CLAT PG Law of Contract

Sample Paper – 2

Duration: 20 Minutes | **Maximum 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 mark**.
- Only **one option** is correct for each question.
- Syllabus: **Indian Contract Act, 1872** and **Specific Relief Act, 1963** (LLB level).
- Calculators and electronic devices are **not permitted**.

Q1. Raghav offers to sell his vintage car to Sunita for Rs. 5,00,000. Sunita replies in writing: "I am willing to buy, but only at Rs. 4,50,000." Raghav rejects this. Sunita then immediately writes again saying she accepts the original price of Rs. 5,00,000. Raghav declines to sell. Sunita files a suit for breach of contract.

Which of the following best describes the legal position?

(A) Sunita's second letter created a binding contract at Rs. 5,00,000 because she ultimately accepted the original terms.

(B) The original offer by Raghav remained open since Sunita's first reply was merely a counter-proposal and not a rejection.

(C) Sunita's first reply constituted a counter-offer that terminated the original offer; her subsequent purported acceptance is therefore ineffective and no contract was formed.

(D) Raghav was obliged to keep the offer open because Sunita expressed clear interest in purchasing the car.

Q2. Prakash sends a written offer by post to Meena on 1st August, offering to sell his plot of land. Meena posts her letter of acceptance on 5th August. The letter reaches Prakash on 8th August. On 6th August — after

Meena had already posted her acceptance but before Prakash received it — Prakash posted a letter of revocation. Both letters are duly delivered.

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

(A) A binding contract was concluded on 5th August when Meena posted her acceptance; the revocation posted on 6th August is too late and has no effect on the contract.

(B) No contract was formed because Prakash dispatched his revocation before the acceptance letter reached him.

(C) The contract was formed on 8th August when the acceptance letter was actually received by Prakash.

(D) The acceptance is invalid because the revocation was communicated before delivery of the acceptance letter.

Q3. Devika agrees to transfer a valuable painting worth Rs. 10,00,000 to Suresh in exchange for a consideration of Rs. 100. Suresh pays the Rs. 100 and demands delivery of the painting. Devika refuses to deliver, contending that the consideration is grossly inadequate and amounts to no real bargain. There is no allegation of fraud, coercion, or undue influence by either party.

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

(A) The agreement is void because the consideration is grossly disproportionate to the value of the subject matter.

(B) A court may set aside a contract whenever the consideration is less than one-tenth of the market value of the promised performance.

(C) Devika may rescind the contract unilaterally on the ground of inadequacy of consideration at any time before delivery.

(D) The agreement is valid and enforceable; courts do not inquire into the adequacy of consideration so long as some consideration exists and the contract is otherwise free from vitiating factors.

Q4. Ananya owed Rohan Rs. 2,00,000 arising from an admitted breach of a commercial lease agreement. Rohan agreed in writing to refrain from filing a civil suit against Ananya, provided Ananya promised to pay Rs. 1,50,000 within 30 days. Ananya later refused to pay, arguing that Rohan's mere agreement not to sue is not good consideration because he was only choosing not to exercise a right he already had.

Which of the following is the correct legal position?

(A) Rohan's forbearance from suit is not valid consideration because he was only refraining from doing what he was already entitled to do.

(B) Forbearance from filing suit on a valid and subsisting legal claim constitutes good and sufficient consideration under the Indian Contract Act, 1872.

(C) The agreement is void because consideration must involve an exchange of money for money or money's worth of equal value.

(D) Consideration must be simultaneous with the promise; an agreement to forbear in the future cannot constitute present consideration.

Q5. An elderly widow, wholly dependent on her religious manager for her daily care and financial affairs, executes a deed transferring her entire estate to the manager. After her death, the widow's legal heirs challenge the transaction on the ground of undue influence. The manager contends that the transfer was a voluntary and informed gift. The heirs establish before the court that a fiduciary relationship existed between the parties and that the transaction was unconscionable.

What is the legal consequence of establishing these facts under the Indian Contract Act, 1872?

(A) The contract is automatically void without any further inquiry once a fiduciary relationship is established.

(B) The heirs must additionally prove, through direct evidence, that actual pressure or compulsion was applied to vitiate the widow's consent.

(C) Once a fiduciary relationship and an unconscionable transaction are established, the burden of proof shifts to the dominant party (the manager) to show that the transaction was fair, just, and entered into freely.

(D) The court conclusively presumes invalidity and the dominant party has no opportunity to rebut the presumption.

Q6. Vishal enters into a sale deed transferring his agricultural land to Priya. Unknown to Priya, a third party — Vishal's creditor — had threatened serious physical harm to Vishal's minor son if Vishal did not execute the sale deed. Priya paid fair market value for the property in good faith. Vishal subsequently seeks to avoid the contract on the ground of coercion under Section 15 of the Indian Contract Act, 1872.

Which of the following correctly describes the legal position?

(A) The contract cannot be avoided because Priya was not a party to the coercion and she is a bona fide purchaser for value.

(B) The contract cannot be avoided because coercion under Section 15 can only be committed by the other contracting party, not by a third party.

(C) The contract is voidable only if Priya had actual knowledge of the third party's threat at the time of contracting.

(D) The contract is voidable at Vishal's option; Section 15 of the Indian Contract Act, 1872 expressly provides that coercion can be committed by a third party who is not a party to the contract.

Q7. Santosh is selling a printing machine and tells the buyer Kavya that the machine produces 500 units per hour, basing his statement on the manufacturer's published technical specifications which he genuinely believed to be accurate. After purchase, Kavya discovers the machine produces only 350 units per hour. The manufacturer's brochure had contained an error. Santosh had no independent means of verifying the output.

Which of the following correctly describes Santosh's statement and its legal consequences?

