178
8.2	Duties of A Bailor	2.180
8.3	Duties of A Bailee.....	2.182
8.4	Rights of A Bailor	2.185
8.5	Rights of A Bailee	2.186
8.6	Rights of Bailor and Bailee Against Any Wrong Doer (Third Party)	2.187
8.7	Termination of Bailment	2.187
8.8	Finder of Lost Goods	2.188
8.9	Right of Lien	2.188
8.10	Pledge	2.190
8.11	Pledge by Non-Owner	2.193
8.12	Distinction Between Bailment and Pledge	2.194
	Summary.....	2.195
	Test Your Knowledge	2.197
Unit- 9: Agency		2.203
	Unit Overview.....	2.203
9.1	What is Agency ?	2.204

9.2	Appointment and Authority of Agents	2.205
9.3	Creation of Agency	2.205
9.4	Extent of Agent's Authority	2.209
9.5	Sub-Agents	2.210
9.6	Substituted Agent	2.211
9.7	Difference Between a Sub-Agent and A Substituted Agent	2.212
9.8	Duties and Obligations of An Agent	2.213
9.9	Rights of An Agents.....	2.215
9.10	Principal's Liability to Third Parties	2.218
9.11	Personal Liability of Agent to Third Parties	2.220
9.12	Revocation of Authority	2.222
	Summary.....	2.225
	Test Your Knowledge	2.227
CHAPTER – 3: THE SALE OF GOODS ACT, 1930		3.1
Unit -1: Formation of the Contract of Sale		3.1
	Unit overview.....	3.2
	Introduction.....	3.2
1.1	Scope of the Act.....	3.2
1.2	Definitions.....	3.3
1.3	Sale and Agreement to Sell (Section 4)	3.8
1.4	Distinction Between Sale and an Agreement to Sell.....	3.10
1.5	Sale Distinguished from Other Similar Contracts.....	3.11
1.6	Contract of Sale How Made (Section 5).....	3.13
1.7	Subject Matter of Contract of Sale.....	3.14

1.8	Ascertainment of Price (Section 9 & 10)	3.15
	Summary.....	3.16
	Test Your Knowledge	3.17
Unit– 2: Conditions & Warranties		3.26
	Unit Overview.....	3.26
2.1	Stipulation as To Time (Section 11)	3.26
2.2	Introduction - Conditions and Warranties	3.27
2.3	When Condition is to Be Treated as Warranty (Section 13)	3.28
2.4	Express and Implied Conditions and Warranties (Section 14-17)	3.29
2.5	Caveat Emptor	3.35
	Summary.....	3.38
	Test Your Knowledge	3.39
Unit– 3: Transfer of Ownership and Delivery of Goods		3.47
	Unit Overview.....	3.47
	Introduction.....	3.48
3.1	Passing of Property (Sections 18 – 26)	3.48
3.2	Risk Prima Facie Passes with Property (Section 26).....	3.54
3.3	Transfer of Title by Non-Owners (Sections 27 – 30)	3.55
3.4	Performance of The Contract of Sale (Sections 31 – 44)	3.58
	Summary.....	3.62
	Test Your Knowledge	3.64
Unit– 4: Unpaid Seller		3.73
	Unit Overview.....	3.73
4.1	Unpaid Seller	3.74
4.2	Rights of An Unpaid Seller	3.74
4.3	Right of Unpaid Seller Against the Goods	3.75

