CJ Style Notes on Business Laws

ALL CASE LAWS on The Companies Act, 2013
(Facts/Issues/Judgement)

Includes Star Statement for answer writing

<table>
<tr><th colspan="2">CASE LAW NAME</th><th>CONCEPT DETAILS</th><th>PARTICULARS</th></tr>
<tr><td>1</td><td>Macaura Vs Northern Assurance Co. Limited (1925)</td><td>Separate Legal Entity</td><td>Star Statement (Required to be written in the answer):
Macaura (M) was the holder of nearly all (except one) shares of a timber company. He was also a major creditor of the company. M Insured the company's timber in his own name. The timber was lost in a fire. M claimed insurance compensation. Held, the insurance company was not liable to him as no shareholder has any right to any item of property owned by the company, for he has no legal or equitable interest in them.</td></tr>
<tr><td></td><td></td><td>About the Case</td><td>Facts of the Case:
• Parties Involved: Macaura, the plaintiff, was the sole owner of all the shares in a timber company. Northern Assurance Co. Ltd. was the defendant, an insurance company.
• Insurance Policy: Macaura insured timber in his personal name, though the timber belonged to the company in which he owned all shares.
• Event: A fire destroyed the timber. Macaura made a claim under the insurance policy for the loss.</td></tr>
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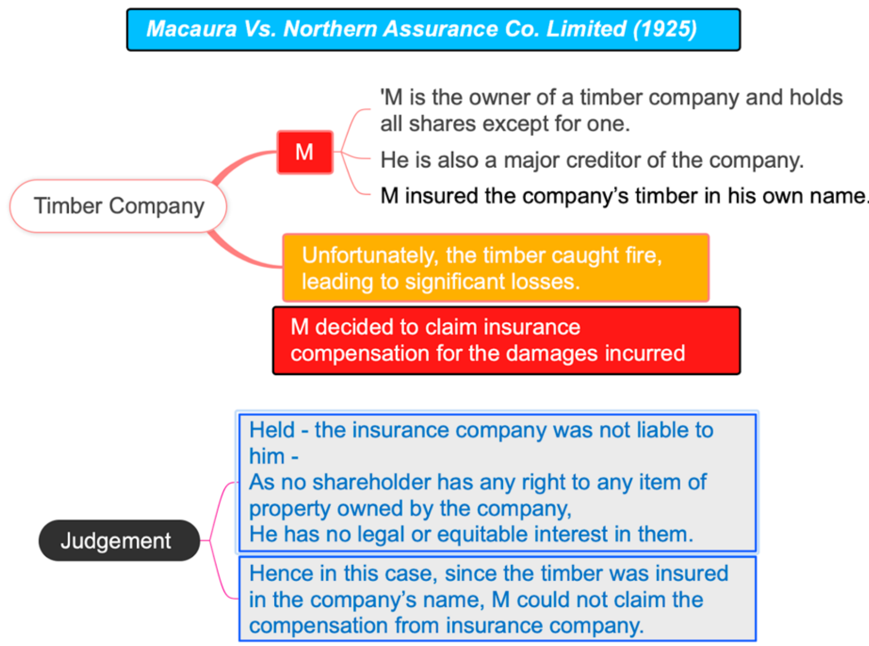
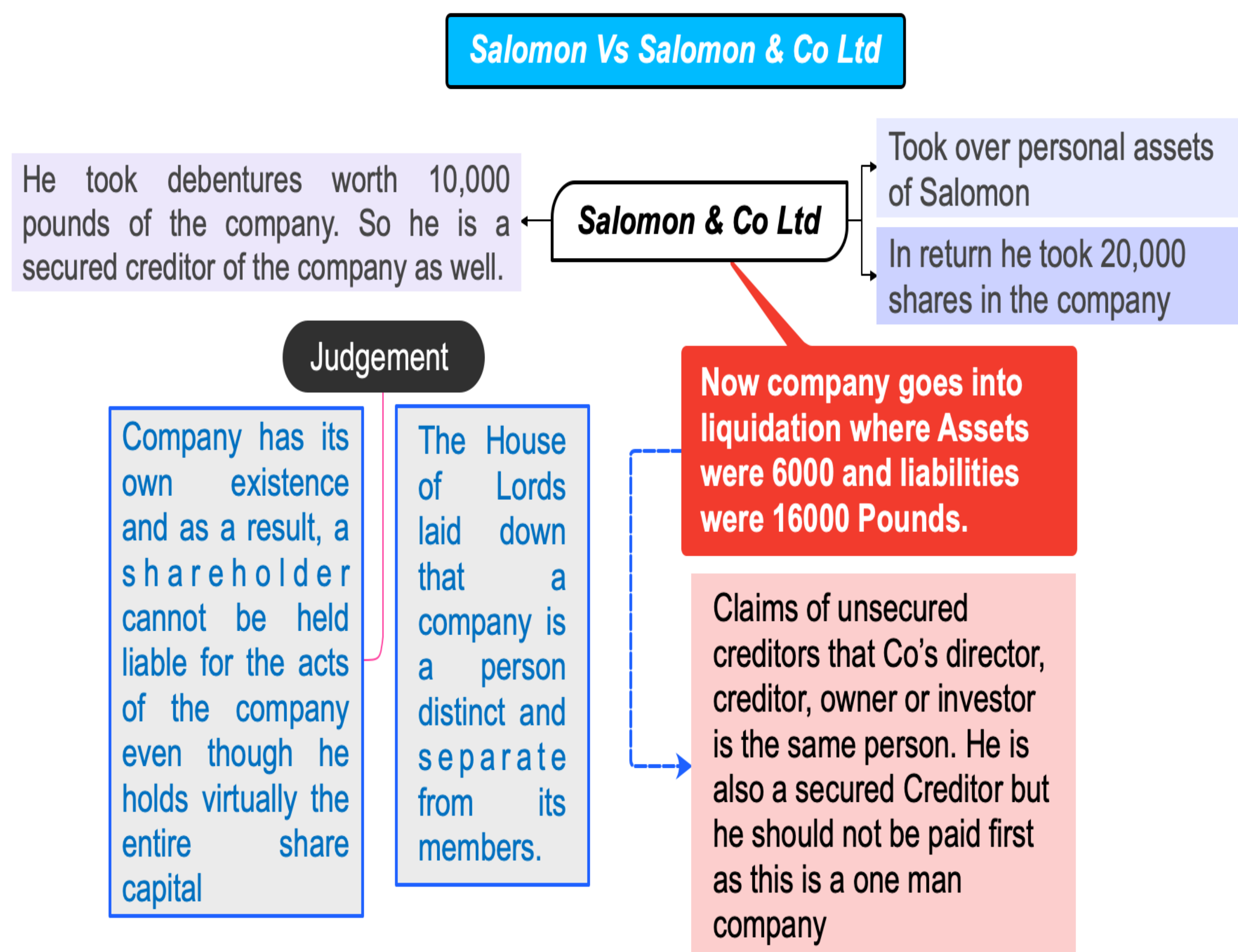
CASE LAW NAME	CONCEPT DETAILS	PARTICULARS
		• **Dispute**: The insurance company refused the claim, arguing that Macaura, personally, had no insurable interest in the timber as it belonged to the company. **Key Issues:** • **Ownership vs. Insurable Interest:** Could a shareholder have an insurable interest in the property owned by the company? • **Separate Legal Entity**: Does the company, as a separate legal entity, own its property independently from its shareholders? **Decision/Judgment**: **Court's Decision:** The House of Lords ruled against Macaura. **Reasoning**: • **Separate Legal Entity**: A company is a distinct legal entity separate from its shareholders. Although Macaura owned all the shares, he did not own the company's assets. • **No Insurable Interest**: Macaura had no direct insurable interest in the timber. The timber belonged to the company, not to Macaura personally. **Outcome**: The insurance policy was void since Macaura, as a shareholder, could not claim for the company's property.

CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
		Mind Map	
2	**Salomon Vs Salomon and Co Ltd. (1897)**	**Corporate Veil Theory And Relate Separate Legal Entity** also	**Star Statement:** • This case clearly established that the company has its own existence and as a result, a shareholder cannot be held liable for the acts of the company even though he holds virtually the entire share capital. The whole law of corporation is in fact based on this theory of separate corporate entity. • The members of a company are shielded from liability connected to the company's actions. • If the company incurs any debts or contravenes any laws, the corporate veil concept implies that members should not be liable for those errors. • In other words, they enjoy corporate insulation. Thus, the shareholders are protected from the acts of the company.

CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
		About the Case	**Facts of the Case:** • **Parties Involved:** Mr. Aron Salomon, a boot and shoe manufacturer, and Salomon & Co. Ltd., a company formed by him. • **Company Formation:** Salomon incorporated his business into a limited company under the Companies Act of 1862. He held the majority of shares, and the remaining shares were held by his family members. • **Business Transaction:** Salomon sold his business to the newly formed company and was paid in debentures (secured loan). • **Insolvency:** The company went into liquidation shortly after, with insufficient assets to cover its debts. **Key Issues:** • **Separate Legal Personality:** Whether a company has a distinct legal personality from its shareholders, especially in a one-man company scenario. • **Liability of Shareholders:** Could Mr. Salomon be held personally liable for the company's debts? **Decision/Judgment:** • **Court's Decision:** The House of Lords ruled in favor of Salomon. **Reasoning:** 1. **Separate Legal Entity:** Once a company is legally incorporated, it becomes a separate entity from its shareholders, even if the shareholders are few or just one person.

