



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.
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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 specified purposes
- (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 failing to perform 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)