BLOGS

Passage-Based Questions on Legal Reasoning for CLAT UG [Part 11]

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Passage 1 (P.1)

Company law traditionally operates on the doctrine of constructive notice, which presumes that anyone dealing with a company is aware of the contents of its public documents, including the memorandum and articles of association. Since these documents are publicly accessible, outsiders are deemed to know the scope of powers and limitations contained within them. However, strict application of this doctrine would create unreasonable hardship for those engaging in commercial transactions with companies. To mitigate this rigidity, courts developed the doctrine of indoor management.

This doctrine protects outsiders who deal with a company in good faith from being prejudiced by internal irregularities that are not apparent from public documents. While outsiders are presumed to know the external framework of authority, they are not expected to investigate whether internal procedures – such as board resolutions, quorum requirements, or internal approvals, have been properly followed. The underlying rationale is commercial convenience. Modern corporate functioning requires speed and reliance on apparent authority.

If every third party were required to verify internal resolutions before transacting, commercial activity would become impractically burdensome. Therefore, when a company officer appears to act within their usual authority, and the third party has no reason to suspect irregularity, the company may be bound even if internal compliance was defective. However, this doctrine has clear limitations. It does not protect a person who had actual knowledge of irregularity or where circumstances were suspicious enough to demand further inquiry. The protection also does not extend to acts that are entirely beyond the scope of the officer’s authority.

Additionally, forgery is treated differently – a forged act is void ab initio and cannot bind the company, even under indoor management, because there was never genuine authority to begin with. Thus, the doctrine balances corporate transparency with transactional fairness, shielding

honest third parties while preventing abuse.

1. A company manager takes a loan from X on behalf of the company. X verifies the manager's position but not internal approval procedures. Later, the company claims no board approval existed. Decide the legal stance.

a) Company not bound
b) Company bound under indoor management
c) Manager alone liable
d) Transaction void

2. A director signs a contract using a forged company seal. The other party was unaware of the forgery. Decide the legal stance.

a) Company bound
b) Company not bound because forgery defeats indoor management
c) Contract valid if consideration exists
d) Director's authority presumed

3. A supplier notices that a company clerk signs a major contract, which is unusual, but proceeds anyway. According to the passage, what would be the correct legal position?

a) Company bound
b) Indoor management applies automatically
c) Supplier should have inquired; company not bound
d) Contract enforceable only partially

4. A finance officer executes a routine payment agreement within their normal duties, but internal approval was skipped. According to the passage, what would be the correct legal position?

a) Company bound
b) Agreement void
c) Officer personally liable only
d) Agreement illegal

5. A person knowingly deals with an officer acting beyond authority. Decide the legal stance.

a) Company bound

b) Indoor management applies

c) Company not bound due to knowledge

d) Officer becomes shareholder

Passage 2 (P.2)

In negligence law, the burden of proof ordinarily lies on the claimant to establish that the defendant owed a duty of care, breached that duty, and caused damage. However, in certain cases, direct evidence of negligence may be unavailable to the injured party. The circumstances of the accident may lie exclusively within the knowledge or control of the defendant.

To address such evidentiary imbalance, courts evolved the doctrine of res ipsa loquitur — literally meaning “the thing speaks for itself.” The doctrine applies when the nature of the accident is such that it would not ordinarily occur in the absence of negligence. It allows the court to draw an inference of negligence from the mere occurrence of the event, shifting the burden of explanation onto the defendant. However, this inference arises only when specific conditions are satisfied. First, the accident must be of a kind that ordinarily does not happen without negligence.

Second, the instrumentality or agency causing harm must have been under the exclusive control of the defendant. Third, the injured party must not have contributed to the harm through their own negligence. Importantly, the doctrine does not impose automatic liability. It merely permits a rebuttable presumption.

The defendant may avoid liability by providing a plausible explanation consistent with due care. If such an explanation is credible, the presumption dissolves. The doctrine reflects pragmatic reasoning in situations where requiring strict proof from the claimant would effectively deny justice due to informational asymmetry.

