

PRIVY COUNCIL

Gouri Dutt Ganesh Lall Firm

Vs.

Madho Prasad

P.C.A.No.5 of 1942

(Lords Russell of Killowen, Wright Porter, Sir George Rankin and Sir Madhavan Nair JJ.)

12.05.1943

JUDGMENT

LORD PORTER J.

1. The appellants in this case, who were plaintiffs in the suit, sought to recover a sum of Rs. 65,756.3.0 from two sets of defendants. They originally sued (1) Bhola Nath and his son Brij Behari who were members of a joint Hindu family and (2) Madho Prasad and his sons Sheo Prasad, Shrosagar, Ramsagar and Gangasagar, who were also members of a joint Hindu family of which the first named was karta. In the Court of the Subordinate Judge of Chaibassa, the plaintiffs obtained a decree for Rupees 61,070.7.6 against both sets of defendant and no question arises now as to the amount or the liability of the first set, though owing to the death of Bhola Nath the persons against whom the decree stands have undergone some change. So also in the case of the second set of defendants there has been a change of parties owing to the death of Madho Prasad, but it is admitted that the other four are in the same position as their father and under the same but no greater liability than he was. These defendants are content, if liable at all, to have the decree executed against them for such of the property as they will inherit from their father, feeling themselves bound to follow the doctrine of pious obligation of the sons to pay the father's debts. The two families are most conveniently referred to under the names of their original respective kartas, and their Lordships will deal with the first set under the name of Bhola Nath and the second under that of Madho. The question which has to be decided is whether Madho and his family are liable as well as Bhola Nath and his sons.

2. The appellants are a firm of money-lenders carrying on business at Kharagpur in

the district of Midnapur in Bengal and at Jugselai in the district of Singbhum in the then Province of Bihar and Orissa. Madho had been for many years in the service of the Bengal Nagpur Railway, but after a year and a half's furlough finally retired at the end of 1926. Prior to 1st April 1924, he had been interested with a younger brother Ramdas Prasad in a contracting business at Panposh, but in that year Ramdas died and the business passed to another contractor until 1926 or 1927 when Bhola Nath and Madho ran it in partnership for a year or two. Meanwhile Bhola Nath undertook other ventures, in particular (a) in 1923 a contract business at Chakradharpur which came to an end in 1924 or 1925; (b) in 1924 mining works at Amghat which closed in 1925; (c) in 1923 he obtained a prospecting licence at Jharbera from the Chief of Gangpur State. This was followed by a lease of dolomite and limestone lying under Jharbera for 30 years granted to one B.K. Sanyal and Bhola on 9th September 1925. Sanyal seems to have taken no active part in the business. For these various undertakings loans were obtained from the plaintiffs, generally at 2 per cent. per month, accounts being taken at each Dewali day, a Hindu autumn festival, and the sum then found due for capital and interest carried forward as the next year's principal debt. These, accounts in the ledgers dealing with this business stand for the first two years in the name of Bholanath with varying addresses ; for the next two years in the names of Bholanath and Brij Behari. During this period interest was charged at 2 per cent. per mensem. On 26th October 1927, a fresh account was opened and a document prepared which with its heading must be set out in full.

3. Khata account of Madho Prasad and Bholanath Brij Behari at present residing at Panposh dated the 1st Katik Sudi 1984 Sambat.

26th October 1927.

Rs. a. p.

After adjusting the accounts in presence of each other rupees forty-seven thousand and six hundred and thirty-seven and three annas and three pies was found due on the 1st Katik Sudi 1984 Sambat corresponding to date 26th October 1927 interest to run thereon at Re.1-8-0 per cent. per mensem.

[Signed on 4 anna stamp.] 47,637 3 3

Madho Prasad Bholanath Brij Behari by the pen of Bholanath.

Dated 26th October 1927. Written on 28-12-27.

[Signed] Madho Prasad, by my own pen.

Rs. a. p.

Dated 26th October. 1927. Rupees forty-seven thousand and six hundred and

thirty-seven, annas three and pies three currying interest at Re.1-8-0 per cent.
47,637 3 3

Signed on 19th March 1938.

Rs. a. p.

Drew Rupees seven thousand for paying royalty to the State. 7000 0 0

Signed, Madho Prasad, by my own pen. Date, 19th March 1938.

