CLAT PG Law of Contract
Sample Paper – 6

Duration: 20 Minutes | Max Marks: 20

Instructions

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

QUESTIONS

Q1. Ravi deposits his expensive silk saree at the counter of QuickClean Ltd., a dry-cleaning company. The attendant hands Ravi a receipt; on its reverse side, in very fine print, appears the following clause: "The company accepts no liability for loss or damage to articles however caused." The attendant does not draw Ravi's attention to this clause, nor is Ravi asked to sign any document acknowledging it. The saree is subsequently destroyed owing to gross negligence by the company's employees. Ravi brings a claim for compensation.

Which of the following best states the legal position regarding the exclusion clause?

(A) The clause binds Ravi because he accepted the receipt containing it.
(B) The clause is void under Section 23 of the Indian Contract Act as being opposed to public policy.
(C) The clause is not incorporated into the contract because Ravi had no reasonable notice of it at the time of contracting.
(D) The clause is enforceable only if Ravi was literate in the language in which it was printed.

Q2. Priya offers in writing to sell her vintage scooter to Sundar for Rs. 90,000. Sundar replies: "I accept your offer, provided you include a fresh set of tyres." Priya does not respond. Three weeks later, Sundar writes again stating: "I now accept your original offer unconditionally." Priya refuses to sell, asserting that no contract ever arose between them.

Which of the following correctly states the legal position?

(A) A valid contract arose upon Sundar's second, unconditional letter of acceptance.
(B) Priya is bound because Sundar ultimately accepted the original terms without any alteration.
(C) Sundar's first letter was a counter-offer; his second letter validly revived the original offer.
(D) Sundar's first reply was not a valid acceptance and operated as a rejection; the original offer lapsed, so Priya is not bound by the second letter.

Q3. Four years ago, Bimal telephoned Ajit and specifically requested him to arrange emergency surgery for Bimal's son, who had met with an accident while Bimal was abroad and unreachable. Ajit arranged the surgery and paid Rs. 1,20,000 from his own funds. On returning, Bimal signed a written agreement promising to repay Ajit Rs. 1,20,000. Bimal later refuses to pay, arguing that the consideration for his promise is past and therefore void.

Which of the following correctly states the legal position?

(A) The promise is enforceable because Ajit's past act was done at Bimal's express request, constituting sufficient consideration under Section 25(2) of the Indian Contract Act.
(B) The promise is unenforceable because past consideration is not recognised as valid consideration in Indian law.
(C) The promise is enforceable only if the written agreement has been registered under the applicable registration statute.
(D) The promise is enforceable solely because it reflects a moral obligation, which always amounts to good consideration in law.

Q4. Ganesh, who has been diagnosed with a recurring mental disorder and is generally of unsound mind, enters into an agreement to sell his agricultural land to Harish. Ganesh subsequently claims that he was in a lucid interval at the time of contracting. Harish seeks to enforce the agreement. Ganesh's guardian produces detailed medical records confirming the long-standing illness and frequent episodes of mental incapacity.

Which of the following correctly states the law applicable to this situation?

(A) The agreement is void ab initio; a person diagnosed with a mental disorder can never enter a valid contract regardless of any lucid interval.
(B) The agreement may be valid if Harish establishes that Ganesh was in a lucid interval at the time of contracting; the burden of proving the lucid interval falls on the party seeking to enforce the contract.
(C) The agreement is enforceable because the burden of proving unsoundness of mind lies entirely on the party alleging it, and Ganesh's guardian cannot discharge that burden conclusively.
(D) Persons of unsound mind are absolutely incapacitated; no judicial inquiry into lucid intervals is permissible.

Q5. Ananya agrees to purchase a rare painting from Devraj for Rs. 18,00,000. Both parties genuinely believe the painting to be an authenticated original by a celebrated 19th-century artist. After the agreement is executed and a substantial deposit paid, an independent expert conclusively establishes that the painting is a modern forgery of exceptional skill. Neither Ananya nor Devraj had any knowledge of this fact when they contracted.

Which of the following correctly states the legal consequence?

(A) The contract is valid; both parties shared the same mistake, and the risk of authenticity lies with the buyer under the principle of *caveat emptor*.
(B) The contract is voidable at Ananya's option because Devraj made an implied representation about the painting's authenticity.

(C) The contract is void under Section 20 of the Indian Contract Act because both parties were under a common mistake of fact essential to the agreement.

(D) The contract is void under Section 18 because Devraj misrepresented the painting as being an original work.

Q6. Meera and her brother Raju enter into a written construction contract with Buildwell Pvt. Ltd. to erect a residential house on land belonging to their sister Lata. The contract expressly records that the completed house shall be held on trust for Lata's exclusive benefit. Buildwell abandons the project mid-way. Lata, who was not a party to the contract and provided no consideration, brings a suit against Buildwell for breach.

Which of the following correctly states the legal position regarding Lata's ability to sue?

(A) Lata cannot sue because she is a stranger to the contract and to the consideration.

