CLAT PG Law of Contract Sample Paper – 10

Duration: 20 Minutes | Max Marks: 20

Instructions

- This paper contains **20 Multiple Choice Questions (MCQs)**.
- Each correct answer carries **+1 mark**.
- Each wrong answer carries a **penalty of -0.25 marks** (negative marking).
- Only **one option** is correct for each question.
- Syllabus: **Indian Contract Act, 1872** and **Specific Relief Act, 1963** (LLB level).
- Use of calculators or any electronic devices is **strictly prohibited**.

SECTION A: Offer & Acceptance

Q1. Vikram, a machinery dealer in Chennai, posted a written offer to Mohan, a buyer in Hyderabad, on Monday. On Tuesday, having received a better deal elsewhere, Vikram sent a telegram revoking the offer. On Wednesday, Mohan received Vikram's offer by post. That same Wednesday afternoon, before any telegram arrived, Mohan posted his acceptance. On Thursday, Mohan received the revocation telegram. Vikram insists there is no contract because he dispatched the revocation before Mohan posted acceptance.

Which of the following best states the legal position under the Indian Contract Act, 1872?

(A) No contract was formed because Vikram communicated the revocation by a faster mode (telegram) than the original offer, demonstrating a clear intent to withdraw.

(B) A valid contract was formed because Mohan posted his acceptance before the revocation came to his knowledge; revocation of an offer is complete only when it is communicated to the offeree (Sections 5 and 6).

(C) No contract was formed because the revocation was dispatched before the acceptance was posted, and dispatch of revocation takes priority over dispatch of acceptance.

(D) The contract is voidable at Vikram's option because there was a clear conflict between his intent to revoke and Mohan's act of acceptance.

Q2. Rajan's company sent an offer by email to Priya for the supply of IT equipment at a fixed price, stating acceptance must be communicated by email. Priya read the offer, typed her acceptance email, and clicked "Send" at 11:00 a.m. The email was immediately transmitted to Rajan's server. At 11:02 a.m., Priya reconsidered and attempted to recall the email, but it had already reached Rajan's server. Rajan read the acceptance email only at 3:00 p.m. Priya claims she is not bound by the acceptance.

Which of the following correctly states when communication of acceptance is complete as against the acceptor under the Indian Contract Act, 1872?

(A) Communication of acceptance is complete as against the acceptor only when the offeror actually reads the acceptance; until then the acceptor may withdraw.

(B) Communication of acceptance is complete as against the acceptor when the acceptance is delivered to the offeror's place of business, regardless of when it is read.

(C) Communication of acceptance is complete as against the acceptor when it is put in the course of transmission so as to be out of the acceptor's power to withdraw (Section 4); once Priya sent the email at 11:00 a.m. she was bound and could not recall it.

(D) Communication of acceptance is complete as against the acceptor only when acknowledged by the offeror, since electronic communications require read-receipts to be legally effective.

SECTION B: Consideration and Free Consent

Q3. Arjun, while passing a river, saw Pratap drowning. At great personal risk, Arjun dived in and rescued Pratap without any prior request or expectation of reward. A month later, moved by gratitude, Pratap signed a written document promising to pay Arjun Rs. 1,00,000 "in recognition of having saved my life." When Pratap refused to pay, Arjun sued. Pratap argued that the promise was unenforceable because the act of rescue was complete before the promise was made, rendering it past consideration.

Which of the following correctly states the legal position under the Indian Contract Act, 1872?

(A) The promise is unenforceable because past consideration is no consideration at all; an act already performed before any promise is made can never support a subsequent promise.

(B) The promise is enforceable only if Arjun can show that he performed the rescue at Pratap's express and prior oral request.

(C) The promise is unenforceable because a moral obligation, however genuine, does not constitute valid consideration in Indian law.

(D) The promise is enforceable under Section 25(2) of the Indian Contract Act, 1872; a written promise to compensate a person who has already voluntarily done something for the promisor constitutes a valid agreement even without fresh consideration at the time of the promise.

Q4. Ramesh, a retired government officer and father of Suresh, executed a written and duly registered document in favour of Suresh, stating: "Out of natural love and affection for my son, I promise to pay him Rs. 2,00,000 upon the occasion of his marriage." No other consideration passed from Suresh. After the marriage took place, Suresh demanded payment. Ramesh refused, arguing the promise was unenforceable for want of consideration since Suresh had done nothing in return.

Which of the following correctly states the legal position?

(A) The promise is enforceable; it satisfies the exception under Section 25(1) of the Indian Contract Act, 1872, which recognises an agreement made on account of natural love and affection between near relatives, expressed in writing and registered, as valid without consideration.

(B) The promise is unenforceable because a father's promise to his son requires at least a nominal reciprocal obligation from the son to be legally binding.

(C) The promise is enforceable only if Suresh can prove he would not have married but for Ramesh's promise, establishing a causal link between the promise and the marriage.

(D) The promise is unenforceable because natural love and affection are moral sentiments that the law does not treat as sufficient to substitute for consideration.

Q5. Sundar worked as a sales manager for Manav's trading company. Manav, falsely accusing Sundar of embezzlement, threatened to file a criminal complaint under the Indian Penal Code unless Sundar immediately signed a deed of release surrendering all claims to his outstanding salary of Rs. 1,80,000. Fearing arrest and public humiliation, Sundar signed. He later sought to have the deed set aside on the ground of coercion under Section 15 of the Indian Contract Act, 1872.

Which of the following best states the legal position?

(A) The deed is valid because employers may legitimately negotiate settlements with employees under financial pressure arising from the employment relationship.

(B) The deed is voidable at Sundar's option because threatening to file a false criminal complaint—an act forbidden by the Indian Penal Code—constitutes coercion under Section 15, and consent obtained by such a threat is not free consent.

(C) The deed is void ab initio because any contract signed under threat of criminal prosecution is wholly without legal effect from the outset.

(D) Sundar cannot set aside the deed because he voluntarily signed it and there was no evidence of physical compulsion or detention.

