CLAT PG Law of Contract

Sample Paper – 4

Duration: 20 Minutes **Maximum Marks:** 20
Total Questions: 20 **Marking Scheme:** +1 correct, −0.25 wrong

Instructions

1. This paper contains **20 scenario-based MCQs** drawn from the **Indian Contract Act, 1872** and the **Specific Relief Act, 1963**.
2. Each question carries **1 mark**. **0.25 marks** will be deducted for every incorrect answer. No marks are deducted for unattempted questions.
3. Read each passage carefully before selecting the most legally accurate option.
4. Only **one** option is correct for each question.
5. Rough work, if any, must be done in the space provided in the answer sheet margin.

Section A – Law of Contract (Q.1–Q.20)

Q.1. Ravi, based in Mumbai, and Suresh, based in Delhi, simultaneously despatched letters to each other on 1st March. Ravi offered to sell his vintage camera to Suresh for Rs. 40,000, and Suresh offered to purchase the same camera from Ravi for Rs. 40,000. The letters crossed in transit and were received by each party on 3rd March. Both parties claim a binding contract has come into existence.

Which of the following most accurately states the legal position regarding cross-offers?

(A) No contract is formed, because cross-offers do not constitute an acceptance; each offer is made independently and not in response to the other.

(B) A valid contract is formed because the terms of both offers are identical and were communicated simultaneously.

(C) A valid contract is formed the moment both letters were posted, applying the postal rule of acceptance.

(D) Either party may treat the other's letter as a standing offer and accept it within a reasonable time.

Q.2. A municipal corporation issued a public tender inviting suppliers to provide 50-kg bags of cement "as and when requisitioned" at a fixed price of Rs. 350 per bag. Firm X submitted a tender which was accepted by the corporation. After receiving and fulfilling three separate requisition orders, Firm X received a fourth order for 2,000 bags. Before Firm X could dispatch the consignment, the corporation withdrew the tender and cancelled the fourth order.

Which of the following correctly describes the legal position with regard to standing offers?

(A) The corporation cannot cancel the fourth order because Firm X had already accepted the entire standing tender at the outset.

(B) The standing offer remained revocable at any time before Firm X accepted a specific requisition order; since the fourth order was cancelled before acceptance, no contract arose in respect of it.

(C) Once partial performance has occurred under prior orders, the entire standing offer becomes irrevocable.

(D) Firm X is entitled to anticipatory damages covering all future orders it might have received under the tender.

Q.3. Devraj owes Manohar a sum of Rs. 1,20,000 under a promissory note falling due on 31st December. On 1st November, Manohar agrees to accept Rs. 84,000 as full and final settlement of the entire debt. Devraj tenders Rs. 84,000 on 31st December. Manohar accepts the payment but, three months later, institutes a suit to recover the balance of Rs. 36,000.

Decide Manohar's entitlement under the Indian Contract Act, 1872.

(A) Manohar cannot succeed because there was a concluded accord and satisfaction on payment of the reduced sum.

(B) Manohar cannot succeed since the parties freely agreed to reduce the debt, and that agreement is binding.

(C) Manohar can succeed because payment of a lesser sum on the same day is not sufficient consideration for a promise to discharge the remainder of the debt under the Indian Contract Act.

(D) Manohar can succeed only if the promissory note itself expressly prohibits part-payment.

Q.4. Kiran had entered into a contract with Priya obligating Kiran to install specialised industrial equipment at Priya's factory. Vikram, a separate businessman unconnected with the Kiran-Priya contract, approached Kiran and promised to pay him Rs. 3 lakh if Kiran completed the installation on the agreed date. Kiran performed the installation on time and now seeks to enforce Vikram's promise.

Which of the following propositions is correct?

(A) Kiran cannot enforce the promise because he was already under a pre-existing legal obligation to perform the act.

(B) Kiran cannot enforce the promise because consideration must always move from the promisee to the promisor directly.

(C) Kiran cannot enforce the promise because performance of any existing duty is never good consideration in Indian law.

(D) Kiran can enforce Vikram's promise because performance of a duty owed to a third party (Priya) and not to the promisor (Vikram) constitutes valid consideration for Vikram's promise.

Q.5. Suraj's consignment of perishable goods was detained at a private warehouse by the warehouse owner, Bheem, who claimed a disputed storage lien. Bheem refused to release the goods unless Suraj executed a promissory note for Rs. 6 lakh, an amount Suraj disputed as grossly inflated. Fearing the goods would spoil, Suraj signed the note. He later sought to have the note set aside.

What is the legal status of the promissory note under the Indian Contract Act, 1872?

(A) The note is voidable at Suraj's option, as it was procured by coercion within the meaning of Section 15, which includes wrongful detention of property to obtain consent.

(B) The note is void ab initio because any form of compulsion renders consent absolutely absent.

(C) The note is enforceable because Bheem had a colour of right arising from his lien claim.

(D) Suraj must obtain a criminal conviction against Bheem before challenging the civil validity of the note.