(A) Santosh's statement constitutes misrepresentation under Section 18 of the Indian Contract Act, 1872 — a false statement made honestly believing it to be true; Kavya may rescind the contract but cannot claim damages as in fraud.

(B) Santosh's statement constitutes fraud under Section 17 because any incorrect representation, regardless of the maker's honest belief, is fraudulent.

(C) The contract is void ab initio because the subject matter was misdescribed and there was no meeting of minds.

(D) Kavya has no remedy because a buyer is under a duty to independently verify technical specifications before purchasing machinery.

Q8. Harish, a major shareholder of a company, knows that the company is on the verge of insolvency proceedings being filed against it. He negotiates a sale of his entire shareholding to Neeraj, who is unaware of the impending insolvency. Harish completes the sale without disclosing this material information. When Neeraj discovers the truth, he alleges fraud. Harish contends that he made no positive false statement and that silence cannot amount to fraud.

Which of the following correctly applies the law?

(A) Mere silence can never amount to fraud under Indian law; only active misstatements are covered by Section 17 of the Indian Contract Act, 1872.

(B) Under Section 17(2) of the Indian Contract Act, 1872, silence amounts to fraud where the circumstances of the case impose a duty to speak; Harish's silence regarding the impending insolvency — a material fact — is fraudulent, giving Neeraj the right to rescind and claim damages.

(C) The contract is voidable only for misrepresentation, not fraud, because Harish did not actively lie; Neeraj can rescind but cannot claim damages.

(D) Neeraj must prove that Harish made a positive false statement to establish fraud; the absence of disclosure alone is insufficient.

Q9. As part of a formal matrimonial settlement deed, Rekha (an adult woman) and her former partner's family agree that Rekha shall not remarry for a period of five years in exchange for a lump sum payment of Rs. 10,00,000 transferred to her. Rekha accepts the payment. Three years later, Rekha plans to remarry. The former partner's family seeks to enforce the restraint clause and recover the lump sum.

What is the legal position under the Indian Contract Act, 1872?

(A) The agreement is valid and enforceable because the restraint is limited to five years and is therefore a partial restraint of marriage.

(B) The agreement is enforceable because valid consideration (the lump sum) was paid and the parties had freedom to contract.

(C) The agreement is void under Section 26 of the Indian Contract Act, 1872, which declares every agreement in restraint of the marriage of any person other than a minor to be void; Rekha is free to remarry.

(D) The agreement is voidable at Rekha's option as it places an unreasonable restriction on her personal freedom.

Q10. Arun proposes to Bhuvan: "I promise to pay you Rs. 50,000 if the Sun rises from the West tomorrow morning." Bhuvan agrees. The next day, Bhuvan approaches Arun and demands payment, alleging that the condition has become impossible. Arun contends that the agreement was void from the outset.

What is the correct legal status of this agreement under the Indian Contract Act, 1872?

(A) The agreement is a valid contingent contract and is enforceable once it is established that the condition has not been fulfilled.

(B) The agreement is voidable at the option of Arun because the event was speculative and improbable at the time of contracting.

(C) The agreement is valid; the impossibility of the condition only makes the condition collateral and severable from the main promise.

(D) The agreement is void under Section 36 of the Indian Contract Act, 1872, which provides that a contingent agreement to do or not to do something, if an impossible event happens, is void whether or not the impossibility of the event is known at the time of the agreement.

Q11. Ramesh finds a gold watch lying on the floor of a busy shopping mall. He picks it up and takes it home, intending to keep it if no one claims it. Six weeks later, the true owner, Shalini, traces the watch to Ramesh and demands its return. Ramesh refuses, arguing that as the finder he has acquired a right over the watch superior to all except the original owner, and that since a reasonable time has passed he is now entitled to retain it.

Which of the following correctly states the legal position?

(A) Ramesh, as finder, holds the watch as a bailee on behalf of the true owner Shalini under Section 71 of the Indian Contract Act, 1872; he must return it to her and acquires no ownership rights as against the true owner.

(B) Ramesh acquires possessory title by adverse possession after a reasonable time of uninterrupted possession against all parties.

(C) The true owner, Shalini, loses her claim to the watch after six months of non-recovery under the law of lost property.

(D) Ramesh is legally entitled to retain the watch once no one has claimed it within three months of finding.

Q12. Ashok mistakenly believes that he owes a sum of Rs. 1,00,000 to Bhim under a contract. In fact, the contract had already been fully performed and no sum was due. Acting under this mistaken belief, Ashok voluntarily transfers Rs. 1,00,000 to Bhim. When Ashok discovers the error, he demands repayment. Bhim refuses, arguing that the payment was voluntary and not made under any compulsion.

Which of the following is the correct legal position under the Indian Contract Act, 1872?

(A) Bhim may retain the money because Ashok made the payment voluntarily and without any duress, coercion, or misrepresentation by Bhim.

(B) Ashok is entitled to recover Rs. 1,00,000 from Bhim under Section 72 of the Indian Contract Act, 1872, which provides that a person to whom money has been paid, or anything delivered, by mistake, must repay or return it.

(C) Recovery is barred because the mistake was self-induced by Ashok and the law does not assist a person who fails to exercise due diligence.

(D) Once a payment is voluntarily made it takes the character of a gift and cannot be reclaimed.

Q13. Rohit owes Sapna Rs. 3,00,000 under a loan agreement. All three parties — Rohit, Sapna, and Vineet — meet and execute a written agreement whereby Vineet undertakes to pay Sapna Rs. 3,00,000 and Rohit is expressly released from all liability. Sapna agrees to look only to Vineet for repayment. Vineet subsequently defaults.

Can Sapna sue Rohit for the debt?