(B) Lata can sue because she has a proprietary interest in the land on which the house is to be built.

(C) Lata cannot sue because the doctrine of privity of contract in India is absolute and admits of no exception whatsoever.

(D) Lata can sue because the contract constitutes an express trust in her favour, and as the beneficiary of that trust she has enforceable rights against Buildwell.

Q7. Nandini is employed by TechPrime Solutions Ltd. as a senior data scientist. Her employment contract contains a clause providing that, for two years after leaving the company—for any reason whatsoever—she shall not work for any competitor or engage in any competing business anywhere in India. Nandini resigns and joins a rival firm. TechPrime files a suit seeking a permanent injunction to enforce the restraint clause.

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

(A) The restraint clause is void under Section 27 of the Indian Contract Act as it restrains Nandini from exercising a lawful profession, trade, or business; TechPrime's injunction will not succeed.

(B) The clause is valid because it is limited to two years in duration and protects TechPrime's legitimate business interests.

(C) The clause is valid provided Nandini received adequate additional compensation for agreeing to it.

(D) The clause is valid because it operates only after, and not during, the period of employment.

Q8. Tarun enters into a written contract with Vikram promising to pay Vikram Rs. 3,00,000 "if Vikram is still alive at the time of Suresh's death." Suresh is an elderly acquaintance of both parties. Suresh subsequently dies, and Vikram is alive at that time. Tarun refuses to pay, contending that the event—Suresh dying before Vikram—was virtually certain given Suresh's advanced age and poor health when the contract was made, and therefore not truly uncertain.

Which of the following correctly states the legal position?

(A) The contract is void because the event was not genuinely uncertain at the time of contracting given Suresh's age and health.

(B) Tarun must pay Vikram because, under Section 34 of the Indian Contract Act, a contract contingent on the happening of an uncertain future event—including the order of survival of specified persons—becomes enforceable when that event happens.

(C) The contract is void because it is contingent on the death of a person and is therefore against public policy.

(D) Tarun's liability arises only if Suresh's death was not attributable to natural causes.

Q9. A municipal corporation serves notice on Ashok, the registered owner of a commercial property, demanding payment of outstanding property tax arrears of Rs. 60,000 within 15 days, failing which the property will be attached and auctioned. Ashok is abroad on an extended business trip and cannot be contacted. His neighbour Preethi, to prevent the attachment, pays the full arrears to the corporation. On Ashok's return, he refuses to reimburse Preethi, stating he never authorised or requested any payment on his behalf.

Which of the following correctly describes Preethi's right of recovery?

(A) Preethi has no right of recovery because she acted as a volunteer without any request or authorisation from Ashok.
(B) Preethi may recover only if she demonstrates that Ashok was unjustly enriched by an amount exceeding the tax paid.
(C) Preethi is entitled to recover Rs. 60,000 from Ashok under Section 69 of the Indian Contract Act, as she paid money that Ashok was legally bound to pay and did so to protect his property from attachment.
(D) Preethi may recover only half the amount paid because she acted entirely on her own initiative.

Q10. Kavya, a concierge at a hotel, finds an antique pocket watch left behind in the lobby. The watch bears no identifying marks and, despite a notice displayed at the reception for three months, the true owner cannot be traced. Kavya has incurred Rs. 4,500 in insuring and safely storing the watch. The watch itself is not perishable in the ordinary sense, but its market value substantially exceeds the storage costs. Kavya consults a lawyer about her rights over the watch.

Which of the following correctly describes the rights of a finder of goods under the Indian Contract Act?

(A) Kavya must immediately surrender the watch to the police; she acquires no rights over found property under the Act.
(B) Kavya may sell the watch at any time since she has been in possession for more than three months and the owner has not come forward.
(C) Kavya has no lien over the watch but is entitled to claim a reward from the true owner if one is eventually found.
(D) Kavya, as finder, is treated as a bailee under Section 71 of the Indian Contract Act and has a lien on the watch for expenses reasonably

incurred; she may sell it under the conditions prescribed by Sections 168 and 169 of the Act, such as where the owner cannot be found and the expense of keeping the goods is disproportionate to their value, or the goods are in danger of perishing.

Q11. Mehta hires a flat-bed truck from Transway Ltd. for a specific day to transport his food stall and equipment along the Republic Day parade route, intending to cater to the assembled crowds. Two days before the event, the government cancels the parade entirely owing to security concerns. The truck is available and in good mechanical condition; physically, it could still transport Mehta's stall along the designated route. Transway Ltd. demands the full hire charge, while Mehta refuses to pay, claiming the contract has been discharged.

Which of the following correctly states the legal position?

(A) The contract is discharged by frustration because the cancellation of the parade—the very foundation and commercial purpose of the contract—has destroyed the basis of the agreement, even though physical performance remains technically possible.

(B) The contract is not frustrated because the truck was physically available and transport of the stall remained possible.

(C) Mehta must pay the full hire charge; frustration applies only when physical performance becomes impossible, not merely commercially pointless.

