



MODEL PAPER-1 SUGGESTED ANSWERS

CMA FOUNDATION DEC-2025 EXAMINATION

PAPER-01 BUSINESS LAW AND COMMUNICATION [SET-1]

TIME: 1 HOURS

MARKS:100

1. What are the sources of law?

- a) Constitution of India
- b) Constitution of India, judicial precedents, customary law, statutes and ordinance**
- c) Statutes enacted by the Parliament of India and State Legislature
- d) Religion

Explanation: These are the primary sources of law in India, representing a comprehensive list of where legal principles are derived from. The Constitution is the supreme law, while statutes are laws created by the legislature, judicial precedents are decisions made by courts, and customary law refers to long-standing practices and traditions.

2. Find the odd one out:

- a) Manu
- b) Yajnavalkya
- c) Shruti**
- d) Narada

Explanation: Manu, Yajnavalkya, and Narada are all names of ancient sages who are credited with authoring or being associated with various Smriti texts, particularly Dharmaśāstras (legal codes).

3. Which Article of the Constitution of India empowers the legislature to make laws?

- a) Article 12
- b) Article 245**
- c) Article 243
- d) Article 141

Explanation:

- A. Article 245 defines the territorial extent of laws, stating that Parliament may make laws for the whole or any part of the territory of India, and the Legislature of a State may make laws for the whole or any part of that State.**



- B. Article 12 defines the term "State" for the purpose of Fundamental Rights in Part III of the Constitution.**
- C. Article 243 relates to the structure, composition, and powers of Panchayats (local self-government institutions).**
- D. Article 141 states that the law declared by the Supreme Court shall be binding on all courts within the territory of India.**

4. Secondary/Sub-ordinate legislation cannot go beyond:

- a) The ambit of the Act
- b) The ambit of the Act or the Constitution of India**
- c) The Constitution of India
- d) Directive Principles of State Policy

Explanation: This is because subordinate legislation derives its power from the parent Act and must operate within the constitutional framework, ensuring it does not violate fundamental rights or the basic structure of the Constitution.

5. Money Bill is introduced in which House of the Parliament?

- a) Council of People - Lok Sabha**
- b) Council of States – Rajya Sabha
- c) Both the Houses
- d) None of the Houses

Explanation: A money bill is a type of legislation in India that deals with financial matters such as taxation, government borrowing, and spending from the Consolidated Fund of India. It must be introduced in the Lok Sabha first, and the Speaker of the Lok Sabha certifies it as a money bill. The Rajya Sabha can recommend changes, but the Lok Sabha has the final say on accepting or rejecting them.

6. The term consideration is defined in -----section of the Indian Contract Act, 1872.

- a) 2(a)
- b) 2(d)**
- c) 3(a)
- d) 2(h)



7. Two persons have the capacity to contract:

- a) If both are not of unsound mind
- b) If none is disqualified from contracting by any law to which he is subject
- c) If both have attained the age of maturity
- d) **All of the above**

Explanation: All of the above, as two persons have the capacity to contract if they are of sound mind, have attained the age of majority, and are not disqualified by law from entering into a contract. These three conditions are all necessary for a person to have the legal ability to enter into a binding agreement.

8. In a contract not specifying the time for performance, the promisor can perform the contract:

- a) Immediately
- b) Within the shortest time
- c) **Within a reasonable time**
- d) Within next 21 days

Explanation: When a contract does not specify a time for performance, the promisor (the person making the promise) is obligated to perform the contract within a reasonable time frame.

9. When the consent of a party is not free, the contract is:

- a) Void
- b) **Voidable**
- c) Valid
- d) Illegal

Explanation: A contract entered into without the free consent of a party is considered voidable, not automatically void, valid, or illegal. This means the contract is binding on the party whose consent was free, but not on the party whose consent was obtained through coercion, undue influence, fraud, misrepresentation, or mistake. The aggrieved party has the option to either uphold or repudiate (cancel) the contract.

10. Ordinarily, a minor's agreement is:

- a) **Void ab initio**
- b) Voidable



- c) Valid
- d) Unlawful

Explanation: Meaning it is legally invalid from the very beginning. Under laws like the Indian Contract Act, 1872, a minor is considered incompetent to contract, and any agreement entered into with them is void from the outset and cannot be ratified later.