Signed, Bholanath Brij Behari, by the pen of Bholanath. Date, 19th March 1938.

Rupees seven thousand for paying royalty.

4. The first entry in this document was, as appears on its face, signed by Bholanath on behalf of both parties on 28th December 1927: the second and third by Madho on 19th March 1938 and the third by Bholanath on the same date. It is upon its terms that the appellants founded their case before their Lordships' board. Its form and implication will be considered later. Meanwhile it is only necessary to say that the entry is found in the plaintiffs' hatchita for 1927-29, i.e., a book kept specially for accounts written or corrected by the hand of those signing them. At the same time the appellants opened a new ledger account headed Madho Prasad Bholanath Brij Behari, Thikadars of Panposh with Rs. 47,637-3-3 as the opening debit balance. This account continued in the names of Madho Prasad Bholanath and Brij Bahari until the present suit was commenced. About a year after it had been opened Madho, in response to a number of demands from the plaintiffs, paid them a sum of Rs. 16,000. At one time it was contended by him that this payment was in respect of another separate account which he owed to them, and indeed he set up the payment in answer to a claim in another suit by the plaintiffs, No. 109 of 1930, but the contention was decided against him by the Subordinate Judge of Midnapore and this decision was affirmed by the High Court of Calcutta on appeal. There is no further debt owing by him to them to which the payment could be attributed other than that now in question.

5. On 5th September 1930, the plaintiff's filed the present suit claiming that Madho was a partner of Bholanath in the Jharbera business from its inception in 1923, but they also pleaded in para. 10 of their plaint that there was an adjustment of accounts up to 26th October 1927 and Rs. 47,637-3-3 was found due by the defendant firm (i. e., Bholanath Brij Behari and Madho), that the last-named acknowledged his joint liability along with the other two to the extent claimed and requested the plaintiffs to open an account in the three joint names and square up the previous account standing in the names of the first two. They then went on to plead that Bholanath attended their office on 28th December 1927 and executed the hatchita and that Madho came with

Bholanath on 19th March 1928, signed the hatchita himself, and borrowed a further sum of Rs. 7000 for which both signed as appears from the extract given above. By para. 13 of the plaint it was pleaded that the plaintiffs therefore dating the cause of action from 28th December 1927 and 19th March 1938, the dates of acknowledging the loans in writing, pray for a decree for Rs. 65,756-3-0. To this plaint Bholanath after certain defences now immaterial admitted in his written statement the signatures in the hatchita, complained that contrary to their promise the plaintiffs had failed to finance the business sufficiently, and that accordingly they (i. e., Bholanath and Brij Behari) had had to take Madho into partnership and asked for an account. In para. 16 they give 14th April 1927, as the first date at which Madho affixed his signature in the hatchita account of Bholanath with the plaintiffs. Madho on the other hand denied liability for the loans, stated that his first signature in the hatchita purporting to be signed on 19th March 1928, was a forgery, admitted the second signature, but said it did not amount to an undertaking to be liable for the rupees 7000, alleged that the sum of Rs. 16,000 had been paid on account of the other debt above referred to which he owed the plaintiffs, and pleaded in para. 10 that Bholanath being unable to defray the expenses of the business applied to him for funds on condition of taking him as partner with a 9 annas share and that he, Madho, having accepted the offer began to contribute money from April 1926. The first contention therefore of the plaintiffs at the trial was that Madho was a partner from the start of the business in 1923, and of Madho that he never was interested in it because no partnership had ever been concluded and that he was not liable in respect of his alleged signature in the hatchita since that was a forgery. In the Court of the Subordinate Judge the plaintiffs succeeded on their main case, the Court holding that Madho was a partner from 1923 and was liable jointly and severally with Bholanath for the sum claimed subject to certain modifications reducing it to rupees 61,070-7-6. The material issues as settled by the learned Subordinate Judge were :