Q6. Kiran and Deepa entered into a contract for the lease of commercial premises for two years. Both parties believed that a municipal regulation required prior government approval for such leases, and they included a clause making the contract subject to such approval. It was later discovered that the regulation had been repealed five years earlier and never applied to their transaction. Both parties had been operating under the same mistaken belief about the law. Kiran sought to have the contract declared void on account of bilateral mistake.

Which of the following correctly states the legal position under the Indian Contract Act, 1872?

(A) The contract is void because both parties laboured under the same mistake about a fundamental fact, and a mutual mistake of any kind vitiates consent.

(B) The contract is voidable at the option of the party more disadvantaged by the erroneous assumption about the law.

(C) The contract is not voidable on account of the mistaken belief; under Section 21, a contract is not voidable merely because it was caused by a mistake as to any law in force in India.

(D) The contract is void only if the mistaken law would have directly prohibited the subject matter of the contract had it actually been in force.

SECTION C: Void Agreements and Quasi-Contracts

Q7. Two trading companies, Alpha Ltd. and Beta Ltd., entered into a commercial supply agreement containing the following clause: "No dispute arising under this agreement shall be referred to any court of law. All claims of either party shall be extinguished unless raised within three months of the relevant dispute arising, notwithstanding any limitation period prescribed by law." A dispute arose; Alpha Ltd. waited five months before raising it. Beta Ltd. invoked the contractual clause to bar the claim.

Which of the following correctly states the legal position regarding this clause?

(A) The clause is entirely valid; parties to a commercial contract may freely negotiate shorter limitation periods to promote certainty and commercial finality.

(B) The clause is valid only insofar as it requires claims to be raised promptly; courts will imply a "reasonable time" standard and enforce it accordingly.

(C) Only the bar on access to courts is void; the contractually shortened limitation period is valid as an independent term and may be enforced separately.

(D) The clause is void in its entirety under Section 28 of the Indian Contract Act, 1872, which renders void any agreement that restricts the right to enforce legal rights by usual legal proceedings, or that limits the period for doing so to a period shorter than that prescribed by the Limitation Act.

Q8. Ganesh approached Ramesh and they orally agreed that Ganesh would supply Ramesh "some paddy" at "a price to be mutually agreed upon at the time of delivery." No quantity was specified, no price was fixed, and no mechanism for determining either was identified. When a dispute arose and Ganesh sued on the agreement, Ramesh argued the agreement was too vague to be enforced.

Which of the following correctly states the legal position?

(A) The agreement is void under Section 29 of the Indian Contract Act, 1872; its meaning is not certain and cannot be made certain, and no court can supply the missing essential terms of quantity and price.

(B) The agreement is valid because courts have inherent power to fill in missing terms using the standard of reasonableness, particularly for the sale of agricultural produce.

(C) The agreement is enforceable because an oral agreement between businessmen for the sale of goods carries an implied term that the prevailing market price will apply.

(D) The agreement is valid because the parties clearly intended to be bound, and proof of intention to create legal relations suffices to form a contract even without certainty of all terms.

Q9. Due to a clerical error in the account number entered by a bank employee, Rs. 5,00,000 was credited to Sunil's savings account instead of to Sanjay's account. Sunil noticed the unexpected credit, realised it was not intended for him, but chose not to inform the bank. He withdrew and spent the full amount. When the bank discovered the error and demanded repayment, Sunil refused, arguing that the bank's own negligence caused the erroneous credit and he could not be held responsible for the bank's mistakes.

Which of the following correctly states Sunil's legal obligation under the Indian Contract Act, 1872?

(A) Sunil is not liable because the bank's clerical negligence caused the mistaken payment, and a party cannot obtain relief for loss caused entirely by its own fault.

(B) Sunil is liable to repay Rs. 5,00,000 to the bank under Section 72; a person to whom money has been paid under a mistake of fact is bound to repay it, irrespective of whether the mistake was made by the payer or a third party.

(C) Sunil is liable to repay only to the extent of his unjust enrichment at the date of demand, and may deduct reasonable amounts for inconvenience caused by the bank's error.

(D) Sunil is not liable because Section 72 creates a quasi-contractual obligation only where a pre-existing relationship exists between the payer and the recipient.

SECTION D: Performance and Discharge

Q10. Anil and Bina jointly lent Rs. 3,00,000 to Chetan, who promised to repay both of them. Without Bina's knowledge or consent, Anil signed a document accepting Rs. 1,50,000 from Chetan as "full and final settlement" of the entire loan and releasing Chetan from all further liability. Bina subsequently sued Chetan for Rs. 1,50,000 as her share of the loan. Chetan argued that Anil's release had discharged him completely from all obligations under the joint loan.

Which of the following correctly states the legal position under the Indian Contract Act, 1872?

(A) Chetan is completely discharged; when one joint promisee releases the promisor, the entire obligation is extinguished as the joint debt is indivisible.

(B) Bina can recover only whatever balance remains after deducting the amount accepted by Anil in settlement, since the debt was a joint and indivisible one.

(C) The release by Anil does not discharge Chetan's obligation to Bina; a release given by one joint promisee without the authority or consent of the other does not extinguish the rights of the other joint promisee against the promisor.

(D) Bina has no independent cause of action because joint promisees can only sue as a unit and Anil's acceptance of settlement binds all joint promisees.

Q11. Arun owed Rs. 2,00,000 to Ramji, a moneylender. Arun's friend Vijay, wishing to help, paid the full Rs. 2,00,000 to Ramji without Arun's prior knowledge or request. Ramji accepted the payment and issued a receipt stating the debt was "fully and finally settled." Some weeks later, Ramji sued Arun again for the Rs. 2,00,000, claiming that Vijay had no authority from Arun to make the payment and therefore the payment did not discharge Arun's personal obligation.

Which of the following correctly states the legal position?

(A) Ramji is correct; a personal debt can be discharged only by the debtor himself or by an agent expressly authorised by the debtor; payment by an unauthorised third party has no legal effect.

(B) Arun is partially discharged to the extent that a court in equity considers Vijay's payment morally valid, leaving Ramji to recover only the equitable balance.