Q.6. An 80-year-old retired teacher, Balwant, executed a gift deed transferring his urban plot worth Rs. 45 lakh to his long-time spiritual preceptor, Acharya Ramdev. Balwant's children challenged the deed, alleging undue influence flowing from the guru-disciple relationship. Acharya Ramdev produced uncontroverted evidence that Balwant had, of his own accord, consulted an independent solicitor who thoroughly explained the nature and consequences of the gift before execution.

Which of the following most accurately states the legal effect of independent legal advice in this context?

(A) The deed remains voidable because the presumption of undue influence in a guru-disciple relationship is conclusive and cannot be rebutted.

(B) Evidence that the donor freely obtained and received independent legal advice may rebut the presumption of undue influence arising from the fiduciary nature of the relationship.

(C) Independent legal advice is irrelevant; only the adequacy of consideration received by the donor can rebut undue influence.

(D) Any gift from a disciple to a spiritual teacher is void in Indian law as against public policy.

Q.7. Champa sold a used refrigerator to Dilnawaz, representing it as fully functional. Unknown to Dilnawaz, the compressor had a serious manufacturing defect which Champa had temporarily masked by repacking the insulation and cleaning the condenser coils. The defect could not be discovered on a normal visual inspection. The refrigerator broke down irreparably within a week of delivery.

Under Section 17 of the Indian Contract Act, 1872, how should Champa's conduct be classified?

(A) Mere non-disclosure, since sellers are not obliged to volunteer information about latent defects.

(B) Innocent misrepresentation only, as Champa made no express verbal false statement.

(C) Fraud under Section 17(3), as actively concealing a latent material defect known to the seller constitutes fraud through wilful suppression of a fact.

(D) No actionable wrong, since the buyer ought to have had the appliance inspected by a technician before purchase.

Q.8. Ashok and Bimal, both operating in the textile trade, believed that a government order imposing restrictions on import of synthetic yarn had been rescinded. Acting on this shared belief, they entered into a contract for the purchase of a large consignment of imported synthetic yarn. In fact, the restriction order was still in force. In a separate case, a party signed a surety agreement mistakenly believing that a recently repealed Limitation Act provision still applied.

Which of the following correctly distinguishes these two situations under the Indian Contract Act, 1872?

(A) Both contracts are void because any shared mistake renders consent inoperative.

(B) The Ashok-Bimal contract is valid; the surety agreement is voidable for mistake of fact.

(C) Both contracts are voidable at the option of the parties who were mistaken.

(D) The Ashok-Bimal contract is void under Section 20 (bilateral mistake as to a matter of fact); the surety agreement is not void under Section 21, since a mistake of law does not affect the validity of a contract.

Q.9. Ratan and Sohail agree that if the Indian cricket team wins tomorrow's match, Sohail will pay Ratan Rs. 15,000, and if India loses, Ratan will pay Sohail Rs. 15,000. Neither party has any other interest in the match. In a separate transaction, a crop insurer agrees to pay a farmer Rs. 2 lakh if unseasonal hail destroys his crop; the farmer pays a premium in return.

Which of the following correctly distinguishes the two agreements?

(A) The Ratan-Sohail agreement is a wagering contract void under Section 30 because both parties' sole interest is the uncertain money payment; the insurance contract is a valid contingent contract because the farmer has an insurable interest independent of the event.

(B) Both agreements are wagering contracts and are void under Section 30 of the Indian Contract Act.

(C) Both agreements are valid contingent contracts under Section 31 of the Indian Contract Act.

(D) The insurance contract is wagering because it too is conditional on an uncertain future event.

Q.10. Mohit promised to pay Ramesh Rs. 8 lakh if Ramesh sabotaged the production machinery at their common business rival Dinesh's factory. Ramesh carried out the sabotage as agreed. When Mohit refused to pay, Ramesh instituted a civil suit to recover the agreed sum.

What is the legal status of this agreement?

(A) The agreement is enforceable; Ramesh completed his part of the bargain and is entitled to the promised payment.

(B) The agreement is void because its object involves injury to another person's property, rendering the object unlawful under Section 23 of the Indian Contract Act, 1872.

(C) Mohit is liable only in tort and not under contract law.

(D) The agreement is unenforceable but not void; Ramesh can recover in quantum meruit.

Q.11. Karan's agricultural land was to be auctioned by revenue authorities for non-payment of land revenue of Rs. 1,80,000. Karan's neighbour Sunil, whose adjoining plot would suffer a drop in value if the auction took place, paid the outstanding land revenue from his own funds without any request from Karan and without intending it as a gift. Karan subsequently refused to reimburse Sunil.

Under which provision of the Indian Contract Act, 1872 is Sunil most likely to succeed in recovering the amount?

(A) Section 70, as Sunil did something lawful for another person who enjoyed the benefit.

(B) Section 68, as Karan lacked financial capacity to meet his legal obligation.

(C) Section 69, as Sunil was a person interested in paying money which Karan was legally bound to pay, and therefore he is entitled to reimbursement from Karan.

(D) Section 73, as the failure to reimburse Sunil amounts to a breach of an implied contract.

