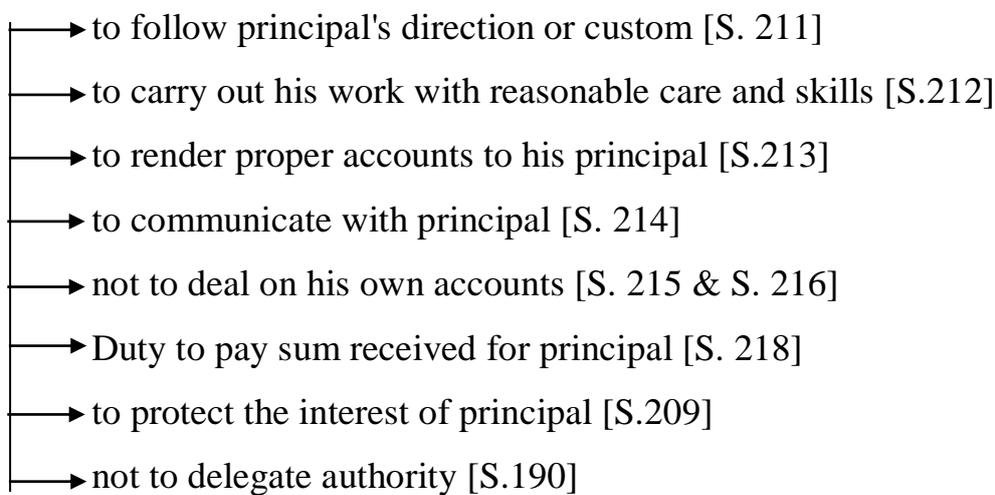


Duties of Agent (Rights of Principal)

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Duties of an agent towards his principal may be understood with the help of following diagram.



1. Duty to follow the directions of the Principal [S.211]- Regarding this duty of Agent S. 211 provides:

An agent is bound to conduct the business of his principal according to the directions given by the principal, or, in the absence of any such directions, according to the custom which prevails in doing business of the same kind at the place where the agent conducts such business. When the agent acts otherwise, if any loss be sustained, he must make it good to his principal, and if any profit accrues, he must account for it.

Thus the agent is bound-(i) to conduct the business of his principal according to the directions given by the principal: or, (ii) In the absence of any such directions, according to the custom which prevails in doing business of the same kind at the place where the agent conducts such business.

For Example in **Pannalal Jankidas v. Mohanlal, AIR [1951]** Agent purchased some goods for his principal and stored the goods in a godwon. Agent was also under the instructions to insure the goods. But he failed to insure the goods. The goods were destroyed by fire. It was held that Agent was liable to compensate.

Similarly, in Lilley v. Doubleday [1881] Principal directed his agent to store his goods at a particular warehouse agent stored a part of the goods at a different warehouse which was equally safe. These goods were destroyed by fire. Agent was held liable for the loss of the goods.

Example: (a) A, an agent engaged in carrying on for B a business, in which it is the custom to invest from time, at interest, the moneys which may be in hand, omits to make such investment. A must make good to B the interest usually obtained by such investments.

(b) B, a broker, in whose business it is not the custom to sell on credit, sells goods of A on credit to C, whose credit at the time was very high. C, before payment, becomes insolvent. B must make good the loss to A.

2. To carry out his work with reasonable care and skills [S.212] – Regarding this duty of agent S.212 provides –An agent is bound to conduct the business of the agency with as much skill as is generally possessed by persons engaged in similar business unless the principal has notice of his want of skill. The agents always bound to act with reasonable diligence, and to use such skill as he possesses; and to make compensation to his principal in respect of the direct consequences of his own neglect, want of skill or misconduct, but not in respect of loss or damage which are indirectly or remotely caused by such neglect, want of skill, or misconduct.

In **State Bank of Indore v. National Textiles Corporation [2004]** certain cheques were presented to Bank by customer Bank sent to the drawee for collection. The cheques were lost in transit. It was held that Bank was liable to the customer for the lost cheques.