(A) Yes; Rohit remains jointly and severally liable as the original debtor, and his release was not supported by independent consideration.

(B) Yes; Sapna can sue both Rohit and Vineet simultaneously because the original obligation subsists alongside the new agreement.

(C) No; by novation, the original contract between Rohit and Sapna is discharged and replaced by a new contract between Sapna and Vineet; Sapna's only remedy is against Vineet.

(D) No, but only if the novation agreement was compulsorily registered under the Registration Act.

Q14. Meera owed her landlord Jiten Rs. 5,00,000 in arrears of rent over three years. Jiten, acknowledging difficulty in recovery, executed a written agreement with Meera accepting Rs. 3,00,000 as full and final settlement and discharge of all outstanding rent claims. Meera paid Rs. 3,00,000 as agreed. Jiten subsequently filed a suit claiming the remaining Rs. 2,00,000.

Which of the following best describes the legal outcome?

(A) Jiten can recover the balance because acceptance of a lesser sum does not discharge the full liquidated debt in Indian contract law.

(B) Jiten can recover the balance if he can demonstrate that the accord was not entered into freely or was not supported by fresh consideration.

(C) Jiten can recover because the promised satisfaction (Rs. 3,00,000) was less than the admitted debt and therefore fails as consideration.

(D) The debt is fully discharged by accord and satisfaction; Jiten agreed in writing to accept the lesser amount in full settlement and cannot reopen the claim for the balance.

Q15. In January, Krishnan enters into a written contract with Farida to construct and deliver a commercial office unit by 31st December of the same year. In March, Krishnan sends a registered letter to Farida expressly stating that he is unable and unwilling to perform the contract under any circumstances. Farida consults her legal counsel on her immediate rights.

Which of the following best describes her legal position?

(A) Farida may treat Krishnan's repudiation as an anticipatory breach and institute a suit for damages immediately, without waiting until December; alternatively, she may affirm the contract and wait until the date of performance before suing.

(B) Farida must wait until 31st December for the actual breach to crystallize before she is entitled to bring any legal proceedings.

(C) Farida must issue a formal notice giving Krishnan a reasonable opportunity to retract his repudiation, and cannot sue until that period expires.

(D) Anticipatory breach is not recognized under the Indian Contract Act, 1872; Farida's right of action arises only upon actual non-performance on the due date.

Q16. A film production company wrongfully terminates its contract with actress Riya midway through the contracted filming period. Rather than seeking alternative film or commercial work for which she is equally qualified, Riya remains idle for the entire balance of the contracted period. She then claims the full unpaid contract price as damages. The production company resists the claim, arguing she failed to mitigate her loss.

Which of the following correctly states the law?

(A) Riya is entitled to the full contract price as damages because the breach was entirely the production company's fault and she should not be penalized for inaction.

(B) Riya owed a duty to take reasonable steps to mitigate her loss after the wrongful termination; her unexplained failure to seek available alternative work will reduce the damages she can recover from the production company.

(C) The production company cannot raise mitigation as a defence once a clear breach has been established by the claimant.

(D) The duty to mitigate applies to contracts for the sale of goods and property, not to personal service contracts such as performance contracts.

Q17. The managing director (MD) of a manufacturing company had for several years routinely signed purchase orders for office equipment on behalf of the company, and suppliers had consistently been paid. The board of directors subsequently passed an internal resolution restricting the MD's purchasing authority to orders not exceeding Rs. 50,000. A supplier, unaware of this restriction, supplied goods worth Rs. 2,00,000 against a purchase order signed by the MD. The company refuses to pay, relying on the internal resolution.

Which of the following correctly decides the dispute?

(A) The company is not bound to pay because the MD had clearly exceeded his actual authority as defined by the board's resolution.

(B) The supplier should have independently verified the MD's actual authority before supplying goods on credit, and bears the risk of dealing with an agent.

(C) The company is bound to pay the supplier; the MD had apparent/ostensible authority arising from the company's consistent prior conduct, and an undisclosed internal restriction cannot be relied upon against a third party who had no notice of it.

(D) The board's internal resolution constitutes a public document of which all persons dealing with the company are deemed to have constructive notice, binding the supplier.

Q18. Pavan enters into a contract with Girish for the supply of industrial goods. Pavan contracts in his own name and gives no indication that he is acting on behalf of any other person. In fact, Pavan is acting as the agent of Raj. When the goods are defective and the contract is breached, Girish discovers for the first time that Raj is the real principal. Girish wishes to sue for breach of contract.

Which of the following correctly states Girish's rights?

(A) Girish can only sue Pavan because Raj's identity was not disclosed at the time of contracting and Raj is a stranger to the contract with Girish.

(B) Girish can only sue Pavan because the contract was formed between Pavan and Girish; Raj cannot be made liable as he was undisclosed.

(C) Girish can sue Raj only if Raj has subsequently ratified the contract; without ratification the undisclosed principal has no liability.

(D) Upon discovering the identity of the undisclosed principal, Girish has the right to elect to sue either Pavan (the agent) or Raj (the undisclosed principal), but not both simultaneously to satisfaction.

Q19. Without any authority, Kiran purports to act as agent for Deepa and contracts with Suresh for the sale of Deepa's commercial property for Rs. 60,00,000, although the property's market value is Rs. 80,00,000. When Deepa learns of the contract, she wishes to ratify it — but only on the modified terms that the sale price be Rs. 80,00,000 instead of Rs. 60,00,000. Suresh objects.

What is the correct legal position under the Indian Contract Act, 1872?

(A) Ratification under the Indian Contract Act, 1872 must be of the whole transaction; Deepa cannot ratify part of the contract or alter its terms while purporting to ratify — she must either ratify the contract as it stands or repudiate it entirely.

