

CAIIB Examination

Doctrine of Ultra Vires

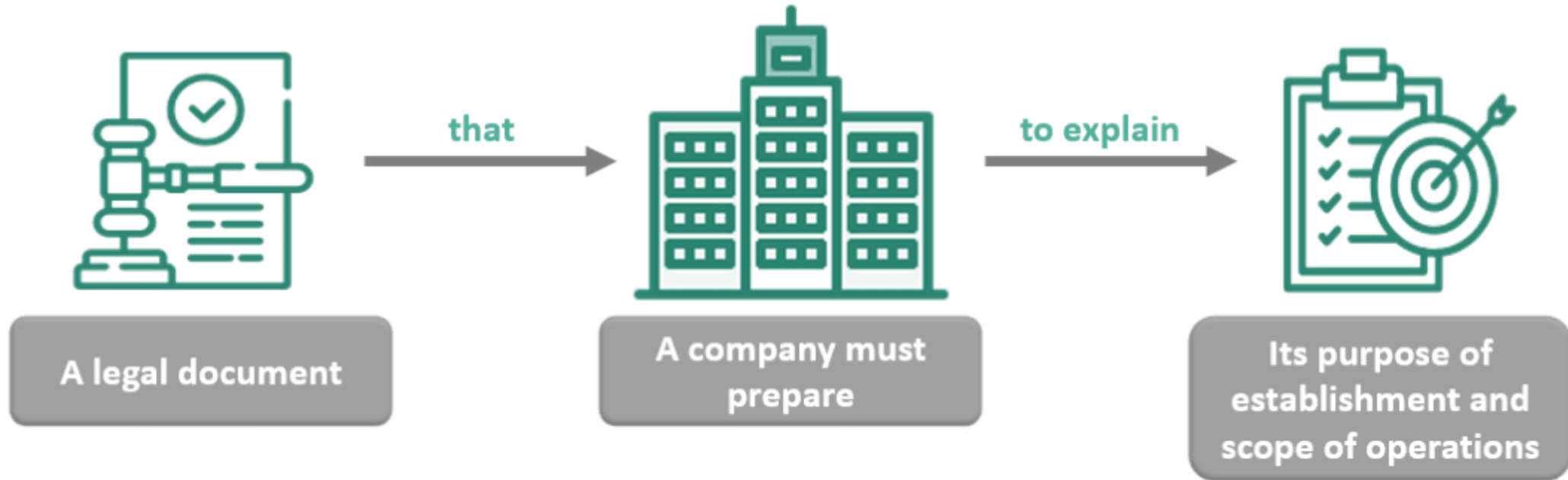


CAIIB FREE ONLINE CLASSES

S.NO	DAY	SUBJECT	FACULTY	TIME
1	Monday	Banking Regulations and Business Laws	Megha Ma'am	7:00 PM
2	Tuesday	Advanced Business and Financial Management	Nishant Sir	7:00 PM
3	Wednesday	Bank Financial Management	Surender Sir	7:00 PM
4	Thursday	Banking Regulations and Business Laws	Megha Ma'am	7:00 PM
5	Friday	Advanced Business and Financial Management	Nishant Sir	7:00 PM
6	Saturday	Bank Financial Management	Surender Sir	7:00 PM

- “**ultra**” which means **beyond** and “**vires**” meaning **power or authority**.
- Anything which is done by the company or its directors which is beyond their legal authority or which was outside the scope of the object of the company is ultra-vires.
- A company is authorized to do only that much which is within the scope of the powers provided to it by the memorandum.
- A company can also do anything which is incidental to the main objects provided by the memorandum.
- Anything which is beyond the objects authorized by the memorandum is an ultra-vires act.





Effects Of Ultra Vires Transaction

- It is void ab initio and cannot become intra vires by reason of ratification.
- No company can be held liable for obligations arising out of such a contract.
- If lending done by the company is ultra vires then the company is entitled to recover the money from the debtors because the debtor, cannot say that the company had no power to lend.
- If the rendering of a particular service by the company is ultra vires the company is entitled to recover the charges for such services.
- If the property of the company is delivered to an outsider through an ultra vires act, the company can get back the property if such property can be traced.

Ultra Vires Borrowing made by the Company.

- If the company borrows money from a lender beyond the limits which it is permitted to borrow, such borrowing would be ultra vires and the **company may not be held to be liable for the same** unless the money has been used for the purposes of the company.
- **Lender can trace the assets** created out of such borrowing and can proceed against those assets for recovery of the money due to him - '**Doctrine of Tracing**'



- If a company's money has been spent ultra vires in **purchasing any property** the company is entitled to the ownership of such a property because that asset though wrongly acquired represents the capital of the company.
- If a **director of a company makes an ultra vires payment**, he is personally liable to the company and he can be compelled to refund the money. In the case of deliberate misapplication, criminal action can also be taken for fraud.
- **Directors are the agents of the company.** Hence, they must act within the limits of the powers of the company. If they induce (however innocently) an outsider to contract with the company in a matter in which the company does not have power to act, they will be **personally liable to such an outsider** for his loss provided that the outsider had no knowledge of the fact that the act was ultra vires the company.

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Q. 1

Which of the following is correct regarding ultra vires transactions?

1. It is void ab initio and therefore can become intra vires by reason of ratification
 2. If lending done by the company is ultra vires, then the company is entitled to recover the money.
 3. If a company's money has been spent ultra vires in purchasing any property, the company is entitled to the ownership of such a property.
 4. If the Directors induce an outsider to contract with the company in a matter in which the company does not have power to act, the company will be liable to such an outsider for his loss
- A. 1,2,3
B. 2,3
C. 1,4
D. 2,3,4

Answer: Option B

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Q. 2

The _____ states that any act done or contract made by the company which goes beyond the powers of the directors and company is completely void and inoperative and hence not binding on the company.

- A. Doctrine of Ultra Vires
- B. Doctrine of Intra Vires
- C. Doctrine of Constructive Notice
- D. Doctrine of Indoor Management

Answer: Option A



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Q. 3

A lender can trace the assets created out of Ultra Vires borrowing and can proceed against those assets for recovery of the money due to him. This is popularly known as Doctrine of _____.

- A. Tracing
- B. Ultra Vires
- C. Indoor Management
- D. Intra Vires

Answer: Option A

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Q. 4

_____ is a legal document that explains why the organization was founded. It establishes the company's authority and the terms under which it works.

- A. Article of Association
- B. Memorandum of Association
- C. Certificate of Incorporation
- D. Certificate of Registration

Answer: Option B



Thank You

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