Example:

- (a) A, a merchant in Calcutta, has an agent, B, in London, to whom a sum of money is paid on A's account, with orders to remit. B retains the money for a considerable time. A, in consequence of not receiving the money, becomes insolvent. B is liable for the money and interest from the day on which it ought to have been paid, according to the usual rate, and for any further direct loss-as, e.g., by variation of rate of exchange-but not further.
- (b) A, an agent for the sale of goods, having authority to sell on credit, sells to B on credit, without making the proper and usual enquiries as to the solvency of B. B, at the time of such sale, is insolvent. A must make compensation to his principal in respect of any loss thereby sustained.
- (c) A, an insurance-broker employed by B to effect an insurance on a ship, omits to see that the usual clauses are inserted in the policy. The ship is afterwards lost. In consequence of the omission of the clauses nothing can be recovered from the underwriters. A is bound to make good the loss to B.
- (d) A, a merchant in England, directs B, his agent at Bombay, who accepts the agency, to send him 100 bales of cotton by a certain ship. B, having it in his power to send the cotton, omits to do so. The ship arrives safely in England. Soon after her arrival the price of cotton rises. B is bound to make good to A the profit which he might have made by the 100 bales of cotton at the time the ship arrived, but not any profit he might have made by the subsequent rise.

3. To render proper accounts to his principal [S.213]- Regarding this duty of Agent S. 213 provides that an agent is bound to render proper accounts to his principal on demand.

In *State of Tamilnadu v. S.A Chettiar* (1988) the agent filed suit against principal for rendition of accounts the Madras High Court observed that u/s 213

of contract Act it is provided that the agent is bound to render proper accounts to his principal on demand but there is no provision in the contract Act which empower the agent to file a suit for accounts against the principal.

4. To communicate with principal [S. 214]-Regarding this duty of agent S.214 provides that an agent is bound to render proper accounts to his principal on demand

It is the duty of an agent, in cases of difficulty to use all reasonable diligence in communicating with his principal, and in seeking to obtain his instructions.

Thus agent is bound his principal's directions when he faces difficulty although agent may at in good faith without communicating the principal in cases of emergency.

For Example: Principal consigned hundred boxes of grapes to his agent at Allahabad and directed to send grapes immediately to Mrs. Sohan at Mumbai. When agent received the grapes in Mumbai he found that grapes could not bear the journey to Mumbai without spoiling. He sold grapes in Allahabad it was held that agent was not liable because he acted in good faith.

5. Not to deal on his own accounts [S. 215 & S. 216]- Regarding this duty of agent S. 215 provides that an agent is bound to render proper accounts to his principal on demand

If an agent deals on his own account in the business of the agency, without first obtaining the consent of his principal and acquainting him with all material circumstances which have come to his own knowledge on the subject, the principal may repudiate the transaction, if the case shows, either that any material fact has been dishonestly concealed from his by the agent, or that the dealings of the agent have been disadvantageous to him.

Example:

(a) A directs B to sell A's estate for himself in the name of C, A, on discovering that B has bought the estate for himself, may repudiate the sale, if he can show

that B has dishonestly concealed any material fact, or that the sale has been disadvantageous to him.

(b) A directs B to sell A's estate B, on looking over the estate before selling it, find a mine on the estate which is unknown to A. B informs A that he wishes to buy the estate for himself, but conceals the discovery of the mine. A allows B to buy, in ignorance of the existence of the mine. A, on discovering that B knew of the mine at the time he bought the estate, may either repudiate or adopt the sale at his option.

S. 216 provides that If an agent, without the knowledge of his principal, deals in the business of the agency on his own account instead of on account of his principal, the principal is entitled to claim from the agent any benefit which may have resulted to him from the transaction.

For Example:

A directs B, his agent, to buy a certain house for him. B tells A it cannot be bought, and buys the house for himself. A may, on discovering that B has bought the house, compel him to sell it to A at the price he gave for it.

6. Duty to pay sum received for principal [S. 218]- Regarding this duty of agent S. 218 provides that an agent is bound to render proper accounts to his principal on demand.

7. To protect the interest of principal [S.209]- Regarding this duty of agent S. 209 provides that when an agency is terminated by the principal dying or becoming of unsound mind, the agent is bound to take, on behalf of the representatives of his late principal, all reasonable steps for the protection and preservation of the interests entrusted to him.

8. Not to delegate authority – In respect of this duty of agent an agent S. 190 provides that an agent cannot lawfully employ another to perform acts which he has expressly or impliedly undertaken to perform personally, unless by the ordinary custom of trade a sub-agent may, or, from the nature of the agency, a sub-agent must, be employed.