- (5) Was Madho a partner before April, 1926. If not is he liable for items alleged to be advanced before that date? (6) Is the whole or any part of the claim a partnership debt. If not are all the defendants liable ? (8) Whether the sum of Rs. 16,000 was correctly credited in the plaintiffs' accounts. Can the sum be legally appropriated to the account on which the present suit is based ? (9) Whether any writing on the hatchita dated 19-3-28 was a subsequent interpolation as alleged by this defendant? (10) Did this defendant acknowledge any liability by his signature and writing dated 19-3-38 ?
6. On these matters, the plaintiffs' moonib gave evidence that moneys were advanced

from 1923 in respect of Jbarbera to Bholanath at the request of Madho and this statement was corroborated by the deposition of Ganesh Lal, a partner in the plaintiff firm, who had died before the hearing. Brij Behari also gave evidence, but he alleged that Madho I had not been taken into partnership until 1926. Madho was also called. In chief he stated :

7. I never accepted liability for any money advanced in name Bhola Brij Behari. Bhola asked me for advances for Jharbera concern in 1925 or 1926. I agreed on interest at 9 per cent. and that 9 annas share in the concern would be allotted to one. The terms were not reduced to writing. I agreed to pay up the bills for work done only. My first payment was for Rs. 1000 in 1926.

8. He said, however, that this sum was borrowed for Bhola and denied his signature in the hatchita in respect of the sum of Rs. 47,637-3-3. In cross-examination he further said :

I have khatas and bills showing disbursements on Jharbera. They will show the date on which I became partner. These are not filed. These khatas are from 1926.

9. On this evidence and upon examination of the hatchita the Subordinate Judge found that Madho was interested in the Panposh and Jharbera businesses in the name of Bhola from the beginning and also in the Amghat business, that money commenced to be advanced in the name of Bhola at the instance of Madho, that Madho signed the entry in the hatchita for Rs. 47,637-3-3 on 19th March 1938, and undertook liability for the sum of Rs. 7000 for which he also signed on that date. That the plaintiffs' books had not been tampered with and that the payment of Rs. 16,000 was made by Madho for credit of the Jugselai account, i. e., his joint account with Bhola. From this decision Madho appealed, and the appeal was originally heard by Manohar Lall and Chatterji JJ. Both learned Judges agreed with the Subordinate Judge in holding (1) that the signatures of Madho were genuine ; (2) that Madho was a partner with Bholanath and Brij Behari; (3) that Madho was liable for the sum of Rs. 7000. of these findings the last is not now in dispute and the other two are con-current findings of fact and therefore will be followed by their Lordships. The two Judges, however, differed as to the time at which they found Madho to have become a partner. Manohar Lall J., believing it to have been in October 1926, and Chatterji J., in April of the same year. This divergence is not, however, of much importance since the representatives of the appellants were content to accept the later date unless the board was of opinion that Madho had been a partner from 1923. They differed also as to the intention and effect

of Madho's signature to the hatchita in respect of the sum of Rs. 47,637-3-3 and as to whether if Madho's signature imported a promise to pay there was any consideration for such a promise.

10. Manohar Lall J., held that its only effect was to acknowledge the correctness of the figure and that even if it constituted a promise there was no consideration for it. Whereas Chatterji J. considered that the signature imported a promise to pay and that there was consideration both in Indian and English law in the opening of the new account with the addition of fresh parties and the reduction in the rate of interest. He further held that under section 2(d), Indian Contract Act, it sufficed if consideration moved to the promisor from anyone whether from the promisee or any other person, and that here consideration did move from Bholanath to Madho. Curiously enough neither learned Judge specifically mentions the payment of Rs. 16,000, though it is of course implicit in Chatterji J.'s finding that it was paid on the Jugselai account which otherwise would have been in debit by that amount beyond what was claimed. Having regard to the divergence of view between the two Judges, the matter was referred to Fazl Ali J. That learned Judge agreed with Manohar Lall J. in thinking that there was no consideration for Madho's promise. In his view the addition of Madho as a partner did not create a fresh contract by novation and he also apparently concurred in finding that Madho by his signature merely confirmed the correctness of the figure but, made no promise to pay the debt. He appears to have found the decision one of difficulty and largely to have been influenced by the fact that the plaintiffs' main case, which was that Madho had been a partner from the start, had failed. He expressed the view that in these circumstances the Court should not be astute to find another case for them, and that the mere signing of the hatchita did not necessarily involve their success.