(B) Deepa may ratify the contract and simultaneously vary its terms, provided Suresh is given adequate notice of the variation.

(C) Since ratification relates back to the date of the agent's original act, Deepa can impose any conditions she chooses at the time of ratification.

(D) Because the original act was entirely unauthorized, ratification is legally impossible and the contract is void and incapable of becoming binding.

Q20. A lessee constructs an additional unauthorized floor on the leased premises in clear breach of the lease agreement, which prohibited any structural alterations. The lessor, after the unauthorized floor is completed, approaches the court seeking an order compelling the lessee to demolish the extra floor and restore the building to its original condition. The lessee argues that courts are inherently reluctant to grant such orders.

What type of injunction is being sought, and what is the correct legal principle under the Specific Relief Act, 1963?

(A) A prohibitory injunction is being sought; courts readily grant prohibitory injunctions to enforce clearly established contractual obligations between parties.

(B) A mandatory injunction (compelling a positive act — demolition and restoration) is being sought; under the Specific Relief Act, 1963, courts exercise greater caution and reluctance in granting mandatory injunctions compared to prohibitory injunctions, and will do so only where necessary to prevent injustice.

(C) The lessor is not entitled to any injunction and must restrict himself to a claim for damages for breach of the lease covenant.

(D) A prohibitory injunction restraining further construction would be the appropriate remedy; courts do not order demolition of completed structures as it is beyond the scope of injunctive relief.

Detailed Solutions

Sol 1.

Solution

Concept — Offer & Acceptance (Counter-Offer): A counter-offer is a rejection of the original offer and simultaneously the making of a new offer (Hyde v Wrench, 1840). Once the original offer is rejected by a counter-offer, it is destroyed and cannot be revived by a later acceptance. Section 2(b) of the Indian Contract Act, 1872 requires acceptance to be absolute and unqualified; a conditional reply does not constitute acceptance and extinguishes the original offer.

Analysis: Sunita's first reply — "I am willing to buy, but only at Rs. 4,50,000" — was not an absolute and unqualified acceptance of Raghav's offer. It constituted a counter-offer, which in law simultaneously rejected and destroyed Raghav's original offer. When Sunita subsequently tried to accept the original price of Rs. 5,00,000, there was no live offer in existence to accept. No contract was therefore formed.

Why other options are wrong:

- Option (A): Incorrect. Sunita's second letter could not create a binding contract because the original offer had been destroyed by her counter-offer.
- Option (B): Incorrect. A counter-offer is not a "counter-proposal" that leaves the original offer intact; it terminates the original offer entirely.
- Option (D): Incorrect. There is no legal obligation on an offeror to keep an offer open after it has been rejected, unless supported by a separate option agreement.

Final Answer: Sunita's counter-offer destroyed the original offer; her later acceptance is ineffective and no contract was formed. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q1

Sol 2.

Solution

Concept — Communication of Acceptance (Postal Rule, Sec 4): Under Section 4 of the Indian Contract Act, 1872, the communication of acceptance is complete as against the proposer when the acceptance is put in a course of transmission — i.e., when the letter is posted. The acceptance is complete as against the acceptor when it comes to the knowledge of the proposer. Therefore, once Meena posted her letter, the contract became binding on Prakash, regardless of when the letter arrived.

Analysis: Meena posted her acceptance on 5th August. At that moment, the contract was concluded and became binding on Prakash. Prakash's letter of revocation posted on 6th August came after the contract had already been formed and therefore had no legal effect. A proposer may revoke an offer only before the acceptance is posted, not after.

Why other options are wrong:

- Option (B): Incorrect. The contract was concluded on 5th August when acceptance was posted; whether revocation was sent before or after receipt of the acceptance letter is irrelevant once posting occurs.
- Option (C): Incorrect. Under the postal rule, the contract is complete on posting, not on receipt by the proposer.
- Option (D): Incorrect. The postal rule makes the contract complete on dispatch of acceptance; revocation received later cannot undo this.

Final Answer: Contract concluded on 5th August when Meena posted her acceptance; revocation posted on 6th August is too late. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q2

Sol 3.

Solution

Concept — Adequacy of Consideration (Sec 25, Explanation 2): Section 25 of the Indian Contract Act, 1872, together with Explanation 2, makes clear that an agreement is not void merely because the consideration is inadequate. Courts do not sit to assess the commercial wisdom of bargains freely struck between parties. The law requires the existence of consideration, not its equivalence to the value of the promise. Inadequacy may, however, be taken as evidence of fraud, undue influence, or coercion.

Analysis: Devika accepted Rs. 100 as consideration for the painting. Suresh paid it. No vitiating factor such as fraud, undue influence, or coercion is alleged. The consideration, however nominal, is sufficient in law. Devika cannot refuse delivery on the basis of inadequacy alone; the contract is valid and enforceable.

Why other options are wrong:

- Option (A): Incorrect. Inadequacy of consideration, standing alone, does not render a contract void.
- Option (B): Incorrect. There is no statutory or case-law rule that empowers courts to set aside contracts where consideration falls below a proportionate fraction of market value.
- Option (C): Incorrect. A party cannot unilaterally rescind a validly formed contract; rescission requires consent of both parties or a court order based on vitiating factors.

Final Answer: The contract is valid; courts do not examine the adequacy of consideration as long as some consideration exists and the contract is free from vitiating factors. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q3

Sol 4.

Solution

Concept — Forbearance as Consideration (Sec 2(d)): Section 2(d) of the Indian Contract Act, 1872 defines consideration as any act or abstinence by the promisee at the desire of the promisor. Forbearance from pursuing a valid legal right (such as filing a suit on a legitimate claim) is a recognized form of abstinence and constitutes good consideration. The forbearing party gives up a legal right, which is a detriment sufficient to support a contract.