(D) Mehta is entitled only to a partial refund calculated proportionally to the benefit he would have derived from the parade.

Q12. Pradeep and Shalini execute a formal written loan agreement under which Shalini is to repay Rs. 4,00,000 to Pradeep within one year. After both parties have signed, Pradeep—without Shalini's knowledge or consent—alters the repayment period in the document from "one year" to "six months." When Shalini fails to repay within six months, Pradeep brings a suit on the altered agreement.

Which of the following correctly states the legal effect of Pradeep's unilateral alteration?

(A) The contract is voidable only in respect of the altered term; the obligation to repay within one year remains enforceable at Shalini's option.
(B) The material alteration of a written contract by one party without the consent of the other discharges the other party from all obligations under that contract.
(C) Pradeep may enforce repayment within one year because only the falsely altered term is void; the underlying obligation subsists.
(D) The unilateral alteration constitutes a novation, replacing the original contract with a new and binding obligation on both parties.

Q13. Rohit owes Sanjana three separate debts: Rs. 25,000 for goods supplied (Debt 1), Rs. 15,000 under a promissory note (Debt 2), and Rs. 10,000 for consultancy fees (Debt 3). Rohit makes a lump-sum payment of Rs. 25,000 to Sanjana without specifying which debt it is intended to discharge. Without informing Rohit, Sanjana applies the entire payment to extinguish Debt 3 in full (Rs. 10,000) and then applies Rs. 15,000 towards Debt 2, leaving Debt 1 entirely outstanding.

Which of the following correctly describes the law on appropriation of payments under the Indian Contract Act?

(A) If the debtor does not indicate, the payment must be applied to debts strictly in the chronological order of their creation, oldest first.
(B) If the debtor does not indicate, the creditor may appropriate only upon the direction of a competent court.
(C) If the debtor does not indicate which debt to discharge, the creditor may, under Section 60 of the Indian Contract Act, apply the payment to any lawful debt actually due and payable—including one whose recovery is barred by limitation—and Sanjana's appropriation is therefore valid.
(D) The payment must be distributed proportionally across all outstanding debts in proportion to their respective amounts.

Q14. Nalini is induced to sell her gold jewellery to Deepak for Rs. 1,50,000 by Deepak's fraudulent misrepresentation that gold prices had collapsed and the jewellery was worth no more than Rs. 1,60,000. The actual market value was Rs. 5,00,000. Nalini delivers the jewellery and receives the price before discovering the fraud. She then elects to rescind the contract. Deepak resists, arguing that since performance is complete, rescission is no longer available as a remedy.

Which of the following correctly describes the legal consequence of rescission in these circumstances?

(A) Nalini may rescind and retain the Rs. 1,50,000 received as partial compensation for the loss caused by Deepak's fraud.
(B) Rescission is available only for the unperformed portion of a contract; a fully performed contract cannot be rescinded under any circumstances.
(C) A party who has fully performed cannot rescind because mutual restitution after full performance would be inequitable to the other party.
(D) Upon rescission of a voidable contract, each party is obliged to restore the benefits received from the other; Nalini must return the Rs. 1,50,000 and Deepak must return the jewellery, subject to any additional claim for compensation arising from the fraud.

Q15. Vinita books a premium honeymoon package from Comfort Travels Ltd. for Rs. 2,80,000, covering accommodation, curated sightseeing, and special dining experiences. The company, in breach of contract, fails to arrange the booked hotel and several promised activities. Vinita and her spouse suffer considerable disappointment and distress. In her suit for breach of contract, Vinita claims—in addition to a full refund and reimbursement of out-of-pocket expenses—Rs. 5,00,000 as damages for mental anguish, disappointment, and the ruining of her honeymoon.

Which of the following correctly states the law regarding her claim for mental distress damages?

(A) As a general rule, damages for mental distress, disappointment, or injured feelings are not recoverable in an action for breach of contract under Section 73 of the Indian Contract Act; such damages do not arise naturally in the usual course of things from a breach of a commercial contract.

(B) Vinita can recover damages for mental distress because she paid substantial consideration and had legitimate expectations of enjoyment from the holiday package.

(C) Damages for mental distress are recoverable in contract whenever the defendant acts in bad faith or with indifference to the plaintiff's interests.

(D) Since the primary object of the contract was the provision of pleasure and enjoyment, damages for mental distress are automatically recoverable upon any breach of such a contract.

Q16. Feroz purchases 400 units of electronic components from Haroon, a supplier, contracting entirely in his own name and without disclosing that he is acting as an agent for a principal named Ghani. The components are duly delivered, but Ghani—the undisclosed principal—fails to pay the contract price. Haroon subsequently discovers that Feroz was acting as Ghani's agent. Haroon wishes to recover the contract price.

Which of the following correctly states the legal position regarding Haroon's right to sue?

(A) Haroon can only sue Ghani now that Ghani's identity has been revealed; Feroz's personal liability is extinguished once the principal's identity is disclosed.