Q.12. Pradeep, a licensed architect, visited his acquaintance Vimal's under-construction building and noticed, without any request, that the contractor had made dangerous structural errors. Pradeep voluntarily supervised corrective construction work for four days, incurring personal expenses of Rs. 35,000, and averting major structural failure. Vimal accepted and enjoyed the benefit of the corrective work but refused to compensate Pradeep, arguing there was no contract between them.

Under which provision of the Indian Contract Act, 1872 may Pradeep recover?

(A) Pradeep cannot recover anything since there was no contractual agreement.

(B) Section 68, as Vimal was a person incapable of contracting.

(C) Section 69, since Pradeep was interested in discharging a debt Vimal owed.

(D) Section 70, as Pradeep lawfully did something for Vimal not intending it to be gratuitous, and Vimal enjoyed the benefit; Vimal is bound to compensate Pradeep.

Q.13. Hari contracted to construct a shopping complex for Developer Jeet within 24 months at a price of Rs. 5 crore. After 12 months of work, both parties agreed orally that the project would be abandoned and that neither party would make any claim against the other. Six months later, Jeet changed his mind and filed a suit for breach of contract against Hari, demanding damages for non-completion.

What is the correct legal position?

(A) Jeet's suit will succeed because oral rescission is ineffective for construction contracts above a certain value.

(B) Jeet's suit will fail because the parties validly rescinded the original contract by mutual consent under Section 62 of the Indian Contract Act; both parties were thereby released from their respective obligations.

(C) Hari must pay nominal damages despite the rescission as a matter of judicial discretion.

(D) Rescission of a contract is ineffective unless ratified by a competent court.

Q.14. Lalita held a 10-year commercial lease over a warehouse, with 6 years remaining. Midway through the lease, she purchased the freehold title to the same warehouse from the landlord. Thereafter, Lalita sought to invoke a repair covenant in the lease deed to compel the erstwhile landlord to carry out certain structural repairs that had fallen due before the purchase.

Which doctrine governs the extinction of Lalita's rights under the lease?

(A) Merger – when Lalita acquired the freehold, her leasehold interest merged into and was extinguished by the superior freehold title; she can no longer enforce covenants that presuppose a continuing lessor-lessee relationship.

(B) Frustration – the lease was frustrated because the identity of the parties changed upon transfer of ownership.

(C) Novation – the purchase of the freehold constituted a new contract replacing the lease.

(D) Accord and satisfaction – payment of the purchase price satisfied all pre-existing obligations under the lease.

Q.15. Mehta Textiles contracted with Singh Couriers to transport a custom-built industrial loom to a buyer in Singapore, with delivery mandated by 15th August. At the time of contracting, Mehta specifically informed Singh that failure to deliver on time would cause Mehta to forfeit a confirmed export order worth Rs. 18 lakh. Singh delivered the loom 12 days late; Mehta lost the export order in its entirety.

Can Mehta claim Rs. 18 lakh as damages from Singh?

(A) No, because consequential losses are categorically excluded from recovery under the Indian Contract Act.

(B) No, because the loss is too remote; ordinary delay damages are the only recoverable head.

(C) Yes, because Singh possessed actual knowledge at the time of contracting of the special loss that would result from delay; such consequential damages are recoverable under the second limb of Hadley v Baxendale, as applied through Section 73 of the Indian Contract Act.

(D) Yes, but only if Mehta can also establish tortious negligence on Singh's part.

Q.16. Nisha paid the full consideration for a flat to Galaxy Constructions and was contractually entitled to possession on 1st April. The builder deliberately withheld possession, intending to resell the flat at an appreciated market price. Nisha suffered financial loss due to the delay and sought compensatory damages together with exemplary damages to punish the builder's deliberate bad faith.

What damages will an Indian court award?

(A) Both compensatory and exemplary damages, because the builder's conduct was intentional and dishonest.

(B) Exemplary damages alone, as the builder's fraudulent intent disentitles him from limiting liability.

(C) Treble damages, as deliberate contractual breach is treated on a par with tortious fraud.

(D) Only compensatory damages representing Nisha's actual financial loss; Indian courts do not award punitive or exemplary damages for breach of contract, regardless of the promisor's motive.

Q.17. Raghav appointed Mohan in writing as his agent to sell Raghav's commercial property at the best obtainable price. Raghav subsequently died in a road accident. Without being aware of Raghav's death, Mohan negotiated and signed a sale agreement with a third-party purchaser Thomas two days after the death. Thomas seeks to enforce the agreement against Raghav's estate.

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

(A) The sale agreement is fully valid and binding on Raghav's estate because Mohan acted in good faith and without knowledge of the death.

(B) Under Section 201, agency is automatically terminated by the death of the principal from the moment of death; though Section 208 may protect a third party acting in good faith without notice, the agent's authority is extinguished from the instant of the principal's death and acts after that point cannot bind the estate in the same manner as authorised acts.

(C) Agency authority continues uninterrupted until the agent receives formal written notice of the principal's death.

(D) Mohan personally assumes liability for the sale agreement as he exceeded his authority.

Q.18. Prakash was appointed agent by Merchant Dilip to source specific rare spices, pay for them from his own advances, and arrange bonded storage. Prakash sourced and paid for the spices (worth Rs. 4 lakh) and stored them in a licensed warehouse. Dilip failed to reimburse Prakash's advances. Dilip then demanded immediate delivery of the spices to a third party.