11. An agreement created by words spoken or written is called:

- a) **Express agreement**
- b) Execute agreement
- c) Implied agreement
- d) Voidable agreement

Explanation: Express agreement: This type of agreement is clearly stated, either verbally or in writing, where the terms and conditions are explicitly outlined.

12. A Counter offer is:

- a) An invitation to treat
- b) An acceptance of the offer
- c) **A rejection of the original offer**
- d) A bargain

Explanation: A counter offer is when someone responds to an offer with new terms, essentially rejecting the original offer and proposing a new one in its place.

13. P engages B to kill C and borrows 100 from D to pay B. If D is aware of the purpose of the loan, the transaction is:

- a) Valid
- b) Void
- c) **Illegal**
- d) Not enforceable

Explanation:

- **Murder is illegal:**

Hiring someone to kill another person is considered murder, which is a serious crime in most jurisdictions.

- **Aiding and abetting:**



Even if D doesn't directly kill C, by providing the money to P who intends to commit murder, D is considered an accomplice and is aiding and abetting the crime.

- **Knowledge is key:**

Since D is aware of the purpose of the loan (to pay for a murder), their involvement makes the transaction illegal as well.

14. Section 28 of the Indian Contract Act speaks about:

a) Agreements in restraint of legal proceedings

- b) Agreement in restraint of trade
- c) Agreement in restraint of marriage
- d) None of these

Explanation:

Agreement in restraint of trade sec 27

Agreement in restraint of marriage sec 26

15. The exceptions to the rule a stranger to a contract cannot sue are

- a) Beneficiaries in case of trust
- b) Family settlement
- c) Assignment of contract
- d) **All of the above**

Explanation:

- **Beneficiaries in a trust:**

When a contract creates a trust for the benefit of a third party (beneficiary), that beneficiary can sue to enforce the trust even though they are not a party to the contract.

- **Family settlement:**

Agreements within a family that benefit a third party, like a child's maintenance, can be enforceable by that third party even if they weren't directly involved in the agreement.

- **Assignment of contract:**

If a contract is assigned to a new party (assignee), the assignee can then sue on the contract to enforce their rights, even though they were not an original party.

Key point: The principle of "privity of contract" generally states that only parties to a contract can sue or be sued under it, but these exceptions allow certain third parties to sue in specific situations.



16. A contract with or by a minor is a:

- a) Valid contract
- b) Void contract**
- c) Voidable contract
- d) Voidable at the option of either party

17. Threat to commit suicide amounts to:

- 1. Coercion
- 2. Offence under the Indian Penal Code
- 3. Undue Influence
- 4. Fraud
- a) 1 & 2**
- b) 2 & 3
- c) 3 & 4
- d) 1 & 4

Explanation:

- **Coercion:**

According to the Indian Penal Code (IPC), Section 15 defines coercion as "committing, or threatening to commit, any act forbidden by the Indian Penal Code." Since threatening to commit suicide is considered an act forbidden by the IPC, it falls under the definition of coercion.

- **Offence under the Indian Penal Code:**

While there is no specific section directly addressing threats to commit suicide, the act is considered coercion under Section 15, making it an offense punishable under the IPC.

18. Which of the following persons does not fall under the category of persons of unsound mind?

- a) Drunkards
- b) Lunatics
- c) Idiots
- d) Blind person**

Explanation: A person of unsound mind refers to someone who is incapable of understanding or forming rational judgments due to a mental illness or other condition. Blindness is a visual impairment, not a mental condition. While it may pose challenges in certain situations, it does not inherently affect a person's capacity for rational thought.



19. A contract based on the happening or non-happening of a future event under Section 31 is called-

- a) **A contingent contract**
- b) A wagering contract
- c) A contract marked with uncertainty and hence void
- d) Voidable contract

Explanation: A contingent contract is a contract where the performance of obligations depends on the occurrence or non-occurrence of a specific, uncertain future event.

20. A sends a letter to B offering to sell his old carriage & asks B to reply by telegram. So B shall reply

- a) In any mode
- b) **Only by telegram**
- c) Other than telegram
- d) Reasonable mode

Explanation: According to the Indian Contract Act, Section 7, if a proposal prescribes the manner in which it is to be accepted, the acceptance must be made in that specified manner.