CASE LAW NAME	CONCEPT DETAILS	PARTICULARS
		2. **Limited Liability:** Shareholders are only liable to the extent of their shareholdings. Mr. Salomon was not personally liable for the company's debts, as the company was a distinct legal entity. **Outcome**: Salomon was not responsible for the company's debts, and the company's creditors could only claim against the company's assets, reinforcing the concept of corporate personality and limited liability.
Mind Map for better understanding		



CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
3	**Daimler Co. Ltd. Vs Continental Tyre & Rubber Co. (1916)**	**Lifting of Corporate Veil Theory To determine the character of the Company**	**Star Statement:** • If the public interest is not likely to be in jeopardy, the Court may not be willing to crack the corporate shell. • But it may rend the veil for ascertaining whether a company is an enemy company. • It is true that, unlike a natural person, a company does not have mind or conscience; therefore, it cannot be a friend or foe. • It may, however, be characterized as an enemy company, if its affairs are under the control of the people of an enemy country. • For this purpose, the Court may examine the character of the persons who are really at the helm of affairs of the company.
		About the Case	**Facts of the Case:** • **Parties Involved**: Daimler Co. Ltd. (British company) and Continental Tyre & Rubber Co. Ltd. (British-registered company but owned by German nationals). • **Company Ownership**: Continental Tyre was incorporated in England but was almost entirely owned by German nationals, and its directors were also residents of Germany. • **Legal Context**: The case occurred during World War I when England was at war with Germany. • **Claim**: Daimler Co. Ltd. owed money to Continental Tyre & Rubber Co. Ltd. and sought to avoid paying the debt,

CASE LAW NAME	CONCEPT DETAILS	PARTICULARS
		claiming that paying a German-owned company during wartime would be illegal. **Key Issues:** • **Enemy Character of a Company**: Can a company incorporated in England but controlled by enemy nationals (Germans) be considered an "enemy" in times of war? • **Corporate Personality vs. Control**: Whether the corporate veil should be lifted to determine the true control and nationality of the company during wartime. **Decision/Judgment:** • **Court's Decision**: The House of Lords ruled in favor of Daimler Co. Ltd. **Reasoning**: 1. **Lifting the Corporate Veil**: The court determined that although Continental Tyre was incorporated in England, it was essentially an enemy company because it was controlled by German nationals during wartime. 2. **Enemy Character**: A company can take on the character of its controllers, especially during wartime, when enemy trade restrictions apply. **Outcome**: The court held that paying the debt to Continental Tyre would be tantamount to trading with the enemy, which was illegal during wartime. Thus, Daimler Co. Ltd. was not required to pay.

CASE LAW	NAME	CONCEPT DETAILS	PARTICULARS
4	**S. Berendsen Ltd. Vs Comm. of Inland Revenue**	**Lifting of Corporate Veil Theory** **To protect revenue or tax**	**Star Statement:** In certain matters concerning the law of taxes, duties and stamps particularly where question of the controlling interest is in issue. **Decision/Judgment:** • **Court's Decision**: The court ruled in Favor of the Commissioner of Inland Revenue. **Reasoning:** 1. **Nature of Transactions**: The court determined that the profits arising from the sale of the assets were not capital in nature but rather income because the assets were sold in the ordinary course of business. 2. **Tax Treatment**: As the profits were deemed to be part of the company's trading activities, they were considered taxable as income rather than capital gains. **Outcome**: The court concluded that S. Berendsen Ltd. was liable to pay income tax on the profits from the sale, reinforcing the importance of distinguishing between capital and revenue for tax purposes.
5	**Juggilal Vs. Comm. of Income Tax AIR (SC)**	**Lifting of Corporate Veil Theory**	**Star Statement:** Where corporate entity is used to evade or circumvent tax, the Court can disregard the corporate entity **Facts and issue of the case -**

CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
		To protect revenue or tax	• **Key Legal Principle:** The Supreme Court held that income accrues when it becomes legally due, regardless of when it is received. • **Ruling:** Income must be taxed in the year it accrues (i.e., when the legal right to receive it arises), not necessarily in the year it is received. • **Impact on Partnerships:** Partnership income is taxable in the year it is earned, based on the partners' respective shares, even if not distributed that year. • **Taxation Clarity:** The judgment reinforced the principle that **accrual of income** triggers tax liability, not the physical receipt of income.
6	**Dinshaw Maneckjee Petit Vs Commissioner of Income Tax (1927)**	**Lifting of Corporate Veil Theory** **To protect revenue or tax**	**Facts of the Case:** • **Parties Involved**: Dinshaw Maneckjee Petit, a wealthy businessman, and the Commissioner of Income Tax. • **Tax Evasion Allegation**: Dinshaw Maneckjee Petit had formed four private companies and transferred his income-producing assets (such as shares and securities) to these companies. These companies then distributed the income back to him in the form of loans. • **Objective**: The arrangement was made to reduce his tax liability, as the companies were taxed at a lower rate, and the "loans" he received were not taxable. • **Dispute**: The Income Tax Department argued that these companies were merely a façade created to evade taxes and

CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
			that the income should be taxed as Dinshaw's personal income. **Key Issues:** 1. **Corporate Veil**: Should the court lift the corporate veil to see the real intent behind the creation of these companies? 2. **Tax Avoidance**: Whether the arrangement made by Dinshaw Maneckjee Petit constituted a legal way to avoid taxes or an illegal tax evasion scheme. **Decision/Judgment:** • **Court's Decision**: The court ruled against Dinshaw Maneckjee Petit. **Reasoning:** 1. **Lifting the Corporate Veil**: The court held that the companies were mere "sham" entities created solely to evade taxes and had no real business purpose. The corporate veil could be lifted to reveal the true nature of the transactions. 2. **Tax Evasion**: The income generated by the assets should be taxed as Dinshaw's personal income, and the structure was deemed a tax evasion scheme. **Outcome:** and **Star Statement:** • It was held that the company was not a genuine company at all but merely the assessee himself disguised under the legal entity of a limited company. • The assessee earned huge income by way of dividends and interest. So, he opened some companies and purchased

CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
			their shares in exchange of his income by way of dividend and interest. • This income was transferred back to assessee by way of loan. • The Court decided that the private companies were a sham and the corporate veil was lifted to decide the real owner of the income.
7	**The Workmen Employed in Associated Rubber Industries Ltd Vs The Associated Rubber Industries Ltd.**	**Lifting of Corporate Veil Theory** **To avoid a legal obligation**	**Facts of the Case** – • Associated Rubber Industry bought shares of INARCO ltd • Sometime in 1968 - Shares are transferred to its own subsidiary • This company has NO Assets of its own except those transferred to it by the principal company, • Business or income of its own except receiving dividends from shares transferred to it by the principal company and • Purpose except to reduce the gross profit of the principal company to reduce the amount paid as bonus to workmen. • All **the dividend income also went to the subsidiary** **Issue and Star Statement:** • The workmen of Associated Rubber Industries Ltd contended that the new subsidiary company was formed to pay lower bonuses to workmen because of transferring the dividend amount to the subsidiary company

CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
			• Here a company created a subsidiary and transferred to it, its investment holdings in a bid to reduce its liability to pay bonus to its workers. • Thus, the Supreme Court brushed aside the separate existence of the subsidiary company.
8	**Merchandise Transport Limited Vs. British Transport Commission (1982)**	**Lifting of Corporate Veil Theory** **Formation of Subsidiaries to act as agents**	**Facts of the Case:** • A transport company wanted to obtain licenses for its vehicles but could not do so if applied in its own name. • It therefore formed a subsidiary company and the application for license was made in the name of the subsidiary. • The vehicles were to be transferred to the subsidiary company. **Judgement and Star Statement:** Held, the parent and the subsidiary were one commercial unit and the application for licenses was rejected.
9	**Gilford Motor Co. Vs Horne (1933)**	**Lifting of Corporate Veil Theory** **Company formed for fraud and improper**	**Star Statement:** Where the device of incorporation is adopted for some illegal or improper purpose, e.g., to defeat or circumvent law, to defraud creditors or to avoid legal obligations. **Facts of the case:**

CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
		conduct or to defeat law	• **Parties Involved:** Gilford Motor Co. Ltd. (plaintiff) and Mr. Horne (defendant), a former managing director of the company. • **Non-Compete Clause:** Mr. Horne, upon leaving the company, was bound by a non-compete clause, preventing him from soliciting the company's customers. • **Breach of Contract:** Horne set up a new company in his wife's name and solicited Gilford's customers through it, aiming to bypass the non-compete clause. **Key Issues:** • **Corporate Veil**: Could the new company, formed by Horne's wife, be considered a separate legal entity or a sham used to evade the non-compete agreement? • **Enforceability of the Non-Compete Clause**: Was Horne's act a breach of the agreement? **Judgment:** • **Ruling**: The court ruled in favor of Gilford Motor Co. Ltd. **Reasoning**: The company formed by Horne's wife was a façade, created solely to evade the non-compete clause. The court lifted the corporate veil. **Outcome**: The court held that Horne had breached the non-compete agreement, and the injunction was granted to prevent him from soliciting Gilford's customers. The new company was treated as an extension of Horne himself.
10		**Section 9**	**Star Statement:**

