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Department of commerce with professional accounting

**25UCP552 – CORPORATE LAW
INDOOR MANAGEMENT
Unit 2**

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Indoor Management

A Prospectus for Company Law

An interactive classroom session exploring the doctrine of Indoor Management – its foundations, application, and critical exceptions – designed for law faculty and students in India.

COMPANY LAW

INDOOR MANAGEMENT

CORPORATE DOCTRINE

Session Roadmap

This session covers the full spectrum of the Indoor Management doctrine through explanation, real-world examples, and rich classroom engagement.

01

Doctrine of Indoor Management

Origin, meaning & the Turquand Rule

 Quick Poll

3 minutes

 Think-Pair-Share

3 minutes

02

Constructive Notice vs. Indoor Management

Contrast and interplay between the two doctrines

 Word Cloud

3 minutes

 Reflection

2 minutes

03

Exceptions to Indoor Management

Knowledge, suspicion, forgery & irregularity

 Group Activity

With outcomes

04

Case Studies & Applications

Landmark Indian and English cases

05

Summary, Assignments & Q&A

Key takeaways, tasks, and open discussion

The Doctrine of Indoor Management

Origin, Meaning & the Turquand Rule

What is It?


A principle that protects outsiders dealing with a company in good faith – they need not verify whether the company's internal procedures have been properly followed.


The Turquand Rule (1856)

In *Royal British Bank v. Turquand*, the court held that a person dealing with a company is entitled to assume that internal regulations have been complied with.

Statutory Recognition in India

Recognised under the Companies Act, 2013. Protects third parties transacting in good faith with the company's officers and agents.

 **Key Principle:** What happens inside a company's boardroom – the "indoor" affairs – cannot be used to defeat the rights of bona fide outsiders.

 **Indian Case:** *Lakshmi Ratan Cotton Mills v. J.K. Jute Mills Co.* – Courts applied Turquand's principle to uphold third-party rights despite internal non-compliance.

Classroom Activity 1 – Quick Poll (3 mins)

Poll Question: "If a company's Managing Director signs a contract without proper board authorization, should the third party be bound?" – Students vote Yes/No via show of hands or online poll tool, followed by a brief facilitator debrief linking responses to the Turquand Rule.

Constructive Notice vs. Indoor Management

Two Doctrines – Opposite Perspectives

Doctrine of Constructive Notice

- All persons dealing with a company are deemed to have read its public documents (MOA & AOA)
- Protects the **company** from outsiders claiming ignorance of its limitations
- Statutory basis: Sec. 399, Companies Act – documents filed are public notice
- Works **against** the outsider

Doctrine of Indoor Management

- Outsiders need not inquire into the **internal** workings or whether internal procedures were followed
- Protects the **outsider/third party** transacting in good faith
- Applies where public documents authorise an act, but internal compliance is uncertain
- Works **for** the outsider

Classroom Activity 2 – Think-Pair-Share (3 mins)

Prompt: "Can both doctrines apply simultaneously in the same transaction?" – Students think independently (1 min), pair with a neighbour to discuss (1 min), then share conclusions with the class (1 min). Facilitator synthesises key contrasts on the board.

Exceptions to Indoor Management

When the Protection Does NOT Apply



Knowledge of Irregularity

If the outsider had actual knowledge that internal procedures were not followed, they cannot claim protection. *Howard v. Patent Ivory Manufacturing Co.*



Suspicion of Irregularity

Where circumstances were suspicious enough to put a reasonable person on inquiry, the protection is denied. Willful blindness equals knowledge.



Forgery

A forged document is a nullity. The doctrine cannot validate a transaction based on a forged resolution or signature. *Ruben v. Great Fingall Consolidated*



Acts Beyond Authority

If the act is entirely outside the company's powers (ultra vires), Indoor Management cannot save it – not even an internal resolution could have authorised it.

● Classroom Activity 3 – Word Cloud (3 mins)

Prompt: "Type one word that describes when Indoor Management protection should be **denied**" – Use Mentimeter or Poll Everywhere. Display live word cloud. Facilitator uses top words (e.g., fraud, forgery, knowledge) to anchor discussion of exceptions.