11. As a result of Fazl Ali J.'s decision the other two Judges gave final judgment on 23rd February 1939, in favour of the respondents. They pointed out that the acknowledgment in the hatchita had been held not to be binding on Madho, so that no part of the debt so acknowledged could be legally enforceable by the plaintiffs against that defendant, and therefore no part of the payment of Rupees 16,000 could be appropriated against that debt. It must, therefore, they said, necessarily be applied to the debt of Rs. 7000 which was borrowed on 19th March 1928. But, they added, this debt including interest falls far short of Rs. 16,000. It is true, they continued, that in their previous judgments they had held the defendant Madho liable for Rs. 7000, but the question of the Rs. 16,000 had not then been at all gone into, and, in view of the

decision of the learned Judge they were bound to give effect to the contention that the payment of the Rs. 16,000 must be applied to the debt of Rs. 7000. The result was that they held the plaintiffs not entitled to any relief against the respondent Madho.

12. It will be observed that though a partnership has been held to have existed between Bholanath and Madho from some time in 1926 and was acknowledged in evidence by both the respondents, yet its terms were ill-defined. Indeed it appears that shortly after the Rs. 7000 were borrowed some difference arose between the two sets of defendants as a result of which Madho at one time refused to advance further money, that attempts were made to reconcile the two parties and to agree terms of partnership, and that a partnership agreement bearing as its only date the year 1929 was actually drafted but never signed. It contained, however, according to Madho, the terms agreed and in particular he said in his evidence that, as provided in the document, he had agreed to pay the expenditure of Bhola as Jharbera, as found when an account was taken, up to the limit of 1? lakhs. From an examination of the proposed terms, it further appears that Madho agreed to deposit in the bank a sum of Rs. 75,000 within 15 days. In these circumstances it was argued on behalf of the appellants in the first place that the Subordinate Judge was right in finding that Madho was a partner in the Jharbera venture with Bholanath from the start in 1923. The point was not very strongly pressed and their Lordships are of opinion that the better and certainly the safer conclusion is that the partnership did not begin before 1926 and probably not before October in that year.

13. This leaves the question whether Madho made himself liable for the Rs. 46,737-3-3 and Rs. 7000 with interest by signing the hatchita, i.e., whether a promise to pay is the natural inference to be drawn from his action and whether, if it be, there was consideration to support the promise. The appellants maintained that the signing did import such a promise. Prima facie, this is so and indeed the respondents did not contend otherwise. But they said that was not the plaintiffs' case either as pleaded or as given in evidence. The only case made, the respondents averred, was that a partnership existed from the start, that Madho concealed his interest from the public so long as he was in the employment of the railway, but declared it after his retirement, and that he undertook no fresh liability by signing the hatchita, but merely acknowledged a liability which existed all along. That story, they said, had been disbelieved and it was not for the Court or the board to make a fresh case. In particular they argued that Madho was unlikely to have intended to make or in fact to have made himself liable for the personal account of Bhola and his son in respect of expenses

incurred or that may have been incurred at Kharagpur, Panposh, Amghat, or Jharbera, or all or any of them. They urged that the signature in the hatchita may well have been, as Manohar Lall J. thought and Fazl Ali J. considered possible, merely a confirmation that Rupees 47,637-3-3 was the liability which Bholanath had incurred before Madho joined him or even that the signature was inserted for the purpose of ensuring that Madho who had no other proof of his partnership should obtain it in this way.

14. Their Lordships do not find themselves able to accept these arguments. As appears from his evidence, Madho was under an obligation to repay Bholanath's indebtedness to the extent of Rs. 1,50,000 so far as incurred for Jharbera. It is true that the indebtedness of Rs. 47,637-3-3 may have included money borrowed for purposes other than the Jharbera business, but the account in which it appeared had been credited with payments of money derived from these other businesses for which the borrowings were made, and therefore it may well have been and the parties may have recognised that in taking an account the total sum or indeed much more had been spent on Jharbera and not repaid. In such circumstances Madho may well have been willing to undertake a liability for a sum which would almost certainly prove to be less than that which he had undertaken to provide. Nor does it seem likely that the signature was obtained or given merely to verify the sum owing by the old firm when the new partnership commenced. That is not the object of signing a hatchita and in any case it is quite inconsistent with the heading of the document which presupposes a liability in the new firm and purports to contain its verified account. Moreover, such a conclusion leaves the payment of the Rs. 16,000 unexplained. On this supposition the only sum for which Madho was responsible was Rs. 7000 with interest, a sum amounting at most at the date of payment to Rs. 9000. Their Lordships cannot believe that the extra Rs. 7000 would have been paid except in respect of a larger debt than actually due, and the only possible larger debt to which the payment could be attributed is that of the Rs. 47,637.3-3. The suggestion that Madho signed for the purpose of establishing the existence of a partnership is even more improbable. His own signature would be of little value and *ex concessis* he already had that of Bholanath, which was all that he required.