21. Which of the following is not considered as goods?

- a) Antiques
- b) Jubilee coins
- c) **Current coins**
- d) None

Explanation: "Antiques" and "Jubilee coins": can be considered goods under the SOGA 1930 as they are movable property that can be bought and sold as collectibles, even if they have historical value.

22. Sale of Goods Act, 1930 was enforceable on:

- a) January 1, 1930
- b) April 1, 1930
- c) **July 1, 1930**
- d) September 1, 1930

23. A finder can sell the goods if

- a) The goods are ascertained



- b) The goods are unascertained
- c) The goods are valuable
- d) **The goods are perishable**

Explanation: If the owner cannot be found, or refuses to pay lawful charges, a finder can sell perishable goods to prevent them from spoiling.

24. Pledging of goods obtained on sale or return basis will:

- a) **Complete the sale**
- b) Not complete the sale
- c) Complete agreement to sale
- d) None of the above

Explanation: According to Section 24 of the Sale of Goods Act, 1930, when goods are delivered to a buyer on "sale or return" terms, the ownership transfers to the buyer when they take an action that signifies acceptance, such as pledging the goods, or if they retain the goods beyond a reasonable time without rejecting them. Therefore, pledging the goods effectively completes the sale by signifying the buyer's intention to keep the goods.

25. Is the seller bound to disclose the defects of his goods?

- a) Yes
- b) **No**

Explanation: generally, under the principle of *caveat emptor* (let the buyer beware), the seller is not bound to disclose every defect. The buyer is expected to use their own skill and judgment to examine the goods before purchase.

26. In breach of condition, the innocent party can ----- the contract as well as claim -----

- a) **Rescind, damages**
- b) Damages, rescind
- c) Return, settlement
- d) Settlement, Return

27. Which of the following is not a rule regarding delivery of goods?

- a) Mode of delivery
- b) Effect of part delivery



- c) Delivery & price payment are concurrent conditions
- d) **Merchantability**

Explanation:

a) **Mode of delivery:** This rule covers how the goods are to be physically transferred (e.g., location, timing, whether the buyer picks up or the seller delivers).

b) **Effect of part delivery:** This rule addresses the legal implications when only a portion of the agreed-upon goods is delivered.

c) **Delivery & price payment are concurrent conditions:** This is a fundamental rule stating that, unless otherwise agreed, the seller must be ready to deliver the goods in exchange for the price, and the buyer must be ready to pay the price in exchange for possession of the goods.

Merchantability, however, is an implied warranty regarding the quality and condition of the goods themselves—that they are fit for the ordinary purposes for which such goods are used. It is a **standard of quality**, not a procedural rule for the act of delivery.

28. A sells 200 bags of sugar to B lying in C's godown. A gives an order to C, asking him to transfer the bags of sugar to B. C approves such order and transfers the goods in his books to B. A then hands over the order to B. This is an example of

- a) **Constructive delivery**
- b) Actual delivery
- c) Symbolic delivery
- d) None of the above

Explanation:

- ❖ **Actual delivery** involves the physical handover of the goods to the buyer.
- ❖ **Symbolic delivery** involves handing over a symbol that represents the goods, such as the key to a godown or warehouse where the goods are stored.
- ❖ **Constructive delivery** (or delivery by attornment) occurs when there is no physical transfer of the goods or any symbol, but the third party (C, the godown keeper) who is in possession of the goods acknowledges that they now hold the goods on behalf of the buyer (B), rather than the seller (A). The conduct of all three parties (seller's order, C's approval/acknowledgment, and the order being handed to B) indicates that the possession has shifted in the eyes of the law, without any physical movement of the goods.





29. M sold goods to B. The payment was to be done after one month. B did not make payment. The right of lien can be exercised by M When goods are

- a) Handed over to transporters
- b) Not handed over to anyone**
- c) Handed over to B
- d) Handed over to any one

Explanation: A right of lien allows a seller to retain possession of goods until payment is made, so if the goods are still with M, they can exercise their right to hold onto them until B pays.