Interactive Case Studies

Landmark Decisions & Discussion Points

1

Royal British Bank v. Turquand (1856)

Facts: Bank lent money to a company based on a bond signed by directors. The borrowing resolution had not been properly passed.

Held: Bank entitled to assume the internal requirement was met.

Discuss: What due diligence should banks conduct before lending?

2

Ruben v. Great Fingall Consolidated (1906)

Facts: Company secretary forged signatures on share certificates and issued them.

Held: Company not bound – forgery is beyond Indoor Management's protection.

Discuss: How does this case define the limits of apparent authority?

3

Lakshmi Ratan Cotton Mills v. J.K. Jute Mills

Facts: Indian High Court applied Turquand's Rule in a commercial loan dispute.

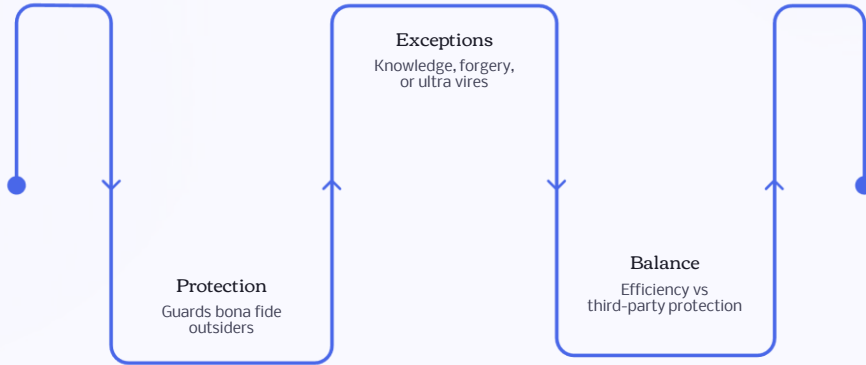
Held: Third party protected despite internal non-compliance by company.

Discuss: How does Indian jurisprudence align with English common law here?

Group Activity – Apply the Rule (Outcome-Based)

Divide into 3 groups. Each group receives one case scenario involving a corporate transaction. Task: Identify whether Indoor Management applies or an exception defeats it. Groups present findings. **Outcome:** A written one-paragraph group opinion submitted at session end.

Summary & Key Learning Points



The Indoor Management doctrine is a cornerstone of company law – striking a careful balance between protecting good-faith third parties and safeguarding companies from fraudulent external actors.

→ Turquand's Rule

Outsiders may assume internal proceedings are regular if the act is within the company's ostensible authority.

→ Constructive Notice is Complementary

The two doctrines operate together – notice covers public documents; Indoor Management covers private procedures.

→ Exceptions Are Strict

Knowledge, forgery, suspicion, and ultra vires acts are well-defined exceptions – not easily stretched.

→ Indian Position

Indian courts have consistently adopted and applied the Turquand Rule, now further supported by the Companies Act, 2013.

🗨️ Classroom Activity 4 – Reflection (2 mins)

Prompt: "Write one thing you learned today that surprised you, and one question you still have about Indoor Management." Students submit on an exit card or digital form. Facilitator reviews before the next session to address gaps.

Assignments & Take-Home Tasks

Consolidate Learning Beyond the Classroom

1

Case Analysis (Individual)

Write a 500-word note on *MRF Ltd. v. Madura Coats Ltd.*
– identify how Indoor Management principles were argued and decided.

2

Comparative Essay

In 600 words, compare the doctrine of Constructive Notice with Indoor Management – include at least two Indian and two English cases.

3


Newspaper Hunt

Find a recent corporate news story (within 2 years) where Indoor Management or apparent authority was/could be at issue. Prepare a 3-minute oral summary for next class.

Final Q&A Session

Open floor for questions on any aspect of today's session. Facilitator may use the following prompts to spark discussion if the room is quiet:

- Can a company ever use Indoor Management as a defence for itself?
- How does the doctrine interact with agency law principles?
- Does digitalisation of company records change the scope of Constructive Notice?

 **Session Complete!** Students should leave with clarity on the doctrine, its limits, and its practical relevance to corporate transactions in India.