Which right does Prakash have over the spices?

(A) A particular lien under Section 221 of the Indian Contract Act, entitling him to retain the spices in his possession until Dilip reimburses the amounts due in respect of those specific goods.

(B) A general lien over all goods of Dilip that have ever come into Prakash's possession.

(C) No lien; an agent has no right to withhold a principal's property for unpaid dues.

(D) Prakash may sell the spices by public auction without notice to Dilip to recover his advances.

Q.19. Sanjay, acting entirely without authority, entered into a contract on behalf of his principal Uday with a third party, Tara, for the supply of 300 tonnes of basmati rice within 30 days. Uday, on learning of Sanjay's act, expressly ratified it. Tara subsequently attempted to withdraw from the contract, arguing that Sanjay had no authority when the contract was made.

What is the legal effect of ratification under Sections 196–200 of the Indian Contract Act, 1872?

(A) Ratification is only prospective; it binds Uday going forward but does not validate the original unauthorised act.

(B) Tara may withdraw since she contracted with an agent who lacked authority at the relevant time.

(C) Ratification by Uday relates back to the date of Sanjay's original act, validating it from inception; both Uday and Tara are bound by the contract, and Tara cannot withdraw on the ground of Sanjay's initial want of authority.

(D) Ratification binds Uday but does not affect Tara's pre-existing right to rescind.

Q.20. Builder Arjun contracted to renovate Vikram's corporate headquarters by 30th June for a fixed price of Rs. 25 lakh. With 45% of the work remaining, Arjun abandoned the project on 15th May, citing financial difficulties, thereby committing anticipatory breach. Vikram engaged another reputed contractor who completed the renovation for Rs. 32 lakh. Vikram sought to recover the additional Rs. 7 lakh from Arjun.

Under the Specific Relief (Amendment) Act, 2018, which remedy is available to Vikram?

(A) Vikram can only claim damages for mental distress caused by the breach.

(B) Vikram must first obtain a court order directing Arjun to perform before he can engage another contractor.

(C) Vikram is restricted to seeking specific performance from Arjun as the primary remedy under the amended Act.

(D) Under Section 20 of the Specific Relief Act (as amended in 2018), Vikram is entitled to substituted performance – he may have the contract performed through a third party and recover the reasonable costs and expenses of such substituted performance from the defaulting party, Arjun.

Detailed Solutions

Sol.1.

Solution

Concept — Cross-Offers (Offer & Acceptance): A cross-offer arises when two parties make identical offers to each other simultaneously, without either being aware of the other's offer. Since neither offer is made in response to the other, there is no acceptance and no contract is formed. This principle flows from the basic requirement that acceptance must be in response to an offer.

Analysis: Ravi and Suresh posted their letters simultaneously. Neither letter constitutes an acceptance of the other's offer because at the time of writing, each party was unaware of the other's offer. There is therefore no consensus ad idem, and no contract results.

Why other options are wrong:

- Option (B): Identical terms do not substitute for acceptance; coincidence of terms is not consent.
- Option (C): The postal rule applies to acceptance, not to simultaneous cross-offers; there is no acceptance here to which the rule could apply.
- Option (D): A cross-offer cannot be treated as a standing offer; each is an independent offer that still awaits a separate acceptance.

Final Answer: Cross-offers do not constitute acceptance; no contract is formed. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q1

Sol.2.

Solution

Concept — Revocation of Standing Offer: A standing or continuing offer (as in a tender to supply goods on requisition) is not a contract in itself. Each requisition order made under it constitutes a fresh acceptance creating a separate contract. Until such acceptance, the offeror may revoke the standing offer in respect of any unaccepted order.

Analysis: The municipal corporation's tender was a standing offer. Firm X's acceptance of the tender created a framework, but each individual order required a separate acceptance by Firm X. The fourth order was revoked before Firm X accepted it; accordingly, no contract arose for that order.

Why other options are wrong:

- Option (A): Acceptance of the tender as a whole does not prevent revocation before specific orders are accepted; each order is a distinct acceptance.
- Option (C): Partial performance under prior orders does not render the entire standing offer irrevocable; only already-accepted orders are binding.
- Option (D): Anticipatory damages require an existing contract; since no contract arose for the fourth order, no such claim lies.

Final Answer: The standing offer was validly revoked before the fourth order was accepted. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q2

Sol.3.

Solution

Concept — Part Payment as Consideration (Pinnel's Rule): Under established contract principles applied in India, payment of a lesser sum in satisfaction of a larger liquidated debt is not good consideration for a promise to release the balance, unless the debtor confers some additional benefit (e.g., earlier payment, payment at a different place, or payment accompanied by some other act at the creditor's request). The rule is preserved in Indian contract jurisprudence notwithstanding Section 63.

Analysis: Devraj paid Rs. 84,000 on the same due date – no additional benefit was conferred. The agreement to accept less was therefore unsupported by fresh consideration, and Manohar's promise not to claim the balance is unenforceable; he may sue for the Rs. 36,000.