30. Who among the following are unpaid sellers?

- a) To whom the price is fully paid
- b) To whom the price is partially paid**
- c) When cheque is received by seller
- d) None of the above

Explanation: An unpaid seller is a person to whom the price has not been fully paid or a negotiable instrument (like a cheque) received as conditional payment has been dishonoured.

31. The Negotiable Instrument Act is applicable to:

- a) Whole of India**
- b) Whole of India except J&K state
- c) Whole of India except Jammu & Kashmir city
- d) Whole of India except newly carved out states after 2000

Explanation: Initially, the Act did not extend to the state of Jammu and Kashmir, but this changed over time. The Act was made applicable to Jammu and Kashmir in 1956, and with the Jammu and Kashmir Reorganisation Act, 2019, all central laws, including the Negotiable Instruments Act, 1881, were extended to the Union Territories of Jammu and Kashmir and Ladakh.

32. The Negotiable Instruments Act, 1881 came into force on

- a) 9th December, 1881
- b) 19th December, 1881
- c) 1st March, 1882**
- d) None of the above



33. A negotiable instrument----- be payable to two or more persons jointly or it -----be made payable in the alternative to one of two or one or some of several payees.

- a) May, May
- b) May, Must
- c) Must, Must
- d) Must, May

Explanation: A negotiable instrument may be payable to two or more persons jointly or it may be made payable in the alternative to one of two or one or some of several payees.

34. Promissory note must be:

- a) In writing
- b) Unconditional
- c) Signed by the maker
- d) All the three

Explanation:

- **In writing:** This means the promise to pay must be stated on paper and not verbally.
- **Unconditional:** The promise to pay should not be contingent on any specific event happening.
- **Signed by the maker:** The person making the promise must sign the document to make it legally binding.

35. An Instrument incomplete in one way or other is called

- a) Inchoate Instrument
- b) Ambiguous Instrument
- c) Foreign Instrument
- d) Dishonoured Instrument.

Explanation: An inchoate instrument is one that is incomplete in some material particular and requires further steps to make it a valid and fully operational document. The person in possession of it is granted prima facie authority to complete it



36. A bearer instrument is negotiated by

- a) **Delivery only**
- b) Delivery and endorsement
- c) Stamping and attestation
- d) It cannot be negotiated

Explanation: A bearer instrument is negotiated by delivery only. Unlike an order instrument, which requires both delivery and endorsement, a bearer instrument is transferred by simply handing it over to the new holder.

37. Instrument entitled to 'period of grace' is

- a) A cheque
- b) A bill or note payable on demand
- c) A bill or note in which no time is mentioned
- d) **A bill or note payable after sight**

Explanation: A "bill or note payable after sight" means the instrument becomes payable a certain number of days after it has been presented for sight (shown to) and accepted by the drawee (the party who is supposed to pay it). Since the due date is determined after sight, it is not payable on demand and therefore is entitled to a period of grace.

38. State which of the following statement is false

- a) **When a bill is drawn, accepted or endorsed for consideration it is a fictitious bill**
- b) A bill of exchange is an unconditional order
- c) A cheque is always payable on demand
- d) The NI Act, 1881 is applicable to whole of India.

Explanation: A genuine bill is drawn, accepted, or endorsed for consideration. A fictitious bill is a fraudulent one, not related to genuine commercial transactions.

39. The holder in due course of a negotiable instrument can sue on the instrument in his own name.

- a) **True**
- b) False

Explanation: The holder in due course (HDC) of a negotiable instrument is explicitly granted the right to sue on the instrument in their own name and to enforce payment against all parties liable on it.



40. There are-----ingredients of offence u/s 138 of NI Act, 1881.

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

Explanation: An offence under Section 138 of the Negotiable Instruments Act, 1881 requires the fulfillment of five essential ingredients. These include the drawing of a cheque on an account maintained by the drawer for a legally enforceable debt or liability. The cheque must be presented and subsequently dishonoured due to insufficient funds. Following this, the payee must issue a demand notice within 30 days of receiving the cheque return memo, and the drawer must fail to make payment within 15 days of receiving the notice.

