



The Institute of  
Chartered Accountants  
of Pakistan

## Certificate in Accounting and Finance Stage Examination

Model paper  
3 hours – 100 marks  
Additional reading time – 15 minutes

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### Business Law

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#### **Instructions to examinees:**

- (i) Answer all **TEN** questions.
- (iii) Answer in black pen only.

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#### **Section A – Multiple Choice Questions**

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Q.1 Select the most appropriate answer from the options available for each of the following Multiple Choice Questions (MCQs). **Each MCQ carries ONE mark.**

- (i) Incapacity to contract may be due to:
  - (a) absence of legal formalities
  - (b) lack of consideration
  - (c) minority
  - (d) absence of free consent
  
- (ii) Under which of the following circumstances a pledge made by a mercantile agent may be regarded as a valid pledge?
  - (a) The agent is in possession of the goods or documents of title to the goods without the consent of the owner.
  - (b) The agent pledges the goods while acting in the ordinary course of business of a mercantile agent.
  - (c) The pawnee has at the time of the pledge, notice that the agent has no authority to pledge.
  - (d) The pawnee acts dishonestly.
  
- (iii) Fraud means:
  - (a) the suggestion, as a fact of that which is not true, by one who believes it to be true.
  - (b) silence of a person as to facts likely to affect the willingness of another to enter into a contract.
  - (c) a promise made without any intention of performing it.
  - (d) any act fitted to deceive where aggrieved party had the means of discovering the truth with ordinary diligence.
  
- (iv) Which of the following is **NOT** an essential element of a valid contract?
  - (a) the contract must be in writing.
  - (b) the parties must be in agreement.
  - (c) each party must provide consideration.
  - (d) each party must intend legal relations.
  
- (v) Consensus-ad-idem is:
  - (a) when consent is free.
  - (b) when consideration is adequate.
  - (c) when one party promises to do an act at the desire of another party.
  - (d) when both the parties agree to the same thing in the same sense.

- (vi) A 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 is said to be a:
- |             |                       |
|-------------|-----------------------|
| (a) fraud   | (b) misrepresentation |
| (c) mistake | (d) misinterpretation |
- (vii) The fundamental principle of awarding damages is:
- (A) to punish the guilty party for breach of contract.  
 (B) to compensate the innocent party.  
 (C) to put the innocent party in the same position as if the contract had been carried out correctly.
- |                 |                      |
|-----------------|----------------------|
| (a) (B) only    | (b) (C) only         |
| (c) (B) and (C) | (d) (A), (B) and (C) |
- (viii) A surety is **NOT** discharged from his liability:
- (a) if terms of contract are varied without his consent.  
 (b) if the creditor gives time to the principal debtor without his consent.  
 (c) if the creditor releases the other co-surety.  
 (d) if the creditor releases the principal debtor.
- (ix) In a partnership firm, the difference of opinion over some 'fundamental matter' can be settled by:
- |                      |                          |
|----------------------|--------------------------|
| (a) all the partners | (b) majority of partners |
| (c) senior partners  | (d) managing partners    |
- (x) Which types of partnership have no agreement in terms of the duration of partnership?
- |                         |                            |
|-------------------------|----------------------------|
| (a) Fixed partnership   | (b) Partnership at will    |
| (c) General partnership | (d) Particular partnership |
- (xi) A minor admitted to the benefits of partnership in a registered firm on attaining majority decides to become a partner. He has to give a public notice of his decision to become a partner by:
- (a) publication in the Official Gazette and in at least one vernacular newspaper.  
 (b) publication in at least one English newspaper and one Urdu newspaper.  
 (c) a notice to the Registrar of Firms and by publication in the Official Gazette and in at least one vernacular newspaper circulating in the district where the firm to which it relates has its place or principal place of business.  
 (d) a notice to the Registrar of Firms and by publication in the Official Gazette.
- (xii) Laila, Munir and Naseem were partners in a firm. After Naseem's death, Laila and Munir continued the partnership. Public notice of Naseem's death was not given by the surviving partners or the legal representatives of Naseem.
- Omair supplied goods on credit to the firm assuming Naseem to be a partner in the firm. Laila and Munir are unable to settle the debt. Can Omair recover his debt from Naseem's estate?
- (a) No, as the transaction was made after Naseem's death.  
 (b) Yes, but only after Naseem's private debts have been paid off.  
 (c) Yes, as Omair extended credit on the faith of Naseem being a partner in the firm.  
 (d) Yes, as neither the surviving partners nor the legal representatives of Naseem gave public notice of his death.