Why other options are wrong:

- Option (A): Accord and satisfaction requires fresh consideration; payment of the same amount on the same day without any extra benefit does not satisfy this requirement.
- Option (B): A bare agreement to accept less, without more, lacks consideration and is not binding on the creditor.
- Option (D): There is no rule restricting a creditor's right to the balance to cases involving written instruments.

Final Answer: Manohar may sue for the balance; part payment without additional consideration does not discharge the full debt. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q3

Sol.4.

Solution

Concept — Pre-Existing Duty to a Third Party as Consideration: Where a promisor promises a benefit in return for the promisee performing an act the promisee is already bound to perform under a duty owed to a *third party* (not the promisor), that performance constitutes valid consideration for the promisor's promise. The duty is owed to a different legal entity, so the promisee is going beyond any obligation owed to the promisor.

Analysis: Kiran's pre-existing duty runs to Priya, not to Vikram. From Vikram's perspective, Kiran's performance confers a real benefit without any pre-existing obligation to Vikram. Kiran's performance is therefore good consideration for Vikram's promise of Rs. 3 lakh.

Why other options are wrong:

- Option (A): The pre-existing duty bar applies only when the duty is owed to the *same* promisor; here it is owed to Priya.
- Option (B): Indian contract law (Section 2(d)) permits consideration to move from the promisee; it does not require privity in all cases.
- Option (C): This is an overstatement; existing duty to a third party is an established exception to the rule against existing-duty consideration.

Final Answer: Performance of a duty owed to a third party is valid consideration; Kiran can enforce Vikram's promise. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q4

Sol.5.

Solution

Concept — Coercion (Section 15, ICA 1872): Section 15 defines coercion as 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 intention of causing any person to enter into an agreement. A contract procured by coercion is voidable at the option of the party whose consent was obtained by coercion (Section 19).

Analysis: Bheem's refusal to release Suraj's goods – goods to which Suraj had a right of possession – to coerce execution of a promissory note constitutes wrongful detention of property under Section 15. The note is accordingly voidable at Suraj's option.

Why other options are wrong:

- Option (B): Coercion makes the contract *voidable*, not void ab initio; the distinction is significant.
- Option (C): A disputed lien claim does not legalise detention used to extort consent; colour of right does not validate coercion.
- Option (D): Civil and criminal proceedings are independent; Suraj need not await a criminal outcome to challenge civil validity.

Final Answer: The promissory note is voidable at Suraj's option for coercion under Section 15 read with Section 19. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q5

Sol.6.

Solution

Concept — Undue Influence and Independent Legal Advice (Section 16, ICA 1872): Where a fiduciary or dominating relationship exists (such as guru-disciple), a rebuttable presumption of undue influence arises. The stronger party may rebut this presumption by showing that the transaction was fair and that the weaker party had independent advice freely obtained, was fully informed, and acted of his own free will.

Analysis: The guru-disciple relationship triggers the presumption under Section 16(3). However, Balwant voluntarily obtained independent legal advice, was fully apprised of the consequences of the gift deed, and executed it with full understanding. This evidence is sufficient to rebut the presumption of undue influence.

Why other options are wrong:

- Option (A): The presumption of undue influence is rebuttable, not conclusive; the law provides the stronger party an opportunity to disprove it.
- Option (C): Adequacy of consideration is a relevant but not exclusive factor; independent advice directly addresses the voluntariness of consent.
- Option (D): Gifts to spiritual teachers are not void per se; they are voidable

only if undue influence is proved and not rebutted.

Final Answer: Evidence of independent legal advice may rebut the presumption of undue influence in a fiduciary relationship. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q6

Sol.7.

Solution

Concept — Fraud by Active Suppression (Section 17(3), ICA 1872): Section 17 defines fraud to include "any other act fitted to deceive." Clause (3) specifically encompasses the active concealment of a fact by a person who has knowledge or belief of the fact. Mere silence is not fraud (except where silence is equivalent to speech), but deliberate physical concealment of a known defect goes beyond silence into active deception.

Analysis: Champa did not merely remain silent about the defect; she actively concealed it by repacking insulation and cleaning condenser coils to make the refrigerator appear functional. This deliberate physical act of masking a known latent defect constitutes fraud under Section 17(3).

Why other options are wrong:

- Option (A): Active physical concealment is not "mere silence"; Champa took positive steps to hide the defect.
- Option (B): Fraud does not require a verbal false statement; active concealment suffices under Section 17(3).
- Option (D): The principle of *caveat emptor* does not protect a seller who actively conceals latent defects.

Final Answer: Champa's active concealment of a known latent defect constitutes fraud under Section 17(3) ICA. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q7

Sol.8.

Solution

Concept — Mistake of Fact (Section 20) vs Mistake of Law (Section 21), ICA 1872: Section 20 provides that a contract is void where both parties are mistaken as to a matter of fact essential to the agreement. Section 21 provides that a contract is not voidable because it was caused by a mistake as to any law in force in India (though mistakes of foreign law are treated as mistakes of fact).