(B) Haroon may elect to sue either Feroz (as the agent who personally contracted) or Ghani (as the undisclosed principal whose existence is now known), but once judgment is obtained against one, the claim against the other is extinguished.

(C) Haroon can only sue Feroz because the contract was made with Feroz alone and Ghani's undisclosed status prevents him from being made a party.

(D) Haroon cannot sue either Feroz or Ghani because the contract is rendered void by the non-disclosure of the principal's identity at the time of contracting.

Q17. Jayshree appoints Krishna as her agent to negotiate and finalise the sale of her commercial property, providing him a registered power of attorney. Six months later, Jayshree sends Krishna a written notice purporting to revoke his authority. There is a factual dispute about whether Krishna actually received the notice before he executed a sale agreement with Lata, a third party who had no knowledge of any revocation. Jayshree refuses to be bound by Krishna's agreement with Lata, relying on the revocation notice.

Which of the following correctly states the legal position under Section 208 of the Indian Contract Act regarding the effect of revocation on third parties?

(A) The agreement with Lata is void because Krishna's authority was revoked before the agreement was executed.
(B) Jayshree is not bound because personal notice of revocation served on the agent is sufficient to affect all third parties who subsequently deal with that agent.
(C) Revocation of an agent's authority does not affect acts done towards third parties who have no notice of the revocation; such acts continue to bind the principal until actual notice of the revocation is communicated to the third party.
(D) Lata is obliged to verify the agent's subsisting authority independently before entering any transaction with him.

Q18. Mala appoints Nakul as her agent to sell her vintage car and instructs him in writing not to accept any price below Rs. 9,00,000. Without obtaining Mala's consent, Nakul enters into a sale agreement with Om at a price of Rs. 7,00,000. Mala refuses to ratify this transaction. Om, having already made a partial advance payment in anticipation of delivery, suffers a financial loss and seeks legal recourse.

Which of the following correctly states Nakul's legal position?

(A) Nakul bears no liability because he disclosed his agency status to Om and was acting, at least ostensibly, on Mala's behalf.
(B) Nakul is not personally liable; Om's only remedy is to pursue Mala on the basis of apparent authority.
(C) Mala is bound by the agreement because a sales agent ordinarily holds apparent authority to agree on price, and Om was entitled to rely on it.
(D) Nakul is personally liable to Om for breach of warranty of authority and must compensate Om for any loss arising from his act of contracting beyond the authority actually conferred by Mala.

Q19. Parth entrusts to Quentin, for safekeeping, a rare first-edition manuscript that possesses unique historical value and is effectively irreplaceable in the market. Quentin wrongfully refuses to return the manuscript, instead asserting ownership over it. Parth brings a suit seeking a court decree for the recovery of the specific manuscript itself rather than monetary compensation. The court is asked to consider whether such relief is available under the Specific Relief Act, 1963.

Which of the following correctly states the position under Section 7 of the Specific Relief Act, 1963?

(A) A court may decree recovery of specific movable property where the property is of special value or interest to the plaintiff, is held by the defendant as trustee or bailee for the plaintiff, or where compensation in money would not afford adequate relief in the circumstances.
(B) Courts can never direct the return of specific movable property; the only remedy for wrongful detention of movables is an award of monetary compensation.
(C) A court must always decree recovery of specific movable property whenever the plaintiff establishes that he is the true owner and the defendant is in wrongful possession.
(D) The Specific Relief Act, 1963 applies only to immovable property; all claims relating to movable property are governed exclusively by the Transfer of Property Act, 1882.

Q20. Rina contracts to sell her ancestral house to Suhas for Rs. 55,00,000. Suhas pays the agreed advance of Rs. 10,00,000. Rina subsequently refuses to complete the transaction. Suhas files a suit for specific performance. During the proceedings, it emerges that Rina had entered the contract under significant familial pressure and that enforcing the contract would cause her hardship wholly disproportionate to the advantage it would confer on Suhas; there was, however, no fraud, misrepresentation, or undue influence affecting her consent.

Which of the following correctly states the court's power in this situation?

(A) The court must grant specific performance because a valid and enforceable contract exists; it has no discretion to decline once a breach is established.

(B) Specific performance is a discretionary relief; the court may refuse to grant it if doing so would cause the defendant hardship disproportionate to the advantage accruing to the plaintiff, and may instead award compensation in lieu of specific performance.

(C) The court cannot take hardship into account at all; its sole function is to examine the validity of the contract and the fact of breach.

(D) Specific performance must always be refused when the property in dispute is ancestral in nature, given the family interests involved.

SOLUTIONS

Solution

Sol. 1.

Concept: Incorporation of Exclusion Clauses—Requirement of Reasonable Notice

For an exclusion or exemption clause in a standard form contract to bind the other party, it must be incorporated into the contract at the time of formation. Incorporation requires that the party relying on the clause took reasonable steps to bring it to the other party's notice before or at the moment of contracting. Where the clause is buried in fine print on the reverse of a receipt, is not specifically drawn to the customer's attention, and is neither signed nor separately acknowledged, no reasonable notice is established. QuickClean cannot rely on such an unnotified clause to exclude liability for its own negligence.