(C) Vijay's payment is void because performance of a personal monetary obligation can never be validly rendered by a stranger to the contract.

(D) Once a creditor accepts performance tendered by a third party, the debtor is discharged from the obligation even if the third party acted entirely without the debtor's authority; Ramji having accepted the payment in full settlement cannot sue Arun again (Section 41).

Q12. Prakash owed Dilip Rs. 10,00,000 under a commercial contract. Prakash faced genuine financial difficulties. The parties entered into a written agreement under which Dilip agreed to accept Rs. 7,00,000 as full and final settlement of the entire Rs. 10,00,000 debt. Prakash paid Rs. 7,00,000 promptly. Two months later, Dilip sued Prakash for the remaining Rs. 3,00,000, arguing that the agreement to accept a lesser sum was without consideration on Dilip's part and therefore void and unenforceable.

Which of the following correctly states the legal position?

(A) The original debt is fully discharged; the written agreement to accept a lesser sum in full settlement (accord) followed by payment of that sum (satisfaction) constitutes a valid substituted contract, and Dilip cannot reopen the settled claim.

(B) Dilip can recover the remaining Rs. 3,00,000 because an agreement to accept less than what is owed lacks consideration and is therefore unenforceable as a matter of law.

(C) Prakash must pay the remaining Rs. 3,00,000 because, as a general rule, part payment of a liquidated debt can never operate as full discharge of the greater sum.

(D) The settlement is binding only if registered as a formal deed under the Registration Act; an unregistered written settlement agreement cannot discharge the original debt.

Q13. Meena Mandap Pvt. Ltd. contracted with the Sharma family for exclusive use of its banquet hall for a wedding reception on 15th November, with an advance of Rs. 3,00,000 paid. On 10th November, the hall was completely destroyed by an accidental fire; neither party was at fault. The Sharma family demanded the return of the advance and also claimed damages for preparatory expenses already incurred. Meena Mandap argued that the fire was unforeseen and it could not be held responsible.

Which of the following correctly states the legal position?

(A) The contract remains valid; Meena Mandap is in breach and must either arrange an alternative venue of comparable quality or pay full damages including the advance and all consequential losses.

(B) The contract is discharged by frustration under Section 56 of the Indian Contract Act, 1872; the specific subject matter of the contract was destroyed without the fault of either party, releasing both parties from their future obligations.

(C) The contract is merely suspended; the Sharma family must accept a postponed date once the hall is rebuilt, as the obligation is not permanently extinguished by the fire.

(D) Meena Mandap may retain the advance because it had reserved the date exclusively for the Sharma family and its inability to perform was due to an unforeseeable *force majeure* event.

SECTION E: Breach, Remedies, and Damages

Q14. Global Commodities Ltd. contracted to deliver 100 tonnes of refined sugar to Sweets Factory Ltd. on 1st June at Rs. 40,000 per tonne (total contract value: Rs. 40,00,000). Global Commodities failed to deliver on the due date. On 1st June, refined sugar of the same specification was freely available in the open market at Rs. 44,000 per tonne. Sweets Factory claimed damages from Global Commodities.

Which of the following correctly states the measure of damages Sweets Factory is entitled to under Section 73 of the Indian Contract Act, 1872?

(A) Sweets Factory is entitled to recover the full contract price of Rs. 40,00,000 as compensation because Global Commodities failed to perform its primary obligation entirely.

(B) Sweets Factory can claim only nominal damages because it did not actually go into the open market and purchase replacement sugar on 1st June.

(C) The measure of damages is the difference between the market price and the contract price on the date of non-performance: Rs. 4,000 per tonne $\times$ 100 tonnes $=$ Rs. 4,00,000; this is the presumptive measure where an available market exists for the goods.

(D) Sweets Factory cannot claim any damages because fluctuations in commodity prices are a foreseeable commercial risk that it assumed when entering a forward supply contract.

Q15. Apex Construction Ltd. contracted to supply 500 steel beams to Bridge Builders Ltd. by 30th April for a road infrastructure project. On 15th April, Apex notified Bridge Builders that it would not supply the beams. Steel beams of the same specification were available from three alternative suppliers in the same city at only 5% above the contract price. Despite this, Bridge Builders took no steps to procure alternative beams, allowed its construction schedule to collapse entirely, and claimed the full loss including large delay penalties it incurred from the project employer.

Which of the following correctly states the legal position regarding Bridge Builders' claim for the delay penalties?

(A) Bridge Builders is entitled to all losses including delay penalties because Apex's repudiation was the cause of the entire chain of loss and the consequences must be borne by the defaulting party.

(B) Bridge Builders may recover the delay penalties because it was entitled to specific performance from Apex and had no legal obligation to seek goods from alternative suppliers.

(C) Bridge Builders may recover all losses including delay penalties because the downstream financial consequences were within the reasonable contemplation of the parties at the time of contracting.

(D) Bridge Builders cannot recover the losses attributable to its failure to mitigate; under Section 73 of the Indian Contract Act, 1872, a party claiming damages must take all reasonable steps to mitigate the loss, and damages will not be awarded for loss that the claimant could reasonably have avoided.

SECTION F: Agency

Q16. Rakesh appointed Nisha, a property dealer, as his agent to sell his house for not less than Rs. 80,00,000. Without Rakesh's knowledge or authorisation, Nisha engaged Tarun, another dealer, to carry out the actual sale. While showing the property to a prospective buyer, Vinod, Tarun fraudulently collected Rs. 2,00,000 as a "token advance" and absconded with the money. Vinod sued Rakesh, arguing that as the owner whose property was being sold, Rakesh was liable for the fraud committed in the course of selling it.

Which of the following correctly states Rakesh's liability?

(A) Rakesh is not liable for Tarun's fraud; Nisha had no authority to appoint a sub-agent, and a sub-agent appointed without the principal's consent is not the agent of the principal; the principal incurs no liability for the acts of such unauthorised sub-agent (Sections 190 and 192).

(B) Rakesh is vicariously liable for Tarun's fraud because any person acting in the course of selling Rakesh's property is deemed to be Rakesh's authorised agent by necessary implication.