Analysis: The status of a government restriction order is a matter of *fact* (a regulatory fact), not a point of abstract legal principle. Ashok and Bimal's shared mistaken belief that the order was rescinded is a bilateral mistake of fact, making their contract void under Section 20. By contrast, misreading the implications of a repealed statute is a mistake of *law*, which under Section 21 does not avoid the contract.

Why other options are wrong:

- Option (A): Only bilateral mistake of *fact* renders a contract void; mistake of law does not.
- Option (B): The first contract is void (not merely valid), and the second is unaffected by the mistake (not voidable).
- Option (C): Mistake of law does not render a contract voidable; Section 21 is explicit.

Final Answer: Bilateral mistake of fact $\Rightarrow$ void (Sec 20); mistake of law $\Rightarrow$ contract valid (Sec 21). $\Rightarrow$ $\boxed{\text{D}}$

Answer: (D) Go Back to Q8

Sol.9.

Solution

Concept — Wagering Contract (Section 30) vs Contingent Contract (Section 31), ICA 1872: A wagering contract is one in which both parties stand to win or lose depending solely on the outcome of an uncertain event, and neither party has any other interest in the event. Such contracts are void under Section 30. A contingent contract is one to do or not do something on the happening of an uncertain future event, but the parties have a legitimate independent interest in the subject matter separate from the event itself.

Analysis: Ratan and Sohail have no interest in the cricket match other than the money payment; this is the hallmark of a wagering contract – void under Section

30. The farmer has an insurable interest in his crop that exists independently of the hailstorm; he is not gambling on rain but protecting a genuine economic interest. The insurance contract is a valid contingent contract.

Why other options are wrong:

- Option (B): Insurance contracts with an insurable interest are not wagering contracts; they serve a legitimate risk-transfer function.
- Option (C): A wager (Section 30) is explicitly excluded from Section 31's definition of contingent contracts.
- Option (D): Conditionality on an uncertain event alone does not make a contract a wager; the distinguishing feature is the absence of independent interest.

Final Answer: The betting agreement is a void wager (Sec 30); the insurance contract is a valid contingent contract. $\Rightarrow \boxed{A}$

Answer: (A) Go Back to Q9

Sol.10.

Solution

Concept — Unlawful Object (Section 23, ICA 1872): Section 23 provides that the consideration or object of an agreement is unlawful if it involves injury to the person or property of another. An agreement whose object is unlawful is void, and no court will enforce it. The maxim *ex turpi causa non oritur actio* applies: an action cannot arise from a base cause.

Analysis: The object of the Mohit-Ramesh agreement was causing deliberate damage to Dinesh's factory machinery – an act of injury to another person's property. This falls squarely within Section 23, rendering the agreement void. Ramesh cannot recover, as courts will not assist a party whose claim is founded on an illegal transaction.

Why other options are wrong:

- Option (A): Courts do not enforce contracts with unlawful objects, regardless of performance; Section 23 explicitly voids them.
- Option (C): While tortious liability may also arise, the contract claim fails for the separate reason that the contract is void.
- Option (D): An agreement with an unlawful object is *void*, not merely unenforceable; quantum meruit is unavailable for illegal transactions.

Final Answer: The agreement is void under Section 23 ICA for having an unlawful object injurious to another's property. ⇒ $\boxed{\text{B}}$

Answer: (B) Go Back to Q10

Sol.11.

Solution

Concept — Reimbursement of Person Paying Another's Debt (Section 69, ICA 1872): Section 69 creates a quasi-contractual obligation: a person who is interested in the payment of money which another is bound by law to pay, and who therefore pays it, is entitled to be reimbursed by the other. Three conditions must be met: (i) the payer must have an interest in the payment; (ii) the other party must be legally bound to pay; (iii) the payment must not be voluntary in the sense of a gift.

Analysis: Sunil had a direct financial interest (potential devaluation of his adjoining plot). Karan was legally bound to pay land revenue. Sunil paid to protect his interest, not as a gift. All three conditions of Section 69 are satisfied; Sunil is entitled to reimbursement from Karan.

Why other options are wrong:

- Option (A): Section 70 applies where someone does something for another who enjoys the benefit; Section 69 is more precise here as the debt was legally owed.
- Option (B): Section 68 covers necessaries supplied to an incompetent person; financial inability is not legal incapacity.
- Option (D): Section 73 applies to breach of contract; there is no breach here – it is a statutory obligation.

Final Answer: Sunil recovers under Section 69 ICA as a person interested who paid another's lawful debt. ⇒ $\boxed{\text{C}}$

Answer: (C) Go Back to Q11

Sol.12.

Solution

Concept — Unjust Enrichment / Obligation to Pay for Non-Gratuitous Acts (Section 70, ICA 1872): Section 70 provides that where a person lawfully does something for another, or delivers something to another, not intending to do so gratuitously, and such other person enjoys the benefit thereof, the latter is bound to make compensation to the former in respect of the thing so done or delivered.

Analysis: Pradeep acted lawfully (he had technical expertise and caused no harm). He did not intend his services to be gratuitous (he is a professional). Vimal accepted and benefited from the corrective work. Section 70 accordingly imposes an obligation on Vimal to compensate Pradeep even in the absence of a formal contract.