Why other options are wrong:

- **(A)** Merely handing over or accepting a receipt does not incorporate terms printed on it without reasonable notice; passive receipt of a document is not acceptance of undisclosed onerous terms.
- **(B)** The clause is not challenged under Section 23 on public policy grounds; the legal issue is one of contractual incorporation, not unlawful subject-matter.
- **(D)** Validity of notice does not depend on the recipient's literacy; the obligation to bring the clause to the other party's attention rests on the party seeking to rely on it.

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

Answer: (C)

Go Back to Q1

Solution

Concept: Conditional Acceptance Operates as Counter-Offer and Rejection (Section 7)

Section 7 of the Indian Contract Act requires acceptance to be absolute and unqualified. An acceptance that introduces a new condition or varies the terms of the offer is not an acceptance at all—it constitutes a counter-offer, which simultaneously rejects the original offer. Once an offer is rejected, it ceases to exist and cannot subsequently be revived by the original offeree. Sundar's first reply, by conditioning acceptance on the inclusion of fresh tyres, was a counter-offer that rejected Priya's offer. The original offer lapsed at that point. Sundar's later unconditional acceptance therefore had no subsisting offer to accept, and no contract came into existence.

Why other options are wrong:

Sol. 2.

- **(A)** No valid contract arose from the second letter because the original offer had already lapsed upon Sundar's counter-offer; there was nothing left to accept.
- **(B)** Priya is not bound; the original offer was extinguished by the counter-offer before Sundar's purported unconditional acceptance.
- **(C)** A counter-offer does not merely suspend the original offer—it destroys it; a later letter cannot revive an offer that no longer exists.

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

Answer: (D)

Go Back to Q2

Solution

Concept: Past Act Done at Promisor's Request as Valid Consideration (Section 25(2))

The general rule that past consideration is no consideration has an important statutory exception in Indian law. Under Section 25(2) of the Indian Contract Act, a promise to compensate a person who has already voluntarily done something for the promisor is enforceable, provided that the past act was done at the promisor's express or implied request. Bimal specifically telephoned Ajit and requested him to arrange the surgery. Ajit acted at Bimal's request, and Bimal's subsequent written promise to pay Rs. 1,20,000 is supported by consideration within the meaning of Section 25(2). The promise is therefore enforceable.

Why other options are wrong:

Sol. 3.

- **(B)** Indian law does not categorically exclude past consideration; Section 25(2) expressly validates it where the past act was done at the promisor's request—exactly as here.
- **(C)** The Act imposes no requirement of registration for such a promise; a written (unregistered) agreement is sufficient for enforceability under Section 25(2).
- **(D)** Moral obligation alone does not constitute consideration in law; the enforceability here flows from the specific statutory provision in Section 25(2), not from moral obligation as an independent principle.

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

Answer: (A)

Go Back to Q3

Sol. 4.

Solution

Concept: Capacity of Persons of Unsound Mind—Lucid Intervals and Burden of Proof

Under Section 12 of the Indian Contract Act, a person who is usually of unsound mind but occasionally of sound mind may contract during a lucid interval. Where a person is generally of unsound mind, the medical evidence of that general incapacity raises a presumption against contractual capacity. The burden of proving that the person was in a lucid interval at the relevant time falls on the party seeking to enforce the contract—in this case, Harish. It is not sufficient for Harish to merely allege a lucid interval; he must affirmatively establish it on the evidence.

Why other options are wrong:

- **(A)** Section 12 explicitly preserves the right to contract during lucid intervals; the agreement is not automatically void ab initio merely because the person is generally of unsound mind.
- **(C)** This misallocates the burden; the burden is on the party asserting capacity (Harish), not primarily on the party alleging incapacity. Once general unsoundness is shown, the enforcing party must prove the lucid interval.
- **(D)** Section 12 of the Act explicitly contemplates valid contracting during lucid intervals; there is no absolute bar on such inquiry.

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

Answer: (B)

Go Back to Q4

Solution

Concept: Common (Bilateral) Mistake as to Essential Quality of Subject-Matter—Section 20

Section 20 of the Indian Contract Act provides that an agreement is void where both parties are under a mistake as to a matter of fact essential to the agreement. Both Ananya and Devraj contracted on the shared and fundamental assumption that the painting was an authentic original. That assumption—going to the very essential quality of the subject-matter—turned out to be false. This is a classic case of bilateral common mistake as to fact essential to the agreement, rendering the contract void under Section 20.

Why other options are wrong:

Sol. 5.

- **(A)** *Caveat emptor* applies to patent quality differences in ordinary sales; it cannot override a shared fundamental mistake about the very nature and identity of the subject-matter, which goes to the root of the contract.
- **(B)** Voidability under Section 19 requires misrepresentation by one party; here neither party made any false representation—both were equally and honestly mistaken.
- **(D)** Section 18 covers misrepresentation; since Devraj had no knowledge of the forgery and made no intentional false assertion, Section 18 has no application.