(C) Rakesh is liable because, as the ultimate beneficiary of the contemplated sale, a principal cannot escape liability by interposing an unauthorised sub-agent between himself and the public.

(D) Rakesh is liable to the extent of Rs. 80,000, being 10% of the amount collected, representing the principal's fair share of supervisory responsibility for his agent's conduct.

Q17. Hemant, a textile manufacturer, appointed Dinesh as his del credere agent to sell textile goods on credit to buyers across the region. Dinesh sold goods worth Rs. 5,00,000 to Buyer X on 90-day credit terms and reported the transaction to Hemant. Buyer X became insolvent before paying and the debt became irrecoverable. Hemant demanded Rs. 5,00,000 from Dinesh.

Which of the following correctly describes a del credere agent's liability in this situation?

(A) Dinesh is not liable; the insolvency of the buyer is a commercial risk that the principal must bear; a del credere agent only warrants that the buyer exists and has capacity to contract, not that the buyer will pay.

(B) Dinesh, as a del credere agent, is personally liable to Hemant for Buyer X's default; a del credere agent undertakes an additional obligation to guarantee the performance of the buyer, including payment, and is liable to the principal if the buyer fails to pay.

(C) Dinesh is liable to share the loss equally with Hemant, since a del credere arrangement by its nature involves a risk-sharing partnership between the agent and the principal.

(D) Dinesh is not liable because the del credere guarantee relates only to the quality and quantity of goods delivered by the seller, not to the creditworthiness of the buyer.

Q18. Kavita purchased a consignment of handicrafts worth Rs. 8,00,000 from Suresh, who conducted the entire transaction in his own name without revealing that he was acting as an agent for Manohar, the actual owner of the goods. Kavita paid Suresh Rs. 3,00,000 as an advance; Suresh passed it on to Manohar. After taking delivery, Kavita discovered the goods were seriously defective. On learning that Manohar was the undisclosed principal, Kavita filed suits against both Suresh and Manohar simultaneously, seeking to hold both jointly and severally liable for the full value of her claim.

Which of the following correctly states the legal position?

(A) Kavita can sue only Suresh because she contracted with him alone and had no knowledge of Manohar's existence when the contract was formed.

(B) Kavita can sue only Manohar because, as the undisclosed principal, he is the true party in interest and the contract is deemed in law to have been made with him alone.

(C) When an agent contracts for an undisclosed principal, the third party, upon discovering the principal, may elect to hold either the agent or the principal liable; having made that election, the third party is bound by it and cannot thereafter proceed against the other.

(D) Kavita can sue both Suresh and Manohar jointly and severally and obtain a single decree against both for the full value of her claim.

SECTION G: Specific Relief Act, 1963

Q19. Harshvardhan and Vikram orally negotiated and agreed to form a partnership sharing profits in the ratio of 60:40. Their solicitors drafted a formal partnership deed, but due to a clerical error, the deed recorded the profit-sharing ratio as 50:50. Both parties signed the deed without noticing the error. When the partnership commenced and profits arose, Harshvardhan claimed 60% while Vikram insisted on 50% as written in the deed. Harshvardhan approached the court seeking to correct the deed.

Which of the following correctly states the relief available to Harshvardhan under the Specific Relief Act, 1963?

(A) Harshvardhan has no remedy; a party who signs a document without reading it carefully is bound by its terms regardless of any clerical errors in the instrument.

(B) Harshvardhan may seek rescission of the partnership deed and require the parties to negotiate and execute a fresh deed on proper terms.

(C) Harshvardhan cannot succeed because parol evidence to contradict or vary the terms of a written instrument is inadmissible and the deed must be taken as conclusive.

(D) Harshvardhan may seek rectification of the partnership deed under Section 26 of the Specific Relief Act, 1963 to make it conform to the true intention of both parties as established by their actual prior agreement.

Q20. Mohan signed a promissory note for Rs. 5,00,000 in favour of Suresh. The note was obtained by fraud: Suresh had represented to Mohan, who could not read English, that the document was merely a receipt for goods delivered. Mohan discovered the fraud when Suresh threatened to institute legal proceedings on the promissory note. Mohan wished to prevent the instrument from being used against him and sought appropriate legal relief.

Which of the following correctly states the relief available to Mohan under the Specific Relief Act, 1963?

(A) Mohan may apply to the court under Section 31 of the Specific Relief Act, 1963 for cancellation of the promissory note; a court may cancel or declare void an instrument that is void or voidable, in order to prevent the risk of its being used to cause injury to the applicant.

(B) Mohan cannot seek cancellation because a promissory note, once signed and delivered, is governed exclusively by the Negotiable Instruments Act, 1881, which provides the only available remedies.

(C) Mohan must wait until Suresh actually files suit on the promissory note before any court will consider relief; a threatened suit does not entitle a person to preventive relief.

(D) Mohan can only claim damages from Suresh for the fraud he suffered but cannot obtain cancellation of the instrument itself under the Specific Relief Act, 1963.

SOLUTIONS

Sol. 1.

Solution

Revocation of Offer Effective Only When Communicated to the Offeree (Sections 5 and 6)

Section 6 of the Indian Contract Act, 1872 provides that a proposal is revoked by the communication of notice of revocation by the proposer to the other party. Section 4 further provides that the communication of a revocation is complete as against the person who makes it when it is put in transmission, but as against the person to whom it is made when it comes to his knowledge. Since Mohan posted his acceptance on Wednesday, before the revocation telegram reached him on Thursday, the revocation had not yet come to Mohan's knowledge at the time of acceptance. The offer was therefore still alive when Mohan accepted it. The contract was formed on Wednesday when Mohan posted his acceptance, since communication of acceptance is complete as against the offeror when it is put in the course of transmission (Section 4).

Why other options are wrong:

- **(A)** The speed of the revocation medium is irrelevant; revocation takes effect only when it actually reaches and comes to the knowledge of the offeree, not when it is dispatched.
- **(C)** There is no rule under Indian law that gives dispatch of revocation priority over dispatch of acceptance; revocation is only effective when communicated.
- **(D)** Where the offer was still alive when accepted, a valid and binding contract arises; there is no residual option for the offeror to treat it as voidable.