Analysis: Rohan had a valid, subsisting legal claim worth Rs. 2,00,000 against Ananya. He agreed to abstain from exercising that right (filing suit) in exchange for Ananya's promise to pay Rs. 1,50,000. This abstinence at Ananya's request is valid consideration under Section 2(d). Ananya's argument that forbearance cannot be consideration because Rohan was "only choosing not to" exercise a right entirely misunderstands the law.

Why other options are wrong:

- Option (A): Incorrect. Refraining from exercising a legal right is a detriment to the promisee and is a well-established form of consideration.

- Option (C): Incorrect. Consideration need not involve money exchanged for money; it encompasses any act or abstinence.
- Option (D): Incorrect. Consideration need not be simultaneous; an agreement to forbear in the future at the promisor's request is valid present consideration.

Final Answer: Forbearance from filing suit on a valid legal claim is good and sufficient consideration. $\Rightarrow$ $\boxed{\text{B}}$

Answer: (B) Go Back to Q4

Sol 5.

Solution

Concept — Undue Influence: Burden of Proof (Sec 16(3)): Section 16(3) of the Indian Contract Act, 1872 provides that where a person in a position to dominate the will of another enters into a contract with that person and the transaction appears, on the face of it or on the evidence adduced, to be unconscionable, the burden lies on the dominant party to prove that the contract was not induced by undue influence. The shifting of the burden is a statutory mechanism.

Analysis: Once the heirs establish (i) that a fiduciary relationship existed — making the religious manager a person in a position to dominate the widow's will — and (ii) that the transaction was unconscionable (transfer of the entire estate for no apparent benefit), the statutory presumption under Section 16(3) is triggered. The burden then falls on the religious manager to demonstrate that the transaction was the product of the widow's free and independent will.

Why other options are wrong:

- Option (A): Incorrect. Establishing the two elements does not make the contract automatically void; it shifts the burden and allows the dominant party to rebut.
- Option (B): Incorrect. Once the statutory conditions are satisfied, the heirs need not prove actual pressure; that is precisely what the burden-shifting rule relieves them of.
- Option (D): Incorrect. The presumption is rebuttable; the dominant party has a full opportunity to adduce evidence that the transaction was fair and voluntary.

Final Answer: Burden shifts to the dominant party to prove the transaction was fair, just, and not induced by undue influence. ⇒ $\boxed{\text{C}}$

Answer: (C) Go Back to Q5

Sol 6.

Solution

Concept — Coercion by a Third Party (Sec 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. The provision does not require the coercion to be committed by the other contracting party; it expressly extends to coercion by any person, including a third party.

Analysis: The threat to physically harm Vishal's minor son, if carried out, would be an act forbidden by the Indian Penal Code. This falls squarely within the definition of coercion under Section 15. The fact that it was Vishal's creditor (a third party) and not Priya who made the threat is irrelevant. The contract is voidable at Vishal's option even though Priya was innocent. However, Priya may have rights as a bona fide purchaser under other provisions.

Why other options are wrong:

- Option (A): Incorrect. Section 15 does not require the other contracting party to have committed the coercion; innocence of the other party does not validate the coerced consent.
- Option (B): Incorrect. Section 15 expressly covers coercion by third parties; there is no requirement that coercion be committed by a contracting party.
- Option (C): Incorrect. Priya's knowledge is not a statutory requirement under Section 15 for the contract to be voidable for coercion.

Final Answer: The contract is voidable; Section 15 allows coercion by a third party to vitiate consent. ⇒ $\boxed{\text{D}}$

Answer: (D) Go Back to Q6

Sol 7.

Solution

Concept — Innocent Misrepresentation (Sec 18): Section 18 of the Indian Contract Act, 1872 defines misrepresentation as, inter alia, a positive assertion in a manner not warranted by the information of the person making it, of that which is not true, though he believes it to be true. This covers honest but false statements. Under Section 19, a party whose consent was caused by misrepresentation may avoid the contract but — unlike fraud — is **not** entitled to claim compensation/damages.

Analysis: Santosh genuinely believed the machine produced 500 units per hour based on the manufacturer's brochure. His statement was honest but turned out to be false. This is a classic case of innocent misrepresentation under Section 18: a false statement made without fraudulent intent. Kavya may rescind the contract but cannot claim damages because this is misrepresentation, not fraud.

Why other options are wrong:

- Option (B): Incorrect. Fraud under Section 17 requires knowledge of falsity, absence of belief in truth, or reckless disregard for truth. Santosh had an honest belief based on the manufacturer's specifications.
- Option (C): Incorrect. The contract is not void ab initio; it is voidable at the instance of the party whose consent was caused by the misrepresentation.
- Option (D): Incorrect. The law does not make the buyer's independent verification a precondition for claiming relief for misrepresentation.

Final Answer: Santosh's statement is innocent misrepresentation under Section 18; Kavya may rescind but cannot claim damages. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q7

Sol 8.

Solution

Concept — Fraudulent Silence (Sec 17(2)): Section 17 of the Indian Contract Act, 1872 provides that fraud includes "the active concealment of a fact by one having knowledge or belief of the fact." The Explanation to Section 17 clarifies that mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud, *unless* the circumstances of the case are such that regard being had to them, it is the duty of the person keeping silence to speak. In dealings involving material facts in fiduciary or quasi-fiduciary settings, or where one party has superior knowledge material to the subject matter, silence may constitute fraud.

Analysis: Harish had exclusive knowledge of the company's impending insolvency — a fact that was highly material to the value of the shares and to Neeraj's decision to purchase. Harish was under a duty to disclose this material fact. His deliberate silence amounts to active concealment and thus fraud under Section 17(2), giving Neeraj the right to rescind the contract and claim damages.