Why other options are wrong:

- Option (A): Section 70 provides a quasi-contractual remedy that operates without a formal contract.
- Option (B): Section 68 requires the recipient to be legally incompetent to contract; Vimal is fully competent.
- Option (C): Section 69 requires the payer to discharge a debt the recipient was legally bound to pay; that is not the situation here.

Final Answer: Pradeep recovers under Section 70 ICA as he non-gratuitously did something for Vimal who enjoyed the benefit. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q12

Sol.13.

Solution

Concept — Rescission by Mutual Agreement (Section 62, ICA 1872): Section 62 permits parties to a contract to agree to rescind the contract, thereby releasing each other from their obligations. No special form is prescribed for rescission under Section 62; an oral agreement to rescind may be valid unless the original contract requires a specific form of rescission. The effect of a valid rescission is to put the parties in the position they would have been had no contract been made.

Analysis: Hari and Jeet orally agreed to abandon the contract and not make any claim against each other. This constitutes valid rescission by mutual consent under Section 62. Both parties are released from their obligations. Jeet's subsequent attempt to sue for breach fails because the underlying contract no longer exists.

Why other options are wrong:

- Option (A): The Indian Contract Act does not generally require rescission to be in any particular form; there is no blanket rule mandating written rescission for construction contracts.
- Option (C): Once a contract is validly rescinded, no damages flow from it; there is no obligation to pay even nominal damages.
- Option (D): Section 62 rescission operates by agreement of the parties; judicial approval is not required.

Final Answer: Valid mutual rescission under Section 62 ICA discharged both parties; Jeet's suit fails. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q13

Sol.14.

Solution

Concept — Discharge by Merger: Merger occurs when a party acquires a right which is greater than or inconsistent with a lesser right already held against the same property or the same person. The lesser right is thereupon absorbed into the greater and ceases to exist independently. In real property law, a leasehold interest merges into the freehold when both are acquired by the same person.

Analysis: When Lalita purchased the freehold, she became both lessor and lessee in the same capacity with respect to the same property. This is a legal impossibility – one cannot be one's own landlord and tenant. The leasehold merges into and is extinguished by the freehold; covenants under the lease that presuppose a lessor-lessee relationship can no longer be enforced as such.

Why other options are wrong:

- Option (B): Frustration requires an external supervening event that renders performance impossible; a voluntary purchase does not frustrate a lease.
- Option (C): Novation requires agreement between all parties to substitute a new contract; no such tripartite agreement occurred.
- Option (D): Accord and satisfaction involves the creditor accepting something different as satisfaction of a debt; that is not the mechanism here.

Final Answer: Lalita's leasehold interest is extinguished by merger upon acquisition of the freehold. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q14

Sol.15.

Solution

Concept — Special / Consequential Damages (Section 73, ICA 1872 – Second Limb of Hadley v Baxendale): Section 73 entitles the aggrieved party to compensation for any loss that naturally arose from the breach, or that the parties knew, at the time of making the contract, to be likely to result from the breach. This corresponds to the "second limb" of Hadley v Baxendale: special losses arising from special circumstances communicated to the defendant at the time of contracting are recoverable.

Analysis: Mehta specifically communicated to Singh at the time of contracting that delay would cause the loss of an Rs. 18 lakh export order. Singh therefore had actual knowledge of the special consequence. When he breached by delayed delivery, the consequential loss was within the second limb; Mehta can recover Rs. 18 lakh.

Why other options are wrong:

- Option (A): Indian law does permit recovery of consequential losses where the defendant had knowledge at the time of contracting.
- Option (B): The loss is not too remote; remote damage in Hadley terms is damage not within the defendant's reasonable contemplation, but Singh was specifically told.
- Option (D): Punitive damages are not available for breach of contract in Indian law; the award is compensatory, not exemplary.

Final Answer: Mehta can recover Rs. 18 lakh as consequential damages within Singh's actual knowledge at contracting (Section 73, second limb). $\Rightarrow \boxed{C}$

Answer: (C) Go Back to Q15

Sol.16.

Solution

Concept — No Punitive Damages for Breach of Contract: Indian courts, consistent with English common law tradition, award only compensatory damages for breach of contract under Section 73 of the Indian Contract Act. The purpose is to put the innocent party in the position they would have been had the contract been performed – not to punish the defaulting party. Punitive or exemplary damages belong to the law of torts (e.g., for malicious prosecution or defamation) and are not available merely because the breach was deliberate or dishonest.

Analysis: However reprehensible Galaxy Constructions' conduct may be, Nisha's remedy in contract is limited to compensation for her actual financial loss – the difference in cost of alternative accommodation, lost income, and other provable heads. Courts will not award exemplary damages for deliberate breach.

Why other options are wrong:

- Option (A): Deliberate or dishonest breach does not change the category of damages available in a contract claim.
- Option (B): Exemplary damages alone would leave the claimant under-compensated and have no basis in Indian contract law.
- Option (C): No provision for treble damages exists in the Indian Contract Act or related legislation.