Final Answer: $\boxed{\text{B}}$

Answer: (B) Go Back to Q1

Solution

Communication of Acceptance Complete as Against the Acceptor on Transmission (Section 4)

Section 4 of the Indian Contract Act, 1872, second paragraph, provides that the communication of an acceptance is complete as against the acceptor when it is put in the course of transmission to the proposer so as to be out of the power of the acceptor. The moment Priya clicked "Send" at 11:00 a.m. and the email was transmitted, it passed beyond her control. She was therefore bound from that instant. Her subsequent attempt to recall the email at 11:02 a.m. was legally ineffective. The time at which Rajan read the email is irrelevant to the question of when Priya became bound; her obligation crystallised at the moment of transmission.

Why other options are wrong:

Sol. 2.

- **(A)** Section 4 expressly fixes the acceptor's binding moment at transmission, not at the offeror's reading; waiting for the offeror to read would defeat the certainty the section is designed to provide.
- **(B)** Delivery to the offeror's server is a component of the transmission process, but the acceptor's bound moment arises when the message is put in the course of transmission out of her power—that is, at the moment of sending.
- **(D)** Indian law does not require read-receipts or acknowledgements for acceptance by electronic means to be legally effective; no such requirement exists in Section 4 or the Information Technology Act provisions supplementing it.

Final Answer: $\boxed{\text{C}}$

Answer: (C) Go Back to Q2

Solution

Past Consideration Valid in India: Promise to Compensate for Voluntary Act (Section 25(2))

Indian contract law departs from the strict English rule that past consideration is no consideration. Section 25(2) of the Indian Contract Act, 1872 expressly provides that an agreement without consideration is not void if it is a promise to compensate, wholly or in part, a person who has already voluntarily done something for the promisor. The act of rescue was done voluntarily for Pratap (the promisor). Pratap's subsequent written promise to pay Rs. 1,00,000 in recognition of that act falls squarely within Section 25(2). The fact that the act preceded the promise does not invalidate it; the section is specifically designed to give effect to such promises of gratitude.

Why other options are wrong:

Sol. 3.

- **(A)** The English rule that "past consideration is no consideration" does not apply in India; Section 25(2) creates a statutory exception for voluntary acts done for the promisor.
- **(B)** Section 25(2) does not require an express prior request; a voluntary act done for the promisor suffices, even without a prior request, provided it was done at the promisor's desire (which may be implied from the cir-

cumstances of a rescue).

- **(C)** Section 25(2) precisely transforms a moral obligation arising from gratitude into a legally enforceable one; the moral dimension does not defeat the promise.

Final Answer: $\boxed{D}$

Answer: (D) Go Back to Q3

Solution

Agreement on Account of Natural Love and Affection Is Valid Without Consideration (Section 25(1))

Section 25 of the Indian Contract Act, 1872 provides that an agreement without consideration is void—but then carves out three exceptions. Section 25(1) is one such exception: an agreement made on account of natural love and affection between parties standing in a near relation to each other is enforceable without consideration provided (i) it is expressed in writing and (ii) it is registered under the law applicable to the registration of documents. Ramesh is the father and Suresh is the son—parties in near relation. The document was written and registered. All conditions of Section 25(1) are satisfied, and the absence of any consideration from Suresh is immaterial.

Why other options are wrong:

Sol. 4.

- **(B)** Section 25(1) does not require any reciprocal obligation from the beneficiary; the whole point of the exception is that no consideration is needed.
- **(C)** A notarial certificate is not required; what Section 25(1) requires is registration under the applicable registration law, which was done.
- **(D)** Natural love and affection are not themselves consideration; they are the basis of a statutory exception that permits enforcement without consideration—precisely the opposite of option (D)'s claim.

Final Answer: $\boxed{A}$

Answer: (A) Go Back to Q4

Solution

Threatening a False Criminal Complaint Constitutes Coercion (Section 15)

Section 15 of the Indian Contract Act, 1872 defines coercion as the committing or threatening to commit any act forbidden by the Indian Penal Code, or the unlawful detaining, or threatening to detain, any property, to the prejudice of any person whatever, with the intent of causing any person to enter into an agreement. Filing a false criminal complaint is an act forbidden by the IPC (it constitutes making a false report and various other offences). Manav's threat to file such a false complaint unless Sundar released his salary dues is precisely the kind of threat that Section 15 is designed to address. Consent obtained through such a threat is not free consent, and the deed is voidable at Sundar's option.

Why other options are wrong:

Sol. 5.

- **(A)** An employer's right to settle disputes does not extend to procuring settlement through the threat of a false criminal prosecution; that crosses the line into statutory coercion.
- **(C)** The deed is voidable, not void ab initio; voidable contracts remain in existence until avoided by the aggrieved party; they are not automatically without legal effect from the start.
- **(D)** Physical compulsion is not required; Section 15 coercion is established by the threat of an IPC-forbidden act, irrespective of physical force; the mental compulsion caused by the threat suffices.

Final Answer: $\boxed{\text{B}}$

Answer: (B) Go Back to Q5

Solution

Mistake of Indian Law Does Not Render a Contract Voidable (Section 21)

Section 21 of the Indian Contract Act, 1872 provides: "A contract is not voidable because it was caused by a mistake as to any law in force in India." Both Kiran and Deepa were mistaken about whether a municipal regulation existed—a mistake as to Indian law. The section is clear and unambiguous: such a mistake does not affect the validity of the contract. The rationale is that ignorance of the law is no excuse (*ignorantia juris non excusat*), and parties are presumed to know the law. The contract between Kiran and Deepa accordingly stands, and neither party can avoid it on this ground.

Why other options are wrong:

Sol. 6.

- **(A)** Section 20 provides relief for mutual mistake of fact, not of law; a mutual mistake of law falls squarely within Section 21's exclusion from voidability.
- **(B)** There is no provision in the Indian Contract Act enabling one party to avoid a contract on the ground that a mistake of law disadvantaged them more than the other.
- **(D)** Section 21 makes no distinction based on whether the mistaken law directly regulated the subject matter; the exclusion is categorical and applies

to any mistake as to Indian law in force.