15. A more formidable argument is that this case was neither pleaded nor proved. The claim made in paras. 10 and 13 of the plaint when read together was said still to depend on the establishment of a partnership from 1923 and the allegation as to the hatchita and the signatures contained therein to be made merely to escape from a

counter-allegation that the debt was statute-barred, and not for the purpose of establishing a substantive claim. In India, however, as in England, the duty of a pleader is to set out the facts upon which he relies and not the legal inferences to be drawn from them. In India the Order is Order 6, Rule 2, and their Lordships think sufficient circumstances have been set out in para. 10 to justify a finding that Madho by signing the document undertook liability to pay the sum now claimed. In their Lordships' view that is the natural and, indeed, the inevitable conclusion to be drawn from the signing of the hatchita. There was ample evidence that he became a partner and their Lordships see no reason for thinking, as was suggested to them, that he was not in fact a partner, though he supposed himself to be so. All the circumstances, amongst which may be classed his 9 anna share and his statement that the money found for Jharbera was for the work and not on loan, point to this conclusion. But, it is said, even though it be held that Madho signed the hatchita because he intended, or at any rate might be supposed to have intended, to make himself liable, yet the appellants can take no advantage of that fact since they placed no reliance upon it. Their allegation, it is pointed out, was that Madho was liable all along and that from the start they only advanced money on the strength of his liability. Indeed, their moonib said in evidence:

I cannot give any reason for adding the name of Madho in the khata. Madho asked us to do so. We would not have added had he not requested-he did not give any reason. '

and again :

We did not try to get the signature of Madho on it, (i.e., the hatchita). If Madho did not come for the Rs. 7000 on 19th March 1928, his signature would not have been there and the chita would have been without it. We did not think it essential to get his signature.

16. Moreover, in the deposition of Ganesh Lal who had been the senior member of the plaintiff firm but died before the suit in respect of the other loan made to Madho was heard, but whose deposition was put in evidence both in that suit and in this, it is stated:

If Madho Prasad did not sign this hatchita on 19th March 1938, we could still have made him liable for the Rs. 47,637 odd.

17. No doubt it is true to say upon this evidence that the plaintiffs did not think that they were getting a fresh promise by Madho that he would be responsible for that sum, but they were confirmed in their view that his liability had always existed. That view

was not justified as to the past, but after the signature of the hatchita it was justified and thereafter they continued to lend to the partnership as then constituted under the belief that Madho was their debtor. In their Lordships' opinion, it is clear that if they had then been told that Madho would not be liable for the past debts of the firm or responsible for the future they would have ceased to finance the firm, would have refused to lend the Rs. 7000 and would not have consented to reduce the interest from 2 per cent. per month to 1? per cent.

18. Admittedly, the plaintiffs' contention that the loans had all along been advanced at the instance of Madho and on the faith of his promise to pay, was negatived by the High Court though believed by the Subordinate Judge, but their alternative contention was still open. It is no answer to say that their evidence as to Madho's request or promise was disbelieved. It must be remembered that the case which they came to meet was not that Madho's signature did not make him liable or that it was merely given to verify the amount of the indebtedness of Bholanath up to date. They were not dealing with a contention that Madho signed only to protect himself against an exaggerated claim upon the partners he was joining but with an allegation that the signature was a forgery fraudulently made in order to establish a liability which never existed. If their evidence was not accepted, Madho's testimony was at least as flatly rejected. In their Lordships' view, Madho's promise to answer for the debt of Rs. 47,637-3-3 is clearly established. If then Madho undertook to pay both this debt and also the freshly borrowed sum of Rs. 7000 with interest at the agreed rate, it has to be determined whether there was any consideration to support his promise. In England the consideration relied upon would have to move from the promisee to the promisor: See *Tweddle v. Atkinson*. It is however, suggested on behalf of the appellants that in India it suffices if consideration moves from anyone, or at any rate from anyone connected with the transaction, to the promisor. In this proposition, Section 2 (d), Indian Contract Act, is relied upon. Its terms are:

When at the desire of the promisor the promisee or any other person has done or abstains from doing or does or abstains from doing or promises to do or abstain from doing something, such act or abstinence or promise is called a consideration for the promise.

