



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 Maria Rs. 50,000 one month after my 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 | (01) |
| (c) 2 March 2023 | (d) 6 March 2023 | |

- (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 | (1.5) |
| (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 | |

- 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.

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)