Final Answer: $\boxed{C}$

Answer: (C) Go Back to Q6

Solution

Agreement Restricting Enforcement of Legal Rights or Shortening Limitation Period Is Void (Section 28)

Section 28 of the Indian Contract Act, 1872 renders void every agreement by which any party is restricted absolutely from enforcing his rights under or in respect of any contract by the usual legal proceedings in the ordinary tribunals, or which limits the time within which he may thus enforce his rights. Both limbs of the clause—barring access to courts and fixing a limitation period shorter than that prescribed by the Limitation Act—fall directly within the prohibition of Section 28. The clause is therefore void in its entirety and cannot be invoked to extinguish Alpha Ltd.'s claim.

Why other options are wrong:

Sol. 7.

- **(A)** Freedom of contract does not extend to opting out of Section 28; the provision is a statutory override that cannot be displaced by party agreement.
- **(B)** Section 28 does not permit courts to salvage the clause by reading in a "reasonableness" standard; the prohibition is categorical.
- **(C)** Severability cannot be applied here because both sub-clauses independently violate Section 28; each is void on its own terms, and no valid remainder can be salvaged.

Final Answer: $\boxed{D}$

Answer: (D) Go Back to Q7

Solution

Agreement Void for Uncertainty of Terms (Section 29)

Section 29 of the Indian Contract Act, 1872 declares void all agreements whose meaning is not certain or capable of being made certain. Essential terms of a contract for the sale of goods are the identification of the goods, the quantity, and the price. The oral agreement between Ganesh and Ramesh specified none of these with any certainty—"some paddy" gives no quantity, and "price to be agreed at delivery" provides no fixed price and no objective mechanism by which a price could be determined. There is no external standard (such as a market rate for a specified grade) by reference to which either term could be made certain. The agreement therefore fails the test of Section 29 and is void.

Why other options are wrong:

Sol. 8.

- **(B)** Courts do not have an inherent power to write the parties' bargain for them by supplying essential missing terms; that would be making a contract for the parties rather than enforcing one they made.
- **(C)** An implied market price term presupposes that there is a specific, identifiable grade of goods and a recognised market for it; "some paddy" does not establish either.
- **(D)** Intention to be bound is a necessary but not sufficient condition for a binding contract; certainty of essential terms is equally required, as Section 29 makes explicit.

Final Answer: $\boxed{A}$

Answer: (A) Go Back to Q8

Solution

Money Paid Under Mistake of Fact Must Be Repaid (Section 72)

Section 72 of the Indian Contract Act, 1872 provides: "A person to whom money has been paid, or anything delivered, by mistake or under coercion, must repay or return it." The section is broad: it does not matter whether the mistake was made by the payer, by the payer's employee, or even by a third party. It does not matter that the payer was negligent. What matters is that the payment was made under a mistake of fact (the account number error) and that the recipient (Sunil) has no legal entitlement to the money. Sunil's knowledge that the credit was not intended for him aggravates rather than cures his obligation. Section 72 creates a quasi-contractual obligation to repay independently of fault or any pre-existing relationship.

Why other options are wrong:

Sol. 9.

- **(A)** Section 72 does not contain any defence based on the payer's contributory negligence; the obligation to repay arises from the fact of mistaken payment, not from the blamelessness of the payer.
- **(C)** Section 72 requires full repayment of the amount received; it does not permit the recipient to deduct anything for inconvenience, as the recipient had no right to the money at all.
- **(D)** Section 72 creates a standalone quasi-contractual obligation; it expressly does not require any pre-existing contractual or other relationship between payer and recipient.

Final Answer: $\boxed{B}$

Answer: (B) Go Back to Q9

Sol. 10.

Solution

Release by One Joint Promisee Does Not Affect Rights of the Other (Section 45)

Section 45 of the Indian Contract Act, 1872 deals with the rights of joint promisees. When one of two or more joint promisees releases the promisor, such release does not discharge the promisor as against the other joint promisee or promisees. Each joint promisee has an independent right to demand performance, and one promisee cannot, by his unilateral act, extinguish the rights that belong to the other. Anil's unilateral settlement with Chetan, made without Bina's knowledge or consent, binds only Anil. Bina's right to demand her share from Chetan is entirely unaffected, and Chetan cannot use Anil's release as a shield against Bina's claim.

Why other options are wrong:

- **(A)** Section 45 expressly protects the continuing rights of the other joint promisees; the release by one does not operate as a universal discharge of the promisor's obligations.
- **(B)** Bina's right is not diminished by what Anil chose to accept; her claim is for what she is independently entitled to, which is her share of the full debt owed to her.
- **(D)** While joint promisees ordinarily sue together in procedural law, the substantive right under the Indian Contract Act is individual; Section 45 confirms that the remaining promisee retains an enforceable claim.

Final Answer: $\boxed{C}$

Answer: (C) Go Back to Q10

Solution

Acceptance of Performance from a Third Party Discharges the Debtor (Section 41)

Section 41 of the Indian Contract Act, 1872 provides that when a promisee accepts performance of the promise from a third person, he cannot afterwards enforce it against the promisor. The provision operates as a complete bar to any subsequent claim against the debtor. Once Ramji accepted payment in full from Vijay and issued a receipt confirming full settlement, Arun was discharged from the debt. It is immaterial that Vijay acted without Arun's prior authority or knowledge. The creditor's voluntary acceptance of performance from any source is the operative event. Ramji's subsequent suit against Arun is thus legally unsustainable.

Why other options are wrong:

Sol. 11.

- **(A)** Section 41 does not restrict the source of valid performance to the debtor or an authorised agent; it expressly allows any third party's performance, once accepted by the creditor, to discharge the debtor.
- **(B)** There is no equitable partial-discharge doctrine in Section 41; the provision operates as a clean and complete discharge once performance is accepted.
- **(C)** There is no rule that payment of a monetary obligation can only be validly rendered by the debtor personally; Section 41 is a statutory rejection of that proposition.