Why other options are wrong:

- Option (A): Incorrect. Section 17 explicitly recognizes that silence can be fraudulent where there is a duty to speak.
- Option (C): Incorrect. Where the silence meets the threshold of Section 17, the remedy is for fraud — including rescission and damages — not merely misrepresentation.
- Option (D): Incorrect. Section 17 covers active concealment and fraudulent silence, not only positive false statements.

Final Answer: Harish's silence about the impending insolvency was fraudulent under Section 17(2); Neeraj may rescind and claim damages. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q8

Sol 9.

Solution

Concept — Restraint of Marriage (Sec 26): Section 26 of the Indian Contract Act, 1872 provides that every agreement in restraint of the marriage of any person other than a minor is void. Unlike Section 27 (restraint of trade) which recognizes partial restraint, Section 26 is absolute — it admits no exceptions based on the duration or reasonableness of the restraint.

Analysis: The agreement restrains Rekha (an adult) from marrying for five years. Even though the restraint is limited in duration and supported by monetary consideration, Section 26 declares any such agreement void. The limitation of the restraint period is irrelevant; the section does not recognize the distinction between "absolute" and "partial" restraint of marriage. Rekha is free to remarry, and the agreement is void.

Why other options are wrong:

- Option (A): Incorrect. Unlike restraint of trade (Section 27), there is no concept of "partial" restraint of marriage that saves an agreement under Section 26.
- Option (B): Incorrect. Valid consideration cannot cure the statutory invalidity imposed by Section 26.
- Option (D): Incorrect. The agreement is not merely voidable at Rekha's option; it is void ab initio by operation of statute.

Final Answer: The agreement is void under Section 26 regardless of the duration of the restraint or the consideration paid. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q9

Sol 10.

Solution

Concept — Contingent Contract on Impossible Event (Sec 36): Section 36 of the Indian Contract Act, 1872 provides that contingent agreements to do or not to do anything, if an impossible event happens, are void, whether the impossibility of the event is known or not to the parties at the time of making the agreement.

Analysis: The promise to pay Rs. 50,000 is made contingent on the Sun rising from the West — a physical and scientific impossibility. This is precisely the scenario Section 36 addresses. The agreement is void from the outset. Bhuvan acquires no right under it and cannot demand payment. It does not matter whether the parties knew of the impossibility at the time of contracting.

Why other options are wrong:

- Option (A): Incorrect. A contingent contract on an impossible event is not a valid contingent contract; it is void by express statutory provision.
- Option (B): Incorrect. The agreement is void, not merely voidable; voidable implies a choice which does not exist here.
- Option (C): Incorrect. The impossible condition is not severable from the main promise; the entire agreement is void.

Final Answer: The agreement is void under Section 36 as it is contingent on an impossible event. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q10

Sol 11.

Solution

Concept — Finder of Lost Goods as Bailee (Sec 71): Section 71 of the Indian Contract Act, 1872 provides that a person who finds goods belonging to another and takes them into his custody is subject to the same responsibility as a bailee. The finder acquires possessory rights superior to everyone except the true owner, but acquires no ownership against the true owner. The finder may sell the goods only in very specific circumstances (if the owner cannot be found with reasonable diligence, or if the goods are in danger of perishing, or when the lawful charges of the finder exceed two-thirds of the value of the goods).

Analysis: Ramesh found Shalini's watch and took it into his custody. He thereby became a bailee of the goods under Section 71. Shalini, as the true owner, has an absolute right to recover the watch. Ramesh has no ownership claim against the true owner. The passage of time does not extinguish the true owner's rights in such circumstances.

Why other options are wrong:

- Option (B): Incorrect. Adverse possession requires continuous, open, hostile possession for a statutory period under limitation law; the circumstances here do not establish adverse possession against the true owner.
- Option (C): Incorrect. There is no six-month rule extinguishing the true owner's claim in Indian law applicable to this situation.
- Option (D): Incorrect. No three-month rule exists that transfers ownership to the finder; such rules do not exist under the Indian Contract Act, 1872.

Final Answer: Ramesh holds the watch as bailee under Section 71 and must return it to Shalini as the true owner. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q11

Sol 12.

Solution

Concept — Money Paid by Mistake (Sec 72): Section 72 of the Indian Contract Act, 1872 provides that a person to whom money has been paid, or anything delivered, by mistake or under coercion, must repay or return it. The Supreme Court of India has also held that money paid under a mistake of law is recoverable (overruling the older view that confined recovery to mistakes of fact).

Analysis: Ashok paid Rs. 1,00,000 under a genuine mistake of fact — he believed a debt existed when in truth no sum was due. Bhim received the money without any legal entitlement to it. Section 72 creates an obligation on Bhim to repay the amount. The fact that the payment was voluntary is irrelevant; voluntariness is not a defence against a Section 72 claim since the section is precisely aimed at payments made without compulsion but under a mistaken belief.

Why other options are wrong:

- Option (A): Incorrect. Section 72 is not restricted to payments made under compulsion or duress; it expressly covers voluntary payments made by mistake.
- Option (C): Incorrect. The law does not bar recovery merely because the mistake was the payer's own; Section 72 does not impose a due-diligence precondition on the payer.
- Option (D): Incorrect. A payment under a mistake of fact does not constitute a gift; the donor's intent to make a gift must be clear and voluntary without any mistake.

Final Answer: Ashok is entitled to recover Rs. 1,00,000 from Bhim under Section 72 as money paid by mistake. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q12

Sol 13.