Final Answer: C

Answer: (C)

Go Back to Q5

Solution

Concept: Exception to Privity—Beneficiary Under an Express Trust

The general rule is that only a party to a contract can sue upon it. However, one well-recognised exception—affirmed by Indian courts—is where the contracting parties create an express trust for the benefit of a third party. In such cases, the third-party beneficiary acquires enforceable rights against the trustee. The contract here expressly declares that the completed house is to be held on trust for Lata. This constitutes an express trust of which Lata is the named beneficiary. She therefore has a direct enforceable right against Buildwell, notwithstanding that she was not a party to the contract.

Why other options are wrong:

Sol. 6.

- **(A)** The express trust exception overrides the privity rule in precisely this situation; Lata is not a mere stranger but the beneficiary of an expressly created trust.
- **(B)** A proprietary interest in the land alone is insufficient to overcome the privity bar; it is the express trust created by the contract that confers standing.
- **(C)** The privity doctrine in India is not absolute; the express trust exception has been judicially recognised and consistently applied by Indian courts.

Final Answer: D

Answer: (D)

Go Back to Q6

Solution

Concept: Post-Employment Restraint of Trade—Section 27

Section 27 of the Indian Contract Act declares every agreement by which any person is restrained from exercising a lawful profession, trade, or business of any kind to be void to that extent. Unlike English law, Indian courts do not apply a test of reasonableness to post-employment restraint clauses; the prohibition in Section 27 is broadly and strictly construed. A clause restraining an employee from working for competitors across the entire country for two years after leaving employment falls squarely within this prohibition. TechPrime's injunction will accordingly fail, and the clause cannot be enforced.

Why other options are wrong:

Sol. 7.

- **(B)** Reasonableness of duration or geographic scope is not a saving factor under Section 27 in Indian law; the clause is void irrespective of how narrowly or broadly it is framed.
- **(C)** Payment of additional compensation does not cure the fundamental invalidity of a covenant that violates Section 27; consideration cannot save an agreement that is void under statute.
- **(D)** Post-employment covenants are squarely within the scope of Section 27; Indian courts have consistently held that the timing of the restriction (after employment ends) does not exempt it from the section's operation.

Final Answer: A

Answer: (A)

Go Back to Q7

Solution

Concept: Contingent Contracts on Survival of Persons—Section 34

Section 34 of the Indian Contract Act provides that contracts contingent on the happening of a specified uncertain future event—including the order of survival of two specified persons—become enforceable when that event happens. The fact that Suresh's death was statistically probable given his age and health does not destroy the legal uncertainty required for a contingent contract. The law looks at legal, not actuarial, certainty: so long as the order of death was not a legal certainty at the time of contracting, the contingency is valid. The event—Suresh dying before Vikram—has occurred, so Tarun's obligation is activated and he must pay.

Why other options are wrong:

Sol. 8.

- **(A)** Legal uncertainty, not actuarial probability, is the governing test; statistical likelihood of one person dying before another does not convert the contingency into a legal certainty.
- **(C)** Contracts contingent on the survival or death of specified persons are expressly contemplated by Section 34; there is no public policy bar against them.
- **(D)** The contract imposes no condition as to the cause of Suresh's death; the mode of death is legally irrelevant to the contingency agreed upon.

Final Answer: B

Answer: (B)

Go Back to Q8

Solution

Concept: Quasi-Contract—Payment of Money That Another Was Legally Bound to Pay (Section 69)

Section 69 of the Indian Contract Act creates a quasi-contractual obligation: a person who is interested in the payment of money which another is legally bound to pay, and who therefore pays it, is entitled to be reimbursed by that other person. Preethi had an interest in preventing the attachment (her proximity and concern for the property); Ashok was legally bound to pay the property tax; and Preethi paid it to protect Ashok's property from being attached. All three elements of Section 69 are satisfied. It is not necessary under the section that Ashok requested or authorised the payment.

Why other options are wrong:

Sol. 9.

- **(A)** Section 69 does not require prior request or authorisation by the debtor; the right to reimbursement arises from the statute, not from contract or authority.
- **(B)** The section does not require proof of unjust enrichment beyond the amount paid; the right of recovery is for the exact amount paid to discharge the other party's legal liability.
- **(D)** There is no partial recovery rule under Section 69; Preethi is entitled to recover the full Rs. 60,000 paid.

Final Answer: C

Answer: (C)

Go Back to Q9

Sol. 10.

Solution

Concept: Finder of Goods as Bailee—Lien and Conditional Right of Sale (Sections 71, 168–169)

Section 71 of the Indian Contract Act treats the finder of goods as a bailee, subject to the same responsibilities as a bailee (including reasonable care). In addition, Sections 168 and 169 confer specific rights on the finder: under Section 168, the finder has a lien on the goods for expenses reasonably incurred in preserving them and finding the owner; under Section 169, the finder may sell the goods where they are in danger of perishing or where the lawful charges of the finder amount to two-thirds of the value of the goods. These rights are conditional, not automatic or immediate.