- (xiii) Which of the following is **NOT** the characteristic of a cheque?
- (a) It must be in writing (b) It is definite and unconditional  
(c) It must be signed by the drawee (d) It contains an order to pay
- (xiv) Which of the following acts are not included in the implied authority of a partner?
- (a) Transfer moveable property belonging to the firm.  
(b) Open a bank account on behalf of the firm.  
(c) File a suit or proceeding on behalf of the firm.  
(d) Enter into partnership on behalf of the firm.
- (xv) The making, acceptance or endorsement of a promissory note, bill of exchange or cheque is completed by:
- (a) signature of maker, acceptor or endorser.  
(b) delivery, actual or constructive.  
(c) endorsement and delivery thereof.  
(d) presentment for payment.
- (xvi) Registrar may refuse to register a company by a name if the name is:
- (a) very lengthy  
(b) written in abbreviation  
(c) in resemblance with the name of one of the sponsors  
(d) undesirable
- (xvii) Which of the following shall be considered conclusive evidence on the basis of which a public company shall be entitled to start its operations?
- (a) Received full amount from every director on each of the shares taken or contracted to be taken by him and for which he is liable to pay in cash.  
(b) Submitted the duly verified declaration along with other documents duly verified by CEO and the register has accepted & registered the same.  
(c) Allotted shares that were held subject to payment of whole amount thereof in cash equivalent to minimum subscription.  
(d) Repaid the money to the applicants for any shares which have been offered for public subscription.
- (xviii) A business of a company may be classified as principal line of business of that company, if the business in which:
- (a) substantial assets are held or likely to be held or substantial revenue is earned or likely to be earned, whichever is higher.  
(b) substantial assets are held or likely to be held or substantial revenue is earned or likely to be earned, whichever is lower.  
(c) the company is engaged is a lawful business.  
(d) the company is engaged commensurate with name of the company.
- (xix) Consider the following:
- (A) A statutory meeting of a public limited company may be adjourned from time to time.  
(B) If a statutory meeting is adjourned; any resolution of which notice has been given in accordance with the articles, either before or after the original meeting, may be passed.  
(C) If a statutory meeting is adjourned, such meeting shall have the same powers as an original meeting.

Which of the above statements are correct?

- (a) (A) and (B) (b) (A) and (C)  
(c) (B) and (C) (d) All of the above

(xx) A company has declared dividend for its shareholders but is not able to pay it within the specified period. Who would be responsible for fine and punishment in case of such non-compliance?

- (a) Chief Executive (b) Chief Financial Officer  
(c) Company Secretary (d) All directors of the company

(xxi) Elegant Foods (Private) Limited (EFL) has five members with a paid-up share capital of Rs. 300,000.

The maximum number of proxies which may be appointed by EFL's members in the upcoming Annual General Meeting to be held on 4 April 2020; so that the meeting could be held on that date, are:

- (a) 5 members (b) 4 members  
(c) 3 members (d) 2 members

(xxii) Which of the following options with regard to authentication of minutes of extraordinary general meeting is correct?

- (a) Either the Chairman of the meeting or the next meeting can authenticate the minutes.  
(b) Only the Chairman of the meeting can authenticate the minutes.  
(c) Only the Chairman of next meeting can authenticate the minutes  
(d) Only the Chairman of the previous meeting can authenticate the minutes.

(xxiii) Robust Limited's (RL's) election of directors is to be held next week. RL's Board of Directors has fixed nine directors to be elected for the next term. Whereas ten members have filed notices of their intention with RL to offer themselves for election as a director.

Mr. Arqam owns 100,000 shares in RL. The maximum number of votes Arqam may be allowed to cast in favour of the director(s) would be?

- (a) 9 votes (b) 100,000 votes  
(c) 900,000 votes (d) 1,000,000 votes

(xxiv) The Government shall have the power to nominate chief executive of a company where:

- (a) 50% shares are held by the non-residents.  
(b) 50% shares are held by the Government.  
(c) majority of directors are nominated by the Government.  
(d) majority of the directors are nominated by non-resident shareholders.

(xxv) Under which of the following situations a person may, as a director, take part in the discussion of any contract to be entered into on behalf of the company, even if he is in anyway concerned or interested in the contract?

If he is the director of a private company which is:

- (a) subsidiary of a public company.  
(b) holding company of a public company.  
(c) associated undertaking of a public company.  
(d) neither a subsidiary nor a holding company of a public company.

(xxvi) Which of the following shall **NOT** be eligible for appointment as a director of a company?

- (a) A person representing a creditor, who is not a member of the company.  
(b) A person representing a member which is a private limited company.  
(c) An undischarged insolvent.  
(d) The brother of a director of corporate brokerage house.

- (xxvii) Extravagant Hotels Limited (EHL) was incorporated in the year 2000. EHL's financial year ends on 30 June. EHL has kept its books of accounts in professional, systematic and organized manner since incorporation. On 15 March 2020, due to shortage of space, the board of directors has approved that the books of accounts should only be kept up to the period prescribed by the Companies Act, 2017.

Identify the financial year up to which EHL can dispose of such books of accounts.

- (a) Up to financial year 2011                      (b) Up to financial year 2010  
 (c) Up to financial year 2009                      (d) Up to financial year 2008
- (xxviii) Which one of the following is mandatorily required to be included in the directors' report of a private limited company?
- (a) The names of the persons who, at any time during the financial year, were directors of the company.  
 (b) A report with respect to the state of the company's affairs and a fair review of its business.  
 (c) The information and explanation in regard to any contents of modification in the auditor's report.  
 (d) A description of the principal risks and uncertainties facing the company.
- (xxix) No person shall make a public offer of securities unless the Commission has approved the prospectus submitted by the issuer of the securities.