Final Answer: Only compensatory damages for actual loss are available; punitive damages do not apply to breach of contract in India. $\Rightarrow \boxed{\text{D}}$

Answer: (D) **Go Back to Q16**

Sol.17.

Solution

Concept — Termination of Agency by Death of Principal (Sections 201, 208, ICA 1872): Section 201 provides that agency is terminated, among other ways, by the death or insanity of the principal. This termination is *automatic* from the moment of death – no notice to the agent is required to effect termination. Section 208 provides a limited protection: acts done by the agent after the principal's death are not binding on the estate in the same manner as authorised acts, but a third party who acted in good faith without notice may have certain protections.

Analysis: Raghav's death automatically terminated Mohan's agency at that instant under Section 201. Mohan's subsequent sale agreement was made without authority. While Section 208 may afford Thomas some equitable protection as a bona fide third party without notice, the agent's authority itself is extinguished from the moment of the principal's death.

Why other options are wrong:

- Option (A): Good faith of the agent does not preserve the agency after the principal's death; Section 201 operates automatically.
- Option (C): Termination under Section 201 operates from the date of death, not from the date of notice to the agent.
- Option (D): Mohan's personal liability is a separate question; the primary issue is that his authority ceased on Raghav's death.

Final Answer: Agency is automatically terminated on the principal's death under Section 201; the agent's authority ceases from that moment. $\Rightarrow \boxed{\text{B}}$

Answer: (B) Go Back to Q17

Sol.18.

Solution

Concept — Agent's Particular Lien (Section 221, ICA 1872): Section 221 confers upon an agent a *particular* lien – the right to retain goods of the principal in the agent's possession until the amount due to him *in respect of those specific goods* is paid. This lien is possessory in nature: it attaches to the specific goods for which the amount is owed and is lost on voluntary surrender of possession.

Analysis: Prakash sourced and paid for the specific spices and now holds them. He is owed Rs. 4 lakh in respect of those very goods. Under Section 221 he has a particular lien entitling him to retain the spices until reimbursed. He need not deliver to a third party while his lien subsists.

Why other options are wrong:

- Option (B): A general lien (covering all goods of the principal ever in possession) is available only to specific classes of agents (bankers, factors, wharfingers, attorneys) and not to ordinary agents.
- Option (C): Section 221 expressly grants agents a particular lien; Option (C) contradicts the statute.
- Option (D): An agent cannot unilaterally sell the principal's goods by auction to recover advances; no such self-help right exists under Section 221.

Final Answer: Prakash has a particular lien under Section 221 ICA to retain the spices until reimbursed for those goods. $\Rightarrow \boxed{\text{A}}$

Answer: (A) Go Back to Q18

Sol.19.

Solution

Concept — Ratification Relates Back (Sections 196–200, ICA 1872): Section 196 gives a person on whose behalf an unauthorised act was done the right to ratify it. Section 199 provides that ratification must be of the whole transaction. Section 200 states that ratification of an unauthorised act has the same effect as prior authority, i.e., it *relates back* to the date of the original act and validates it from inception.

Analysis: Uday's express ratification of Sanjay's act validates the contract as though Sanjay had authority from the outset. Both Uday and Tara are therefore bound by the contract. Tara cannot escape the contract on the ground that Sanjay lacked authority at the time of contracting, as that defect has been cured by retrospective ratification.

Why other options are wrong:

- Option (A): Ratification is not merely prospective; it relates back to the date of the original act (Section 200).
- Option (B): Once ratification is complete, the third party cannot withdraw on the ground of initial want of authority; the contract binds both parties as if authority existed from the start.
- Option (D): Section 200 is explicit that ratification has the effect of prior authority; it is not merely prospective.

Final Answer: Ratification relates back to the date of the original act; both Uday and Tara are bound – Tara cannot withdraw. $\Rightarrow \boxed{\text{C}}$

Answer: (C) Go Back to Q19

Sol.20.

Solution

Concept — Substituted Performance (Section 20, Specific Relief Act, 1963 as amended in 2018): The Specific Relief (Amendment) Act, 2018 introduced Section 20 providing for substituted performance as an independent statutory remedy. Where a contract has been broken, the party who suffers from the breach may get the contract performed through a third party or by his own agency and recover the expenses and other costs incurred from the party who failed or refused to perform.

Analysis: Arjun committed anticipatory breach by abandoning the project. The 2018 amendment gives Vikram the statutory right to engage another contractor to complete the work and then recover the reasonable additional costs – here Rs. 7 lakh – from Arjun without first seeking a court order to compel performance.

Why other options are wrong:

- Option (A): Damages for mental distress are not a standard head of relief under the Specific Relief Act; the Act provides for substituted performance costs.
- Option (B): The 2018 amendment was specifically enacted to allow substituted performance without requiring a court order first.
- Option (C): After the 2018 amendment, specific performance is no longer the only remedy; substituted performance is an equally available alternative.

Final Answer: Vikram is entitled to substituted performance under Section 20 SRA (as amended 2018) and may recover Rs. 7 lakh from Arjun. $\Rightarrow \boxed{\text{D}}$

Answer: (D) Go Back to Q20

Answer Key

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

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