Why other options are wrong:

- **(A)** The Act does not compel the finder to surrender the goods to the police; the finder's rights and duties are defined by the Indian Contract Act, which treats him as a bailee with a lien.
- **(B)** The passage of time alone does not trigger the right of sale; the specific statutory conditions in Section 169 (perishability or disproportionate expense) must be satisfied.
- **(C)** Option (C) incorrectly denies the finder any lien; Section 168 expressly grants the finder a lien for expenses incurred in preservation and tracing the owner.

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

$\boxed{\textbf{Answer: (D)}}$

Go Back to Q10

Solution

Concept: Discharge by Frustration—Destruction of Commercial Purpose (Coronation-Type Cases)

The doctrine of frustration under Section 56 of the Indian Contract Act discharges a contract where the foundation or commercial purpose of the contract has been destroyed by a supervening event not foreseeable at the time of contracting and not caused by either party. The landmark "coronation cases" (such as *Krell v. Henry*) established that frustration may apply even when physical performance remains possible, provided the very commercial basis of the contract has been wholly defeated. Mehta hired the truck exclusively for a specific public event; the government's cancellation of that event destroyed the entire commercial purpose of the contract. The contract is therefore discharged by frustration.

Why other options are wrong:

Sol. 11.

- **(B)** Physical possibility of performance is not the sole test for frustration; the doctrine extends to cases where the commercial substratum has been wholly destroyed, even if the physical act of driving the truck remains possible.
- **(C)** Section 56 and the developed doctrine of frustration are not confined to physical impossibility; destruction of the contractual purpose is a recognised and established ground.
- **(D)** Proportional refund is not a standard remedy; upon frustration the contract is discharged in its entirety; apportionment may be addressed by separate statutory provisions applicable in some jurisdictions but is not a common law contractual remedy.

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

Answer: (A)

Go Back to Q11

Solution

Concept: Material Alteration of a Written Contract by One Party—Total Discharge of the Other Party

It is a well-established principle of contract law that a material alteration of a written contract made by one party without the knowledge or consent of the other completely discharges the innocent party from all obligations under that contract. The alteration of the repayment period from one year to six months is plainly material—it directly and adversely affects a core contractual obligation. The effect is not merely to void the altered term: the wrongdoer (Pradeep) loses the right to enforce the contract in any form, whether on the original or the altered terms. The innocent party (Shalini) is wholly released.

Why other options are wrong:

Sol. 12.

- **(A)** The discharge operates on the entire contract, not merely the altered term; the innocent party is released from all obligations, not just from compliance with the falsified clause.
- **(C)** Pradeep cannot fall back on the original terms after committing a fraudulent material alteration; the act of alteration forfeits his right to enforce the instrument in any form.
- **(D)** Novation requires the agreement of all parties and replaces an old contract with a new one by consent; a unilateral secret alteration is the antithesis of novation.

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

Answer: (B)

Go Back to Q12

Solution

Sol. 13.

Concept: Appropriation of Payments—Creditor's Discretion When Debtor Gives No Indication (Section 60)

Sections 59–61 of the Indian Contract Act govern the order in which multiple debts are discharged by a payment. Section 59 grants the debtor the primary right to indicate which debt a payment is to be applied towards. Section 60 operates when the debtor does not exercise that right: it gives the creditor the discretion to apply the payment to any lawful debt actually due and payable—importantly, even to one whose recovery is barred by limitation. Section 61 (the residual rule—application to the earliest debt in time) applies only if neither party appropriates. Since Rohit made no indication, Sanjana was entitled under Section 60 to appropriate the payment as she chose; her appropriation is valid.

Why other options are wrong:

- **(A)** The chronological order rule under Section 61 applies only when neither party appropriates; since Sanjana appropriated under Section 60, Section 61 does not come into play.
- **(B)** No court order is required; Section 60 vests the appropriation discretion directly in the creditor, exercisable unilaterally.
- **(D)** Proportional distribution is not recognised by any provision of the Act as a rule of appropriation; it has no statutory basis.

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

Answer: (C)

Go Back to Q13

Solution

Concept: Restitution Upon Rescission of a Voidable Contract (Sections 64 and 65)

Under Section 64 of the Indian Contract Act, when a party rescinding a voidable contract has received any benefit under it, she must restore that benefit to the other party. Section 65 reinforces this by requiring restoration of advantages received when an agreement is discovered to be void or a contract becomes void. The principle is mutual restitution: each party is returned to the position they were in before contracting. Nalini must therefore return Rs. 1,50,000 to Deepak, and Deepak must return the jewellery to Nalini. She may separately pursue compensation for actual damage caused by the fraud under Section 19 read with Section 75 of the Act.

Why other options are wrong:

Sol. 14.