In which of the following situations, the above general rule shall not apply?

- (a) Offer is made to institutional investors.  
 (b) Bonus shares are issued to any or all of the members of the issuer.  
 (c) Right shares are issued with the approval of the members of the issuer.  
 (d) Offer is made first time after commencement of business of the company.
- (xxx) Which of the following condition is **NOT** mandatorily required to be complied with by a private limited company?
- (a) Restrict the right to transfer its shares.  
 (b) Limit the number of its members to fifty excluding joint shareholders.  
 (c) Limit the number of its members to fifty excluding persons who are in the employment of the company.  
 (d) Prohibits any invitation to the public to subscribe for the shares, if any, or debentures or redeemable capital of the company.

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### Section B – Mercantile Law

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Q.2 Differentiate between Civil law and Criminal law. **(04)**

Q.3 Under the provisions of Contract Act, 1872 describe 'Undue influence'. **(06)**

Q.4 (a) Amir, Bari and Danish are partners in a firm. Faiq wants to admit his seventeen-year-old son Ghalib as a new partner.

Under the provisions of Partnership Act, 1932 can Ghalib be admitted to a partnership business? State the rights, liabilities and limitations of Ghalib, if he is admitted to the partnership business. **(05)**

- (b) Sharing net profits usually creates a very strong inference that the parties have formed a partnership. But in certain situations, the fact that the profits are shared or the parties have agreed to share the profits will not by itself create a presumption that a partnership was intended.

In view of the Partnership Act, 1932 list any three situations where sharing of profit or receipt of payment by a person does not of itself make such receiver a partner in the partnership business. (03)

- Q.5 (a) Two Badminton players Ali and Wali agreed to play badminton match on the condition that if any of them would fail to appear for the match, he would have to pay Rs. 500,000 to the other party. The winner was to receive Rs. 2,000,000 out of the sale proceeds of the tickets. Wali failed to appear in the match and Ali sued him for Rs. 500,000. Wali however, refused to pay claiming that being wagering in nature the contract is not enforceable by law.

Under the provisions of Contract Act, 1872 describe whether Ali can recover the amount from Wali. (04)

- (b) Maroof is running an Ice Cream shop in Islamabad. He wanted to attend the graduation ceremony of his son in Karachi so he asked his friend Abdullah to look after his shop during his absence. While managing the shop, Abdullah noticed that the deep-freezer in the shop was not working properly. In order to save the Ice Creams from melting, he sold them at a discount of 3% and had the freezer repaired the next day. Looking at customers' positive response, Abdullah continued to offer the Ice Creams at 3% discount. Upon his return from Karachi, Maroof, being unhappy with the situation, immediately discontinued the discount and wanted to recover the loss from Abdullah.

In view of the provisions of the Contract Act, 1872, analyse the above situation and explain the rights and liabilities of Maroof against Abdullah. (08)

- Q.6 Describe different types of crossing of cheque under the provisions of Negotiable Instruments Act, 1881. (05)

### Section C – Company Law

- Q.7 Printing (Pvt.) Limited (PL) wants to change its name to Printing and Marketing (Pvt.) Limited.

Under the provisions of the Companies Act, 2017 describe the steps to be followed by PL for changing its name and matters to be complied with after the change of name. (05)

- Q.8 (a) Under the provisions of the Companies Act, 2017 comment on each of the following independent situations:

(i) Opticians Limited (OL), a listed company, plans to appoint Yameen as an executive director of OL. Yameen is already holding the position of director in seven companies including Glasses Limited a listed company that is a subsidiary of OL. Whether Yameen can be appointed as an executive director of OL. (02)

(ii) Zafar was recently appointed as a Director of HP Limited, a listed company. In March 2018 the board of directors came to know that Zafar had been declared a defaulter by the High Court. (02)

(iii) Kalim is a director of Behaal Limited. On 1 October 2017 Kalim went abroad on a personal trip and returned back on 15 February 2018. He was unable to attend five board meetings which were held during this period. (02)

- (b) Unique Limited is due to hold its first annual general meeting on 20 April 2018.

Under the provisions of the Companies Act, 2017 advise the directors with regard to the types of businesses which would be deemed to be special business and also discuss additional formalities which are required to be complied with in respect of notice containing special business. **(06)**

- Q.9 On 25 February 2018 Badar Limited (BL), in a move to list its shares on Pakistan Stock Exchange, received approval from the Commission for the publication of prospectus.

Under the provisions of the Securities Act, 2015 advise BL with regard to the publication of the prospectus in the newspaper and its placement on the company's website. **(06)**

- Q.10 Under the provision of the Companies Act, 2017 briefly describe the following:

- (a) Ajnabee Software (Pvt) Limited (ATL) was incorporated last year. Baber was appointed as the Chief Financial Officer; he enquired from you about the requirements that ATL needs to be complied with for presenting its first financial statements in the annual general meeting and whether the financial statements are required to be audited. **(05)**
- (b) The restrictions, if any, with regard to the declaration of final dividend by a company listed on stock exchange. **(05)**
- (c) Financial year. **(02)**

**(THE END)**