	CASE LAW NAME	CONCEPT DETAILS	PARTICULARS
	Hari Nagar Sugar Mills Ltd. Vs S.S. Jhunjhunwal	**Effect of Registration**	• The company becomes a legal person separate from the incorporators. • A binding contract between the company and its members as evidenced by the Memorandum and Articles of Association • It has perpetual existence until it is dissolved by liquidation or struck out of the register. • A shareholder who buys shares, does not buy any interest in the property of the company.
11	**State Trading Corporation of India Vs Commercial Tax Officer**	**Section 9 Effect of Registration**	**Star Statement:** • A company may purchase shares of another company and thus become a controlling company. • However, merely because a company purchases ALL shares of another company it will not serve as a means of putting an end to the corporate character of another company and • Each company is a separate juristic entity • A company on registration acquires a separate existence and the law recognizes it as a legal person separate and distinct from its members
12	**Spencer & co. Ltd. Madras vs. CWT Madras**	**Section 9 Effect of Registration**	**Star Statement:** • It may be noted that under the provisions of the Act, a company may purchase shares of another company and thus become a controlling company. • However, merely because a company purchases all shares of another company it will not serve as a means of putting

CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
			an end to the corporate character of another company and each company is a separate juristic entity
13	**Heavy Electrical Union vs. State of Bihar**	**Section 9 Effect of Registration**	**Star Statement:** • As has been stated above, the law recognizes such a company as a juristic person separate and distinct from its members. • The mere fact that the entire share capital has been contributed by the Central Government and • all its shares are held by the President of India and other officers of the Central Government • Does not make any difference in the position of registered company and it does not make a company an agent either of the President or the Central Government
14	**Borland Trustees vs. Steel Bors. & Co. Ltd.**	**Shares**	**Star Statement:** A share is not a sum of money but is an interest measured by a sum of money and made up of various rights contained in the contract, including the right to a sum of money of a more or less amount".
15	**Ashbury Railway Carriage and Iron**	**Doctrine of Ultra Vires**	**Star Statement:** An ultra vires contract can never be made binding on the company. It cannot become "Intravires" by reasons of estoppel, acquiescence, Lapse of time, delay or ratification.

CASE LAW NAME	CONCEPT DETAILS	PARTICULARS

Company Limited
 	
Vs
 	
Riche (1875)
		Facts of the case:
		• **Parties Involved**: Ashbury Railway Carriage and Iron Company Ltd. (plaintiff) and Riche (defendant).
		• **Contract Issue**: The company entered a contract with Riche to construct a railway line, which was outside the company's stated objects as per its memorandum of association.
		• **The** main objects of a company were:
		  ○ To make, sell or lend on hire, railway carriages and wagons;
		  ○ To carry on the business of mechanical engineers and general contractors.
		  ○ To purchase, lease, sell and work mines.
		  ○ To purchase and sell as merchants or agents, coal, timber, metals etc.
		Dispute: After the company refused to honour the contract, Riche sued for breach of contract, claiming that the agreement was valid and enforceable.
		Key Issues:
		• **Ultra Vires**: Whether the contract was valid considering it was beyond the powers (ultra vires) of the company as defined in its memorandum of association.
		• **Corporate Authority**: Could a company be bound by a contract that was not within the scope of its stated objects?
		Judgment:
		Ruling: The court ruled in Favor of Ashbury Railway Carriage and Iron Company Ltd.

CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
			Reasoning: o **Ultra Vires Doctrine**: The court held that the contract was ultra vires, meaning it was beyond the powers granted to the company by its memorandum of association. o **Corporate Capacity**: The company could not be bound by the contract as it did not fall within the scope of activities it was authorized to undertake. **Outcome**: o **The** contract with Riche was declared invalid and null and void. o It said that the terms general contractors was associated with mechanical engineers, i.e. it had to be read in connection with the company's main business. o If, the term general contractor's was not so interpreted, it would authorize the making of contracts of any kind and every description, for example, marine and fire insurance.
	Mind Map For Easy understanding		