19. In this case Madho is said to have obtained the promise of a partnership as the condition of his liability. and this promise, though, from a person other than the plaintiffs who were the promisees is said to be sufficient consideration for his undertaking to pay the debt of Rs. 47,637.3-3. The exact limits to be placed upon this

provision in the Act have never been defined, and their Lordships do not find it necessary in the present case to determine what they are, since in their opinion there was ample consideration moving from the appellants to Madho so as to make his promise legally enforceable. The indebtedness, which had previously been that of Bholanath and Brij Behari as a joint Hindu family, was now transferred to the joint and several liability of them and Madho, and in addition the sum of Rs. 7000 was lent to the new partnership and the interest reduced from 2 per cent. to 1? per cent. per month. But, it is said, the two latter matters were no part of the consideration given or accepted to bind the bargain. Their Lordships are not persuaded that the plaintiffs would have been content to continue and increase their loan unless they had been assured of the liability of Madho. But even assuming the making of further loans and reduction of interest formed no consideration, yet they think that the novation constituted by substituting the fresh partnership for the previous family liability is enough of itself to form a sufficient consideration. It was sought to establish the proposition that English and Indian law differed in this respect. In England, it was admitted, such a novation would afford good consideration for the promise. There was the change from a single to a joint indebtedness. But in India, it was said, a different principle applied. There it is not necessary to sue joint debtors jointly, nor can one joint debtor insist on having the other joined in an action brought against him by his creditor. Such is the result of Section 43 Indian Contract Act, which enacts:

When two or more persons make a joint promise, the promisee may, in the absence of express agreement to the contrary, compel any one or more of such joint promisors to perform, the whole of the promise.

20. Similarly Section 25. Indian Partnership Act, provides:

Every partner is liable, jointly with all the other partners and also severally, for all acts of the firm done while he is a partner.

21. In the present case it was submitted the promisee forebore nothing in consideration of obtaining a fresh partner who should assume responsibility for the debt. The original debtor was still liable to the full extent and nothing had been given up: all that had happened was that the promisee had acquired someone else to answer his debt. But the bringing about of a joint liability is not the only result of two persons entering into partnership, whether in England or India, and being accepted as debtors by the former creditors of one of them. For instance, the partnership assets would have to be taken in execution before the private assets of the individual partners were touched and the separate property of any partner is applicable first in the payment of his

separate debts and the surplus only is available for the payment of the debts of the firm. (See section 62, Indian Contract Act, now reproduced in section 9, Indian Partnership Act, 1982). To that extent the liability of the original debtor had been changed, and, in their Lordships' view, a fresh and different liability had been substituted for that which formerly existed. That novation may in India as in England constitute a good consideration for a fresh promise appears from Section 62, Indian Contract Act, when it says:

If the parties to a contract agree to substitute a new contract for it or to rescind or alter it the original contract need not be performed.

22. In addition to this, as has been pointed out, there is the change in the interest charged and the taking of the sum of Rupees 7000: both of which in their Lordships' view would alone have furnished sufficient consideration. In the opinion of the board, therefore the signing of the hatchita constituted a promise on the part of Madho to pay the sum of Rs. 47,637-3-3, and there was consideration for that promise as there was for the debt of Rs. 7000. Accordingly Madho was, and his sons are, liable to the plaintiffs to the extent of the estate which passed to them on his death. Their Lordships will humbly advise His Majesty that the appeal should be allowed and the judgment of the Subordinate Judge restored. The respondents must pay the costs of the hearing in the High Court and before their Lordships' board.

Appeal allowed.

Cases Referred.

(1861) 1 B and S 393 : 30 LJ QB 265 : 8 Jur (NS) 332 : 4 LT (NS) 468 : 9 WR 781:
124 RR 610,