

# **BUSINESS LAW**

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# BUSINESS LAW

## Unit III

Law of Agency – Mode of creation - Agency by  
Ratification – Sub-Agent and Substituted  
— Agent-Termination of Agency.

# Meaning & Nature of Agency

- **Agent:-** An “agent” is a person employed to do any act for another or to represent another in dealing with third parties.
- **Principal:-** The person for whom such act is done, or who is so represented is called “principal”.

## Who may employ agent?

Any person except person who is minor and unsound mind person.

## Who may be an agent ?

Any person except person who is minor and unsound mind person.

## Meaning & Definition of Agency

- Section 182,  
“ An agent is a person employed to do any act for another or to represent another in dealing with third persons. The person for whom such act is done or who is so represented, is called the principal”

## Difference between Agent & Servant

Agent	Servant
He has the authority to create commercial relationship between the principal & the third party	He ordinarily has no such authority.
He may work for several principal at a time.	He ordinarily work for only one master at a time.
He usually get commission	He usually get salary or wages.

# CREATION OF AGENCY

## MODES OF CREATING CONTRACT OF AGENCY

By express authority

By implied authority

By ratification

By operation of law

By estoppel

By holding out

By necessity

## MODES OF CREATION OF AGENCY

1. **Agency by Express Agreement**: A contract may be made by either oral or written agreement. The usual form of written contract of agency is the Power of Attorney.
2. **Agency by Implied Agreement**: When from the conduct of the parties, it appears that a person is acting as an agent, then an agency arises impliedly:
  - **Agency by Estoppel** – Where a person, by his words or conduct, has willfully led another person to believe that certain set of circumstances/facts exists, and that other person has acted on that belief, then he is estopped from denying the truth of such statements subsequently.
  - **Agency by Holding Out** – If a person, by his conduct or statement, leads another person to believe that a certain person is his agent, then he is estopped from saying that such a person is not his agent.
  - **Agency by Necessity** – A person who has been entrusted with another's property, may have to incur unauthorized expenses to protect/preserve it.
3. **Agency by Ratification**: It is a case, where a person having no authority purports to act as agent and the principal is not bound by it. However, if the principal ratifies the same, the contract is valid and the principal becomes liable for the same.



# Rules governing Ratification

- ❑ Act must be done by person on behalf of another.
- ❑ Act done without authority
- ❑ Act done must have legal existence.
- ❑ Ratification can be expressive or implied.
- ❑ The act to be ratified must not be void ab initio.
- ❑ Principal must be competent to ratify.
- ❑ Ratification must be done within a reasonable time
- ❑ It must be communicated.
- ❑ It can be for whole contract
- ❑ It should not put third party to damages.



# CLASSIFICATION OF AGENT

## I. BASED ON THE EXTENT OF AUTHORITY

1. General agent
2. Special agent
3. Universal agent

## II . BASED ON THE NATURE OF WORK

1. Mercantile agent
  - a. Auctioneer
  - b. Factor
  - c. Broker
  - d. Commission agent
  - e. Del credere agent
  - f. banker
2. Non mercantile agent
  - a. Insurance agent
  - b. Forwarding and clearing agent
  - c. solicitors



## ■ **AGENT'S DUTY TO PRINCIPAL**

An agent has following duties towards principal.

- Conducting principal's business as per his directions.
- Carry out work with normal skill and diligence.
- Render proper accounts [section 213].
- Agent's duty to communicate with principal [section 214].
- Not to deal on his own account, in business of agency [section 215].
- Agent's duty to pay sums received for principal [section 218].
- Duty not to use information obtained in the course of agency against a principal.
- Duty not to set up adverse title.
- Duty not to delegate.
- Agent's duty on termination of agency by principal's death or insanity - [section 209].

## Rights of an agent

1. Rights to retain money due from the principal
2. Right to receive remuneration
3. Right of lien – The agent has the right to retain goods, papers and other property- only particular lien
4. Right to be indemnified against consequences of lawful acts.
5. Right to compensation
6. Right to be indemnified against consequences of acts done in good faith
7. Right of stoppage of goods in transit.
  - (a) Principal becomes insolvent
  - (b) Agent has bought goods out of his own money



## **SUB-AGENT & SUBSTITUTED AGENT**

- ❖ A sub agent is a person employed & acting under the control of the agent in the business of the agency (Sec 191)
- ❖ A substituted agent is a person named by the agent, on an express or implied authority from the principal, to act for the principal (Sec 194)

## DIFFERENCES BETWEEN SUB- AGENT & SUBSTITUTE-AGENT

### SUB-AGENT

1. He works under the agent
2. There is no contact between the agent & the principal
3. Agent is wholly & solely responsible for the acts of the sub-agent

### SUBSTITUTE AGENT

1. He works under the principal
2. There is a contract between him & the principal
3. Agent is in no way responsible for the acts of the substituted agent

## Termination of agency

- **By act of parties**
  - ❖ Agreement
  - ❖ Revocation by the principal
  - ❖ Revocation by the agent
- **By operation of law**
  - ❖ Performance of the contract
  - ❖ Expiry of time
  - ❖ Death of either party
  - ❖ Insanity of either party
  - ❖ Insolvency of either party
  - ❖ Destruction of the subject matter
  - ❖ Principal becoming an alien enemy
  - ❖ Dissolution of a company
  - ❖ Termination of sub-agents authority



## Irrevocable Agency

- The agency which a principal cannot revoke is known as irrevocable agency.
- Where the agency is coupled with interest – A gives authority to B to sell A's land & to pay himself out of the proceeds, the debt due to him from A. A cannot revoke this authority.
- Where the agent has incurred personal liability – Where the agent has bought goods in his own name principal cannot refuse to pay.



Thank You!

The image features the words "Thank You!" rendered in a bold, three-dimensional, blue font. The letters are highly reflective, showing highlights and shadows that give them a metallic or glass-like appearance. They are positioned on a smooth, white surface that reflects the text. A soft, circular spotlight illuminates the scene from above, creating a bright area around the text and a subtle gradient in the background. The overall composition is clean and professional.