41. Which of the following statements about communication is TRUE?

- a) Ineffective communication produces at least some times good result to the sender
- b) Ineffective communication is vague, incomplete incorrect and difficult to understand**
- c) Ineffective communication in an organization sometimes helps in decision making
- d) Ineffective communication is rarely the breeding ground of misunderstanding and mistrust

42. ----- language should not be used in communication.

- a) Polite
- b) Clear
- c) Offensive**
- d) Oral

Explanation: Offensive language should not be used in communication, as it is disrespectful and harmful to effective and positive interaction. Polite, clear, and oral language are all generally considered appropriate and necessary for good communication.

43. Which of the following is incorrect?

- a) Communication is a dynamic process
- b) Communication is one way process**
- c) Communication is on-going process
- d) It not only contain facts but ideas and emotions too



Explanation: Communication is fundamentally a two-way process involving both a sender and a receiver, with feedback as a crucial component

44. Horizontal communication is:

- a) From higher to lower level
- b) From lower to higher level
- c) **At same level**
- d) All of the above

Explanation: Horizontal communication, also known as lateral communication, refers to the flow of information between individuals, groups, or departments at the same organizational level (e.g., between one department manager and another, or between colleagues on the same team)

45. A correct statement about advertising is:

- a) It is a paid communication to the masses
- b) It is meant to impart information, develop attitudes and create needs
- c) It induces action beneficial to the advertiser
- d) **All the stated options are correct.**

Explanation:

a) It is a paid communication to the masses: Advertising is a paid form of non-personal, mass communication by an identified sponsor. Businesses pay for the time or space to deliver their message to a large audience.

b) It is meant to impart information, develop attitudes and create needs: Advertising aims to inform consumers about products, their features, benefits, and prices. It also uses persuasive techniques to influence consumer attitudes, beliefs, and perceptions, and can even create desire or a sense of need for products or services.

c) It induces action beneficial to the advertiser: The ultimate goal of advertising is to persuade the target audience to take a desired action, such as making a purchase, trying a new product, or remaining loyal to a brand, all of which are beneficial to the advertiser (e.g., increasing sales, revenue, and brand loyalty).

46. Format of ____ differs from company to company.

- a) Office order
- b) Memo report



- c) Office note
- d) Office circular

Explanation: Office notes are often brief, internal communication records used for capturing discussions, recommendations, or minor updates on file, and their specific format might be less rigid compared to formal outward-bound or widely distributed documents.

While documents like office orders, memo reports (a type of memorandum), and office circulars generally follow a standardized, formal structure within government or large organizations, the format and usage of an office note can be more flexible and vary depending on internal office procedures or institutional style.

47. Format of 'office order' is similar to that of

- a) Memorandum
- b) Office circular
- c) Office report
- d) All of the above

Explanation: The format of an 'office order' is most similar to that of a memorandum because both are official internal documents with a similar structure, although they serve different purposes. Both typically include a heading (To, From, Date, Subject), are concise, and are used for official communication within an organization.

48. Mr. A and Mr. B belong to two distinct cultural backgrounds. Mr. B believes that his culture is superior compared to the culture of Mr. A. This phenomenon is known as

- a) Detestation
- b) Ethnocentrism
- c) Denial
- d) Savor

Explanation: Ethnocentrism is measuring or judging one's own culture against another culture and can lead to judging someone else's culture negatively. Ethnocentrism is also the belief that one's own cultural rules are the best and often better than another culture's rules.

49. Which is not the barrier to communication?

- a) Lack of planning
- b) Ambiguity



- c) **Gestures**
- d) False Assumptions

Explanation: Gestures, when used appropriately, are a form of nonverbal communication that typically enhances or clarifies a message rather than acting as a barrier. They help convey meaning and emotion, making communication more effective.

Lack of planning, ambiguity, and false assumptions are all common barriers to effective communication, leading to misunderstandings or a complete breakdown in the communication process

50. Complete the sentence with the correct option a badly expressed message is a barrier to communication because

- a) The discrepancy is not noticed
- b) **The sender cannot express what he wishes to say**
- c) The message is not well-structured
- d) The receiver feels the interaction is a waste of time

Explanation: This means the sender uses inadequate or incorrect words, omits important details, or uses confusing sentence structures, which distorts the message and prevents the receiver from grasping the intended meaning.

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