Final Answer: D

Answer: (D) Go Back to Q11

Solution

Accord and Satisfaction: Substituted Contract Discharges the Original Obligation

Where the parties to a contract agree to substitute a new obligation in place of the original (accord) and the new obligation is duly performed (satisfaction), the original obligation is discharged. The written agreement between Prakash and Dilip was a valid substituted contract—it was supported by the consideration of immediate payment at a reduced amount in circumstances where the creditor was uncertain of full recovery. Once Prakash performed by paying Rs. 7,00,000 promptly, satisfaction was achieved and the original debt of Rs. 10,00,000 was fully extinguished. Dilip's argument that the agreement lacked consideration on his side overlooks that acceptance of a certain lesser sum today instead of an uncertain greater sum in the future is itself good consideration.

Why other options are wrong:

Sol. 12.

- **(B)** The agreement was not without consideration; the creditor's consent to accept a lesser sum and forego the balance, in exchange for prompt payment, is a valid consideration for the substituted obligation.
- **(C)** The strict common law rule (from *Pinnel's Case*) that part payment cannot discharge a greater debt does not apply where a written agreement was reached and performed; Indian courts recognise accord and satisfaction as

a valid mode of discharge.

- **(D)** A written settlement agreement settling a personal debt does not require registration; registration is required only for documents creating or transferring interests in immovable property as specified under the Registration Act.

Final Answer: $\boxed{A}$

Answer: (A) Go Back to Q12

Sol. 13.

Solution

Frustration: Destruction of Specific Subject Matter Discharges the Contract (Section 56)

Section 56, paragraph 2, of the Indian Contract Act, 1872 provides that a contract to do an act which, after the contract is made, becomes impossible or, by reason of some event which the promisor could not prevent, unlawful, becomes void when the act becomes impossible or unlawful. The banquet hall was the specific, identified subject matter of the hire contract—not a generic venue that could be substituted. Its total destruction by accidental fire, through no fault of either party, made performance of the precise contract impossible. The contract was therefore frustrated and both parties were released from future obligations. Questions about restitution of the advance are governed separately by Section 65 and the Frustrated Contracts principle.

Why other options are wrong:

- **(A)** Where the specific subject matter is destroyed, no duty to arrange an alternative arises; that would require an obligation materially different from and greater than what was contracted for.
- **(C)** Total physical destruction of the subject matter is not a case of temporary suspension; it permanently and irreversibly eliminates the very thing that was contracted for.
- **(D)** Frustration discharges both parties' future obligations by operation of law; it does not give the non-performing party a right to retain payments already received—those are subject to the law of restitution.

Final Answer: $\boxed{B}$

Answer: (B) Go Back to Q13

Solution

Measure of Damages for Non-Delivery: Available Market Rule (Section 73)

Section 73 of the Indian Contract Act, 1872 entitles the injured party to receive compensation for any loss or damage which naturally arose in the usual course of things from the breach. Where there is an available market for the goods not delivered, the natural measure of loss is the difference between the contract price and the market price of those goods on the date when delivery ought to have been made. This "available market" rule provides an objective, easily ascertainable measure that reflects the actual economic position of the buyer. Sweets Factory could have mitigated by purchasing replacement sugar at Rs. 44,000 per tonne; its recoverable loss is the additional cost so incurred: Rs. 4,000 $\times$ 100 tonnes = Rs. 4,00,000.

Why other options are wrong:

Sol. 14.

- **(A)** The contract price is not the measure of compensatory damages; that is the price of performance, not the measure of loss caused by non-performance. Loss is measured by the cost of obtaining the goods elsewhere.
- **(B)** The buyer is not required to have actually purchased substitute goods for the available market measure to apply; the rule is based on what the buyer could have done, not what it did.
- **(D)** Price fluctuation risk is a commercial reality, but it does not eliminate the seller's obligation to deliver or the buyer's right to damages for breach; that risk relates to the quantum of loss, not to the right to recover.

Final Answer: $\boxed{\text{C}}$

Answer: (C) Go Back to Q14

Solution

Duty to Mitigate: Avoidable Losses Are Irrecoverable (Section 73 Proviso)

Section 73 of the Indian Contract Act, 1872, in its explanation, provides that in estimating the loss or damage arising from a breach of contract, the means which existed of remedying the inconvenience caused by the non-performance must be taken into account. This statutory provision encodes the duty to mitigate. Where alternative steel beams were readily available from three nearby suppliers at only 5% above contract price, Bridge Builders had clear and easy means of remedying the inconvenience. Its deliberate choice not to avail itself of those means—and the resulting collapse of its construction schedule and consequent delay penalties—constitutes avoidable loss. Damages for loss that could reasonably have been avoided are not recoverable from the contract-breaker.

Why other options are wrong:

Sol. 15.

- **(A)** The chain of causation in contract damages is interrupted where the claimant had a reasonable opportunity to break it by mitigating; factual causation alone does not entitle a claimant to all downstream losses.
- **(B)** There is no absolute right to specific performance that excuses a failure to mitigate; where market alternatives exist, the duty to mitigate requires the claimant to use them.
- **(C)** Reasonable contemplation (the *Hadley v. Baxendale* remoteness principle) goes to recoverability of loss in principle; the duty to mitigate is a further, separate limitation that reduces recoverable damages even for foreseeable losses that were avoidable.

Final Answer: $\boxed{D}$

Answer: (D) Go Back to Q15

Solution

Unauthorised Sub-Agent Not Agent of Principal; Principal Not Liable (Sections 190 and 192)

Section 190 of the Indian Contract Act, 1872 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 the trade a sub-agent may, or from the nature of the agency a sub-agent must, be employed. Nisha was appointed to sell Rakesh's house—a task not falling within any trade custom permitting sub-delegation, and Rakesh gave no consent to delegate. Section 192 provides that where an agent, without authority to do so, has appointed a sub-agent, the agent is responsible to the principal for the acts of the sub-agent and the sub-agent has no privity with the principal. The principal is consequently not liable for the sub-agent's acts. Vinod's remedy lies against Nisha (who appointed Tarun without authority) and Tarun directly, but not against Rakesh.