4.4	Rights of Unpaid Seller Against the Buyer (Sections 55-61)	3.81
4.5	Remedies of Buyer Against the Seller	3.82
4.6	Auction Sale (Section 64)	3.84
4.7	Inclusion of Increased or Decreased Taxes in Contract of Sale (Section 64A)	3.85
	Summary	3.86
	Test Your Knowledge	3.87
CHAPTER – 4 : THE INDIAN PARTNERSHIP ACT, 1932		4.1
Unit -1: General Nature of Partnership		4.1
	Unit Overview	4.1
1.1	Definition of 'Partnership', 'Partner', 'Firm' And 'Firm Name' (Section 4)	4.2
1.2	Elements of Partnership	4.2
1.3	True Test of Partnership	4.4
1.4	Partnership Distinguished from Other Forms of Organisation	4.7
1.5	Kinds of Partnerships	4.12
1.6	Types of Partners	4.14
	Summary	4.17
	Test Your Knowledge	4.18
Unit– 2: Relations of Partners		4.24
	Unit Overview	4.24
2.1	Relation of Partners To one Another	4.25
2.2	Partnership Property (Section 14)	4.29
2.3	Personal Profit Earned by Partners (Section 16)	4.30
2.4	Rights and Duties of Partners After a Change in The Firm (Section 17)	4.31
2.5	Relation of Partners to Third Parties	4.32
2.6	Effect of Admissions by A Partner (Section 23)	4.35
2.7	Effect of Notice to Acting Partner (Section 24)	4.35

2.8	Liability to Third Parties (Section 25 To 27).....	4.36
2.9	Rights of Transferee of a Partner's Interest (Section 29)	4.37
2.10	Minors Admitted to The Benefits of Partnership (Section 30).....	4.38
2.11	Legal Consequences of Partner Coming in And Going Out (Section 31 – 35).....	4.40
2.12	Rights of Outgoing Partner to Carry on Competing Business (Section 36).....	4.44
2.13	Right of Outgoing Partner in Certain Cases to Share Subsequent Profits (Section 37).....	4.44
2.14	Revocation of Continuing Guarantee by Change In Firm (Section 38)	4.45
	Summary.....	4.45
	Test Your Knowledge	4.49
Unit- 3: Registration and Dissolution of a Firm		4.57
	Unit Overview.....	4.57
3.1	Registration of Firms.....	4.58
3.2	Consequences of Non-Registration (Section 69)	4.59
3.3	Dissolution of Firm (Sections 39 - 47)	4.60
3.4	Consequences of Dissolution (Sections 45 - 55).....	4.64
	Summary.....	4.67
	Test Your Knowledge	4.69
CHAPTER – 5 : THE LIMITED LIABILITY PARTNERSHIP ACT, 2008		5.1
	Chapter Overview.....	5.1
	Introduction	5.2
1.	Limited Liability Partnership- Meaning and Concept	5.3
2.	Characteristic of LLP	5.6
3.	Incorporation of LLP.....	5.9

4.	Differences With other Forms of Organisation.....	5.13
	Summary.....	5.16
	Test Your Knowledge	5.19
CHAPTER – 6 : THE COMPANIES ACT, 2013		6.1
	Chapter Overview.....	6.2
	Introduction	6.3
1.	Company Meanings & its Features.....	6.3
2.	Corporate Veil Theory.....	6.7
3.	Classes of Companies Under the Act	6.10
4.	Mode of Registration/Incorporation of Company	6.23
5.	Classification of Capital	6.27
6.	Shares.....	6.28
7.	Memorandum of Association	6.30
8.	Doctrine of Ultra Vires	6.33
9.	Articles of Association	6.35
10.	Doctrine of Indoor Management.....	6.37
	Summary.....	6.40
	Test Your Knowledge	6.45
CHAPTER – 7 : THE NEGOTIABLE INSTRUMENTS ACT, 1881		7.1
	Chapter Overview.....	7.1
	Introduction	7.2
1.	Meaning of Negotiable Instruments.....	7.3
2.	Promissory Note	7.4
3.	Bills of Exchange.....	7.7
4.	Cheque	7.10

5.	Classification Of Negotiable Instruments.....	7.12
6.	Negotiation (Transfer) Of Negotiable Instruments.....	7.15
7.	Dishonour of Cheques for Insufficiency of funds in the accounts(Section 138 to 142)	7.18
8.	Presentment of Instruments.....	7.20
9.	Rules of Compensation	7.23
	Summary.....	7.24
	Test Your Knowledge	7.28
	Sample Specimens/Agreements..... (i – xx)	