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<tr><th>CASE LAW NAME</th><th>CONCEPT DETAILS</th><th>PARTICULARS</th></tr>
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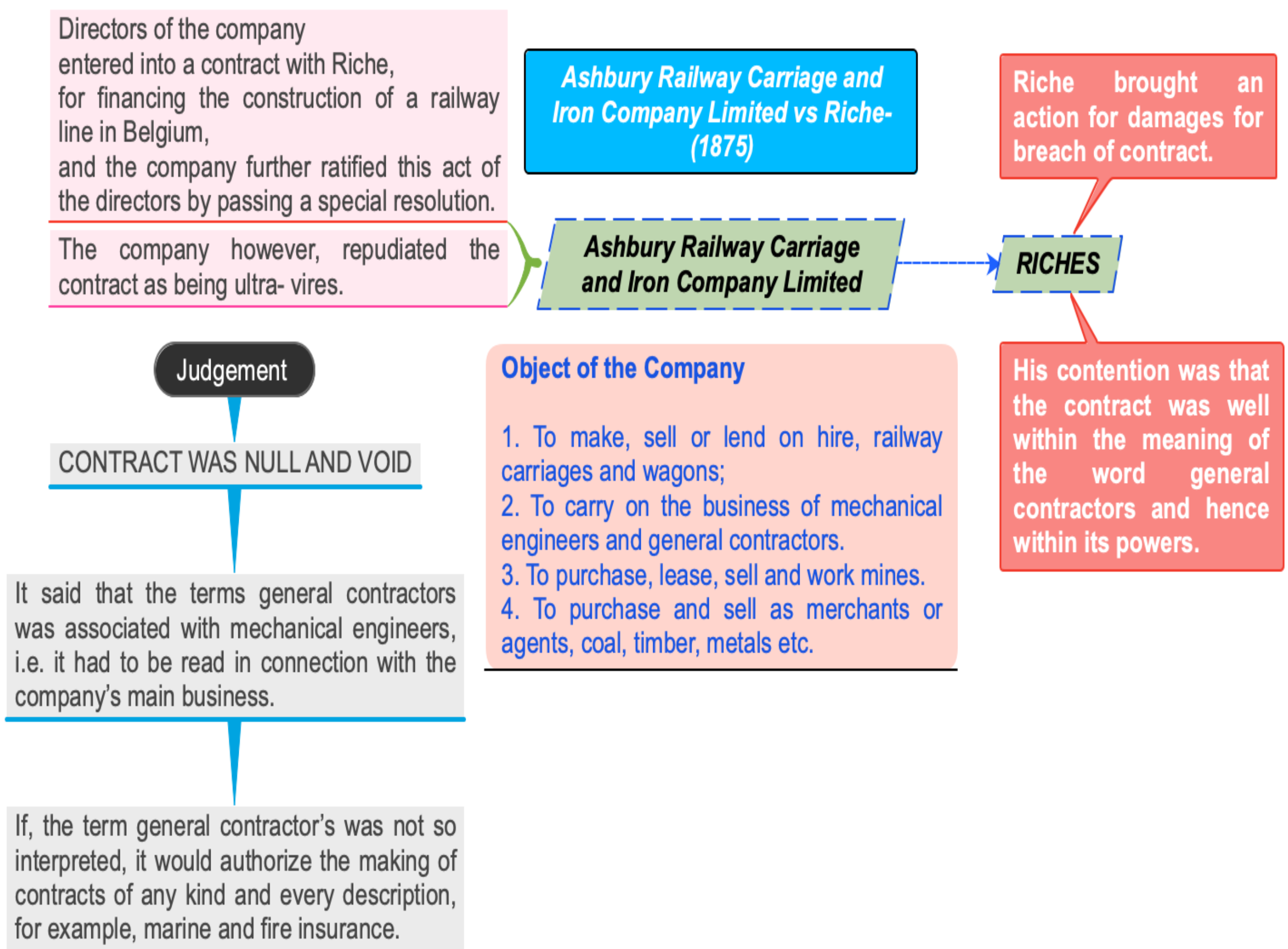

</td></tr>
<tr><td></td><td>Concept related to AOA as well</td><td>

- The articles play a part subsidiary to memorandum of association.
- They accept the memorandum as the charter of incorporation, and so accepting it
- the articles proceed to define the duties, the rights and powers of the governing body as between themselves and the company and
- How the business of the company is to be carried on, and
- How the changes in the internal regulation of the company may from time to time be made.