6. A surgical instrument is left inside a patient after surgery. Decide the legal stance.

a) Hospital immune

b) No negligence without proof

c) Patient liable

d) Res ipsa loquitur applies

7. A pedestrian slips on a banana peel dropped seconds earlier by another pedestrian. According to the passage, what would be the correct legal position?

a) Res ipsa applies
b) No negligence inferred automatically
c) Shop owner liable
d) Municipality liable

8. A ceiling fan installed by a contractor falls two days later during normal use. According to the passage, what would be the correct legal position?

a) Res ipsa applies
b) Owner liable automatically
c) Contractor immune
d) Accident unavoidable

9. A passenger pulls an emergency brake causing injury to others. Decide the legal stance.

a) Res ipsa applies
b) Railway liable automatically
c) Passenger responsible act breaks doctrine
d) No liability anywhere

10. A parked car suddenly rolls downhill because the driver forgot the handbrake. Decide the legal stance.

a) Owner immune
b) Natural accident
c) Municipality liable
d) Res ipsa applies

Passage 3 (P.3)

The doctrine of estoppel is grounded in principles of fairness, consistency, and reliance. It prevents a person from denying a statement or representation previously made when another has acted upon it to their detriment. The law discourages individuals from adopting contradictory positions if doing so would cause injustice. Estoppel does not create a new cause of action; rather,

it bars a party from asserting something contrary to what they earlier represented as true.

For estoppel to operate, certain elements must be satisfied: there must be a clear and unambiguous representation of fact, reliance by the other party, and a change in position or detriment suffered due to such reliance. The doctrine typically applies to representations of fact, not law. Misstatements about legal rights or statutory provisions generally do not create estoppel, as parties are presumed to know the law.

Additionally, estoppel cannot be invoked to validate an illegal act or something expressly prohibited by statute. Courts refuse to apply estoppel where doing so would defeat legislative intent. Estoppel thus reinforces stability in legal relationships by protecting reasonable reliance while ensuring that legality and public policy are not compromised.

11. A landlord tells a tenant rent will not be increased for a year. The tenant renovates the shop relying on this. The landlord later increases rent. According to the passage, what would be the correct legal position?

a) Tenant becomes owner
b) No contract exists
c) Estoppel applies
d) Rent automatically void

12. A person wrongly states ownership of land and another builds a house relying on it. Decide the legal stance.

a) Estoppel applies
b) Builder becomes government owner
c) Representation irrelevant
d) Criminal liability only

13. A person promises something illegal and later refuses to perform it. Decide the legal stance.

a) Estoppel applies
b) Estoppel cannot enforce illegality
c) Promise binding always
d) Court ignores legality

14. A bank officer mistakenly explains a law provision, and a customer relies on it. According to the passage, what would be the correct legal position?

a) Estoppel applies
b) Bank loses license
c) Customer wins automatically
d) Representation of law not covered

15. A seller assures delivery date, buyer changes plans relying on it, and seller denies making the statement. Decide the legal stance.

a) Estoppel applies
b) Buyer loses always
c) Contract void
d) No remedy possible

Answers

1. B – X acted in good faith and had no reason to suspect missing approval, so the company is bound under indoor management.
2. B – Forgery is void from the beginning, so the doctrine cannot protect the transaction.
3. C – A clerk signing a major contract is suspicious, so the supplier should have inquired further.
4. A – The officer acted within normal duties, so internal procedural lapses don't affect an innocent outsider.
5. C – If the person knew the officer lacked authority, they cannot claim protection under the doctrine.
6. D – Surgical tools aren't left inside patients without negligence, so the court can infer fault.
7. B – The banana peel was dropped moments earlier, so negligence cannot automatically be presumed.
8. A – A properly installed fan doesn't fall during normal use, so negligence can reasonably be inferred.
9. C – The passenger's own act caused the injury, breaking the exclusive control requirement.
10. D – Cars don't roll downhill if proper care is taken, so negligence can be inferred.

11. C – The tenant relied on the landlord’s promise and changed position, so the landlord cannot deny it later.
12. A – The builder relied on the ownership representation and acted on it, triggering estoppel.
13. B – Estoppel cannot be used to enforce something illegal.
14. D – Misstatements about law generally don’t create estoppel since everyone is presumed to know the law.
15. A – The buyer relied on the seller’s assurance, so the seller cannot later deny making it.