Why other options are wrong:

Sol. 16.

- **(B)** Deemed agency by necessary implication requires some basis in the principal's conduct or consent; a principal cannot be made liable for a delegation he never authorised or knew about.
- **(C)** Being the ultimate beneficiary of the contemplated transaction does not create liability for unauthorised sub-agents; Section 192 is unambiguous that privity between principal and unauthorised sub-agent does not arise.
- **(D)** There is no "percentage of amount collected" formula for allocating liability under Indian agency law; liability either exists fully or does not exist at all based on the authority rules.

Final Answer: $\boxed{A}$

Answer: (A) Go Back to Q16

Solution

Del Credere Agent Is Personally Liable to Principal for Buyer's Default

A del credere agent is one who, in addition to the ordinary duties of an agent, undertakes for an extra commission (del credere commission) to guarantee to the principal that third parties with whom the agent deals on the principal's behalf will duly perform their contracts. This undertaking is in the nature of a guarantee: if the buyer fails to pay, the del credere agent is personally liable to the principal for the amount. The del credere agent thus assumes the credit risk of the buyers he introduces. Dinesh accepted the del credere appointment in consideration of an enhanced commission; Buyer X's insolvency triggers his personal liability to Hemant for the full Rs. 5,00,000.

Why other options are wrong:

Sol. 17.

- **(A)** The del credere undertaking specifically covers the risk of buyer default, including insolvency; that is the entire purpose and commercial rationale of the del credere arrangement.
- **(C)** There is no rule of equal risk-sharing between a del credere agent and his principal; the agent takes on the credit risk in full as part of his undertaking.
- **(D)** The del credere guarantee covers the buyer's obligation to pay, not merely disputes about goods; payment performance is the core of what the agent guarantees.

Final Answer: $\boxed{B}$

Answer: (B) Go Back to Q17

Solution

Undisclosed Principal: Third Party Must Elect Between Agent and Principal (Section 231)

When an agent acts for an undisclosed principal—that is, without revealing the existence of a principal—and the third party subsequently discovers the principal, the third party acquires the right to hold either the agent or the principal liable. However, this right is one of election: the third party must choose between the two. Once the election is made and acted upon, the third party is bound by it and cannot thereafter pursue the other. The rationale is that double recovery and multiple proceedings against both parties are not permissible; having made an informed choice about who to hold responsible, the third party must abide by it. Kavita's simultaneous suits against both Suresh and Manohar are therefore misconceived; she must elect.

Why other options are wrong:

Sol. 18.

- **(A)** Discovery of the undisclosed principal opens up the right to sue the principal; the third party is not confined to suing the agent merely because the contract was nominally made with the agent.
- **(B)** The right is one of election between agent and principal, not a mandatory channelling of liability exclusively to the principal; the third party retains the choice.
- **(D)** Joint and several liability does not arise between an agent and an undisclosed principal; the right is one of election, and only one of them can ultimately be held liable.

Final Answer: $\boxed{\text{C}}$

Answer: (C) Go Back to Q18

Solution

Rectification of Written Instrument to Conform to True Intention (Section 26, Specific Relief Act, 1963)

Section 26 of the Specific Relief Act, 1963 empowers a court to rectify any written instrument if the instrument, owing to fraud or mutual mistake of the parties, does not truly express their intention. Rectification corrects the written record to match the real agreement the parties actually reached. Here, both Harshvardhan and Vikram had genuinely agreed to a 60:40 ratio; the 50:50 figure in the deed was a mutual error of the solicitors in drafting. Neither party intended the 50:50 ratio. The court has jurisdiction to rectify the deed so that it reflects the true agreed ratio of 60:40.

Why other options are wrong:

Sol. 19.

- **(A)** A party who signs without reading takes the risk of his own carelessness in ordinary commercial contexts, but where the error is a mutual mistake in drafting that neither party intended, equity intervenes through rectification.
- **(B)** Rescission is an appropriate remedy where the parties wish to undo the entire instrument; rectification is the precise remedy where the parties want to preserve the contract but correct a specific drafting error.
- **(C)** The parol evidence rule bars evidence that contradicts or varies the

terms of a final written agreement; but rectification is a distinct equitable remedy that operates precisely to correct instruments that fail to record the actual agreement, and such evidence is admissible for that limited purpose.

Final Answer: $\boxed{D}$

Answer: (D) Go Back to Q19

Solution

Sol. 20.

Cancellation of Instrument Obtained by Fraud (Section 31, Specific Relief Act, 1963)

Section 31 of the Specific Relief Act, 1963 provides that any person against whom a written instrument is void or voidable—and who has reasonable apprehension that such instrument, if left outstanding, may cause him serious injury—may institute a suit for its adjudication and cancellation. A promissory note obtained by fraud is voidable at the option of the defrauded party (Section 19, Indian Contract Act, 1872). Mohan faces the imminent threat of Suresh suing on the fraudulently obtained note. That threat constitutes precisely the kind of apprehension of serious injury that Section 31 addresses. Mohan need not wait for Suresh to file suit; he may seek preemptive cancellation so the instrument cannot be used against him.

Why other options are wrong:

- **(B)** The Specific Relief Act is not excluded by the Negotiable Instruments Act in cases involving fraud; a victim of fraud can seek equitable relief under Section 31, which operates independently of the NI Act remedies.
- **(C)** Section 31 expressly contemplates relief on the basis of *apprehension* of injury from an outstanding instrument; waiting for actual suit to be filed is not a prerequisite for relief under Section 31.
- **(D)** Section 31 expressly empowers courts to cancel instruments, not merely award damages for fraud; cancellation is the primary relief specifically available under that section.

Final Answer: $\boxed{A}$

Answer: (A) Go Back to Q20

ANSWER KEY

1	B	2	C	3	D	4	A	5	B
6	C	7	D	8	A	9	B	10	C
11	D	12	A	13	B	14	C	15	D
16	A	17	B	18	C	19	D	20	A