Solution

Concept — Novation (Sec 62): Section 62 of the Indian Contract Act, 1872 provides that 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. Novation involves the substitution of a new obligation for an existing one, with the consent of all parties concerned. Upon novation, the original contract is discharged and the original debtor is released.

Analysis: All three parties (Rohit, Sapna, and Vineet) agreed to a novation: Vineet assumed Rohit's obligation, Sapna agreed to look only to Vineet, and Rohit was expressly released. The original contract between Rohit and Sapna was discharged by this trilateral agreement. Sapna gave up her right against Rohit in exchange for Vineet's direct undertaking. She cannot resurrect her claim against Rohit upon Vineet's default.

Why other options are wrong:

- Option (A): Incorrect. Rohit was expressly released; the express release negates any residual joint liability. Novation does not require fresh independent consideration if it is consensual.
- Option (B): Incorrect. Upon a valid novation, the original contract is extinguished; both the original debtor and the original obligation are discharged.
- Option (D): Incorrect. Novation agreements do not require registration to be effective under Indian contract law.

Final Answer: The original contract is discharged by novation; Sapna can only sue Vineet and not Rohit. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q13

Sol 14.

Solution

Concept — Accord and Satisfaction (Sec 63): Section 63 of the Indian Contract Act, 1872 provides that every promisee may dispense with or remit, wholly or in part, the performance of the promise made to him. This provision allows a creditor to accept a lesser sum in full satisfaction of a larger liquidated debt. Once the accord is made and satisfaction given (i.e., the lesser amount is paid and accepted as agreed), the entire debt is discharged. Indian law — unlike English common law before Foakes v Beer — allows accord and satisfaction to extinguish a liquidated debt under Section 63.

Analysis: Jiten agreed in writing to accept Rs. 3,00,000 in full and final settlement of Rs. 5,00,000. Meera paid Rs. 3,00,000 (satisfaction). The accord was complete and the debt fully discharged under Section 63. Jiten's subsequent suit for the balance is unsustainable.

Why other options are wrong:

- Option (A): Incorrect. Under Section 63, a creditor can validly accept a lesser sum and remit the balance; Indian law does not follow the pre-Williams v Roffey English common law rule.
- Option (B): Incorrect. The voluntariness of the accord is not in question; the agreement was in writing and the payment made accordingly.
- Option (C): Incorrect. The promisee's statutory right under Section 63 to remit whole or part of the performance does not require that the satisfaction equal the original debt.

Final Answer: The debt is fully discharged by accord and satisfaction under

Section 63; Jiten cannot recover the balance. $\Rightarrow$ $\boxed{\text{D}}$

Answer: (D) Go Back to Q14

Sol 15.

Solution

Concept — Anticipatory Breach: While the Indian Contract Act, 1872 does not use the phrase "anticipatory breach," Section 39 provides that when a party to a contract has refused to perform or disabled himself from performing his promise in its entirety, the promisee may put an end to the contract, unless he has signified — by words or conduct — his acquiescence in its continuance. This is the statutory basis for what common law calls anticipatory breach.

Analysis: Krishnan's letter in March clearly and unequivocally repudiated the contract before the December performance date. Under Section 39, Farida has two options: (i) she may accept the repudiation, treat the contract as terminated, and sue immediately for damages, or (ii) she may affirm the contract, ignore the repudiation, and wait until December to see if Krishnan performs; if he does not, she may then sue. Both options are available to her.

Why other options are wrong:

- Option (B): Incorrect. The aggrieved party is not required to wait for the actual breach date; Section 39 allows an immediate suit upon repudiation.
- Option (C): Incorrect. There is no statutory requirement to issue notice or allow a retraction period before suing on an anticipatory breach; that is the aggrieved party's choice.
- Option (D): Incorrect. Section 39 of the Indian Contract Act, 1872 provides the statutory framework for anticipatory breach; it is well recognized.

Final Answer: Farida may sue immediately for anticipatory breach under Section 39, or wait until December to sue for actual breach. $\Rightarrow$ $\boxed{\text{A}}$

Answer: (A) Go Back to Q15

Sol 16.

Solution

Concept — Duty to Mitigate: Section 73 of the Indian Contract Act, 1872 provides that in estimating the loss or damage arising from a breach, the means which existed for remedying the inconvenience caused by the non-performance of the contract must be taken into account. This is the statutory articulation of the duty to mitigate: a party who suffers a breach cannot simply sit idle and allow damages to mount; she must take reasonable steps available to her to minimize loss.

Analysis: After the wrongful termination, Riya had a reasonable duty under Section 73 to seek alternative work for which she was qualified, in order to reduce her loss. By remaining entirely idle, she failed to avail herself of reasonable opportunities to mitigate. The production company is entitled to have Riya's recoverable damages reduced by the amount she would have earned had she taken reasonable alternative employment during the balance of the contracted period.

Why other options are wrong:

- Option (A): Incorrect. The principle that the breach is the defendant's fault does not absolve the claimant of the duty to mitigate; recovery is assessed after mitigation.
- Option (C): Incorrect. Mitigation is a recognized and well-established defence to the quantum of damages under Section 73; the defendant can always raise it.
- Option (D): Incorrect. The duty to mitigate applies to all contracts, including service contracts; there is no category exclusion for performance contracts.

Final Answer: Riya's failure to mitigate by seeking alternative work will reduce her recoverable damages under Section 73. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q16

Sol 17.

Solution

Concept — Apparent/Ostensible Authority (Sec 237): Section 237 of the Indian Contract Act, 1872 provides that when an agent has, without authority, done acts or incurred obligations to third parties on behalf of his principal, the principal is bound by such acts or obligations, if he has by his words or conduct induced such third parties to believe that such acts and obligations were within the scope of the agent's authority. This is the doctrine of apparent or ostensible authority.