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CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
16	Guiness vs. land Corporation of Ireland	AOA	• The articles of association of a company are its rules and regulations, • which are framed to manage its internal affairs. • Just as the memorandum contains the fundamental conditions upon which • the company is allowed to be incorporated, • so also, the articles are the internal regulations of the company
17	S.S. Rajkumar vs. Perfect Castings (P) Ltd.	AOA	• The document containing the articles of association of a company (the Magna Carta) is a business document; • Hence it must be construed strictly. • It regulates domestic management of a company and • creates certain rights and obligations between the members and the company.
18	Kotla Venakata swami Vs Rammurthi (1934)	Doctrine of Indoor Manageme nt	**Facts of the case:** • **Parties Involved:** Kotla Venakataswamy (plaintiff) and Rammurthi (defendant). • **Dispute:** The case concerned a property transaction where Kotla Venakataswamy sought to enforce a sale agreement against Rammurthi, who had refused to complete the transaction. • **Context:** Rammurthi contended that the agreement was unenforceable due to alleged absence of consideration and lack of registration. **Key Issues:**

CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
			1. **Validity of the Sale Agreement:** Whether the sale agreement was valid and enforceable given the claims of insufficient consideration and registration issues. 2. **Nature of Consideration:** Whether past consideration could be deemed valid in the context of the agreement. **Judgment:** • **Ruling:** The court ruled in favor of Kotla Venakataswamy. **Reasoning and Star Statement:** • **Consideration:** The court held that past consideration was valid and could support the enforceability of the contract. • **Registration:** The requirement for registration of the sale agreement was satisfied, as the nature of the agreement did not necessitate formal registration under the applicable laws. **Outcome:** The ruling affirmed that the sale agreement was valid and enforceable, emphasizing the principles of consideration and the legal requirements for property transactions.
19	**The Royal British Bank Vs. Turquand (1856)**	**Doctrine Indoor Management (Turquand Rule)**	**Facts of the case:** • **Parties Involved**: Royal British Bank (plaintiff) and Turquand (defendant). • **Dispute**: The case arose when Turquand, who was a director of a company, executed a bond on behalf of the company without following the proper procedures outlined in the company's Articles of Association.

CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
			• **Context**: The Royal British Bank sought to enforce the bond against the company, while the company argued that the bond was invalid due to the lack of compliance with internal procedures. **Key Issues:** • **Authority of Directors**: Whether the bond executed by the director was valid despite not adhering to the internal procedures of the company. • **Doctrine of Indoor Management**: Should third parties dealing with a company be bound by the internal rules and procedures that they are unaware of? **Judgment:** • **Ruling**: The court ruled in Favor of Turquand. **Reasoning**: • **Indoor Management Doctrine**: The court held that third parties are entitled to assume that the internal procedures of a company have been followed, as per the doctrine of indoor management (also known as the Turquand rule). • **Validity of the Bond**: Since the bank acted in good faith and had no reason to suspect that the internal procedures had not been followed, the bond was deemed valid. **Outcome**: • The ruling established the principle that third parties dealing with a company are protected and can rely on the assumption that the company's internal rules have been

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			complied with, thus reinforcing the doctrine of indoor management in corporate law. • Articles of association were registered with Companies House, so there was constructive notice. But the bank could not be deemed to know which ordinary resolutions passed, because these were not registrable. • The bond was valid because there was no requirement to look into the company's internal workings. This is the indoor management rule, that the company's indoor affairs are the company's problem.
	Mind Map For Easy understanding		

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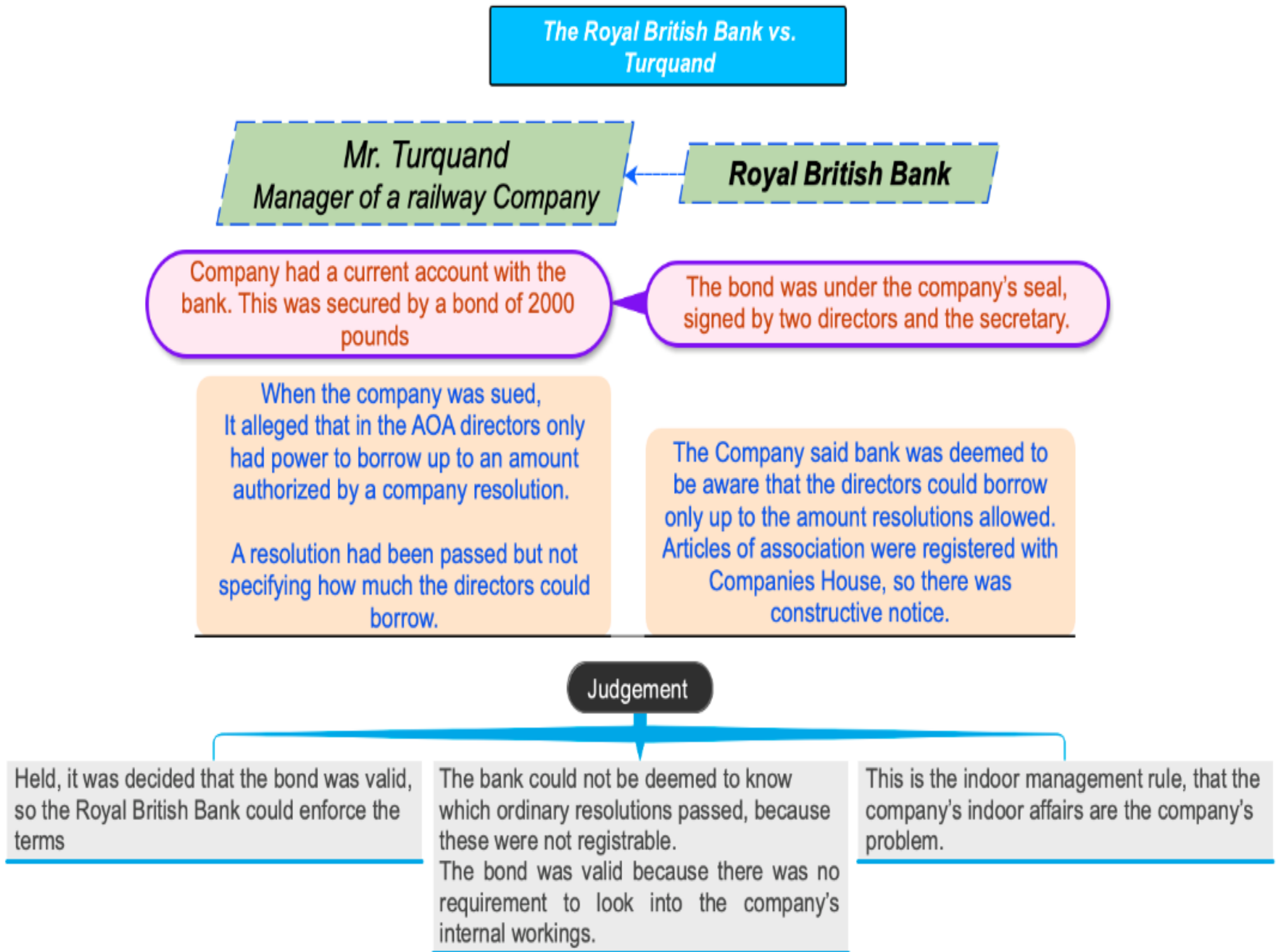

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<tr><td></td><td colspan="3">TOPIC → Exception to Doctrine of Indoor Management</td></tr>
<tr><td>20</td><td>Howard Vs Patent Ivory Manufacturing Co.</td><td>Actual or constructive knowledge of irregularity</td><td>Star Statement:
• The directors could not defend themselves where they lent money and
• got issued debentures to themselves without the resolution because
• they should have known that the extent to which they were lending money to the company</td></tr>
</table>

	CASE LAW NAME	CONCEPT DETAILS	PARTICULARS
			• required the assent of the general meeting which they had not obtained.
21	**Morris Vs Kansseen**	**Actual or constructive knowledge of irregularity**	**Star Statement:** • A director could not defend himself where • an allotment of shares to him • as he participated in the meeting, which made the allotment. • His appointment as a director also fell through because none of the directors appointed him was validly in office.
22	**Anand Bihari Lal Vs. Dinshaw & Co.**	**Suspicion of irregularity**	**Star Statement:** • A person accepted a transfer of a company's property from its accountant, • the transfer was held void. • The plaintiff could not have supposed, in absence of a power of attorney that the accountant had authority to transfer of the company's property.
23	**Haughton & Co. Vs. Nothard, Lowe & Wills Ltd.**	**Suspicion of irregularity**	**Star Statement:** • where a person holding directorship in two companies • agreed to apply the money of one company in payment of the debt to other, • the court said that it was something so unusual • that the plaintiff was put upon inquiry • to ascertain whether the persons making the contract • had any authority in fact to make it

CASE LAW NAME		CONCEPT DETAILS	PARTICULARS
24	**Ruben Vs Great Fingall Consolidated**	**Forgery**	**Star Statement:** • In this case the plaintiff was the transferee of a share certificate • issued under the seal of the defendant's company. • The company's secretary, who had affixed the seal of the company and forged the signature of the two directors, issued the certificate. • The plaintiff contended that whether the signature were genuine or forged was a part of the internal management, and • therefore, the company should be estopped from denying genuineness of the document. • But it was held, that the rule has never been extended to cover such a complete forgery.

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