Analysis: The company's consistent practice of honouring purchase orders signed by the MD created a representation to suppliers that the MD had authority to place such orders. The internal resolution restricting authority was not communicated to the supplier and was therefore unknown to it. A principal cannot defeat a third party's reasonable reliance on apparent authority by pointing to undisclosed internal restrictions. The company is bound to pay the supplier.

Why other options are wrong:

- Option (A): Incorrect. The company's own prior conduct created the apparent authority; it cannot rely on internal restrictions of which the supplier had no notice.
- Option (B): Incorrect. The law does not impose on every third party the burden of verifying an agent's actual authority where the principal has created apparent authority.
- Option (D): Incorrect. Internal board resolutions are not public documents; they do not constitute constructive notice to third parties in the way that, for example, registered company documents might.

Final Answer: The company is bound by the MD's apparent/ostensible authority; undisclosed internal restrictions cannot defeat the supplier's reasonable reliance. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q17

Sol 18.

Solution

Concept — Undisclosed Principal (Sec 231, 233): Where an agent contracts in his own name without disclosing the existence of a principal, and a third party later discovers the identity of the principal, the third party has an election: he may sue either the agent or the undisclosed principal. Section 233 of the Indian Contract Act, 1872 provides that where an agent contracts in his own name, the principal may be sued or may sue on the contract; the third party may also hold the agent liable.

Analysis: Pavan contracted with Girish in his own name, giving no indication of Raj's involvement. Upon discovering Raj as the undisclosed principal, Girish acquires the right to elect whom to sue. He may proceed against Pavan (the contracting agent) or against Raj (the newly discovered principal), but once he obtains a judgment against one he cannot enforce a second judgment against the other for the same cause of action.

Why other options are wrong:

- Option (A): Incorrect. The law of undisclosed principal expressly permits a third party to sue the principal upon discovering his identity; non-disclosure at contracting does not permanently protect the principal.
- Option (B): Incorrect. Section 233 allows the undisclosed principal to be sued or to sue even though the contract was nominally with the agent.
- Option (C): Incorrect. Ratification is a separate doctrine applicable where an agent acts without authority; here Pavan had authority from Raj. Ratification is not a precondition for the undisclosed principal's liability.

Final Answer: Girish may elect to sue either Pavan (the agent) or Raj (the undisclosed principal) upon discovering Raj's identity. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q18

Sol 19.

Solution

Concept — Ratification: Whole Act Rule (Sec 197–199): Section 197 of the Indian Contract Act, 1872 provides that ratification may be express or implied by conduct. Section 199 provides that a person ratifying any unauthorized act done on his behalf ratifies the whole of the transaction of which such act formed a part. Ratification of a transaction must be of the whole act; partial ratification that seeks to modify or cherry-pick terms is not valid.

Analysis: Kiran's unauthorized sale was a single transaction at Rs. 60,00,000. Deepa cannot ratify only the identity of the parties while substituting different terms (the price). She must either ratify the whole contract as Kiran made it (at Rs. 60,00,000) or repudiate the whole of it. A principal cannot use ratification to rewrite the terms of the agent's unauthorized act.

Why other options are wrong:

- Option (B): Incorrect. Ratification binds the principal to the act as done; it does not allow the principal to vary terms simultaneously.
- Option (C): Incorrect. Ratification does relate back to the date of the agent's act (Section 196), but this doctrine of relation-back does not give the principal the power to impose new conditions on ratification.
- Option (D): Incorrect. Ratification of unauthorized acts is expressly permitted under Sections 196–200; an unauthorized act is not void but merely unenforceable without ratification.

Final Answer: Ratification must be of the whole transaction; partial ratification to vary terms is invalid under Section 199. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q19

Sol 20.

Solution

Concept — Mandatory vs Prohibitory Injunction (Specific Relief Act, 1963): A prohibitory (or restrictive) injunction restrains a party from doing or continuing to do an act. A mandatory injunction compels a party to perform a positive act. Under Sections 37–42 of the Specific Relief Act, 1963, courts exercise greater caution in granting mandatory injunctions because they compel affirmative action and their breach is more difficult to monitor. Courts grant mandatory injunctions only where necessary to prevent injustice that cannot be remedied by damages.

Analysis: The lessor seeks an order compelling the lessee to demolish the unauthorized floor and restore the building — a positive act. This is a mandatory injunction. The lessee is correct that courts are more reluctant to grant mandatory injunctions than prohibitory ones. However, where the breach is clear and damages are inadequate to restore the status quo (e.g., structural alterations to property), courts may exercise their discretion to grant a mandatory injunction in appropriate cases.

Why other options are wrong:

- Option (A): Incorrect. The injunction sought is mandatory (compelling demolition), not prohibitory; and courts do not "readily" grant such orders.
- Option (C): Incorrect. The Specific Relief Act provides for injunctions as a remedy for breach of contract; the lessor is not confined to damages.
- Option (D): Incorrect. A prohibitory injunction restraining further construction would not address the already-existing unauthorized floor; it would not compel demolition.

Final Answer: A mandatory injunction is sought; courts are more reluctant to grant these than prohibitory injunctions under the Specific Relief Act, 1963. $\Rightarrow$ $\boxed{\text{B}}$

Answer: (B) Go Back to Q20

Answer Key

Answer Key — CLAT PG Law of Contract Sample Paper 2									
Q	**Ans**	**Q**	**Ans**	**Q**	**Ans**	**Q**	**Ans**	**Q**	**Ans**
1	C	2	A	3	D	4	B	5	C
6	D	7	A	8	B	9	C	10	D
11	A	12	B	13	C	14	D	15	A
16	B	17	C	18	D	19	A	20	B