- **(A)** Rescission requires mutual restitution; Nalini cannot retain the price and simultaneously rescind—that would amount to unjust enrichment, which the Act does not permit.
- **(B)** Section 64 expressly applies where a party has received benefit under the contract before rescission; there is no rule that full performance bars the right to rescind for fraud.
- **(C)** Restitution after rescission is precisely what Section 64 provides; the fact that performance has occurred does not make restitution inequitable—it is the statutorily mandated consequence of rescission.

Final Answer: D

Answer: (D)

Go Back to Q14

Solution

Concept: No General Recovery of Damages for Mental Distress in Contract—Section 73

Section 73 of the Indian Contract Act limits recoverable damages to losses that (i) arose naturally in the usual course of things from the breach, or (ii) were within the reasonable contemplation of both parties at the time of contracting as the probable result of breach. Damages for mental distress, disappointment, and injured feelings do not ordinarily satisfy either limb in a commercial contract context. Indian courts have generally followed the approach in *Addis v. Gramophone Co.* and held that such intangible losses are not recoverable in contract. Vinita's claim for mental distress damages will ordinarily fail, although she may recover the refund and out-of-pocket expenses.

Why other options are wrong:

Sol. 15.

- **(B)** Payment of substantial consideration does not by itself alter the Section 73 test; the nature of the loss, not the price paid, determines recoverability.
- **(C)** Bad faith or indifference of the defendant is a consideration in tort law but does not create a separate head of contractual damages for mental

distress under Indian law.

- **(D)** While some English decisions (such as *Jarvis v. Swan Tours*) have allowed mental distress damages for "holiday contracts," this remains a limited exception not uniformly adopted under Indian law; the general rule under Section 73 still applies.

Final Answer: $\boxed{A}$

Answer: (A)

Go Back to Q15

Sol. 16.

Solution

Concept: Undisclosed Principal—Personal Liability of Agent and Right of Third Party to Elect

Where an agent contracts in his own name without disclosing that he is acting on behalf of a principal, he personally assumes all the liabilities of a contracting party. Upon subsequent discovery of the principal's identity, the third party (Haroon) acquires the right to elect to hold liable either the agent (Feroz, who contracted personally) or the undisclosed principal (Ghani, on whose behalf the contract was performed). This right of election is a well-established principle under Indian law: the third party may choose whom to pursue, but once judgment is obtained against one, the claim against the other is extinguished to prevent double recovery.

Why other options are wrong:

- **(A)** Disclosure of the principal's identity does not automatically extinguish the agent's personal liability; Haroon retains the right to elect to sue Feroz instead of or in place of Ghani.
- **(C)** The undisclosed principal doctrine permits the third party to sue the principal once his identity is discovered; Haroon is not confined to suing Feroz alone.
- **(D)** Non-disclosure of the principal does not void the contract; it creates an election right in the third party's favour, not contractual nullity.

Final Answer: $\boxed{B}$

Answer: (B)

Go Back to Q16

Sol. 17.

Solution

Concept: Revocation of Agency—Effect on Third Parties Without Notice (Section 208)

Section 208 of the Indian Contract Act provides that termination of an agent's authority does not, as regards third parties, take effect until those third parties have received notice of the termination. Until such notice is communicated to the third party, the agent's acts within the apparent scope of his authority continue to bind the principal. The rationale is the protection of innocent third parties who deal in good faith without notice of revocation. Lata, having had no notice of the revocation, is entitled to hold Jayshree bound by Krishna's act carried out within his apparent authority.

Why other options are wrong:

- **(A)** The act cannot be void as against Lata, who had no notice of any revocation; Section 208 expressly protects third parties in this position.
- **(B)** Personal notice of revocation served on the agent terminates the agent's own actual authority but is not, by itself, sufficient to affect the rights of third parties who have not received notice; they must be separately notified.
- **(D)** The law does not impose on third parties a duty of independent verification of an agent's subsisting authority; the burden of giving public or actual notice of revocation lies on the principal, not on the third party.

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

$\boxed{\textbf{Answer: (C)}}$

Go Back to Q17

Solution

Concept: Agent Exceeding Authority—Breach of Warranty of Authority and Personal Liability to Third Party

When an agent purports to act on behalf of a principal but does so in excess of the authority actually conferred, the principal is not bound by the act (absent ratification). The agent, however, is personally liable to the third party for breach of the implied warranty of authority—the representation that he had the authority he claimed to have. Om contracted with Nakul on the understanding that Nakul had authority to sell the car at Rs. 7,00,000. Since Nakul lacked that authority and Mala has refused to ratify, Nakul is personally liable to Om for any loss Om has suffered as a consequence of the transaction failing.

Why other options are wrong:

Sol. 18.

- **(A)** Disclosure of agency status does not shield the agent from personal liability for breach of warranty of authority; the liability arises from the agent's representation that he had authority he did not in fact possess.
- **(B)** Om has no viable remedy against Mala because Mala is not bound (she gave express written instructions limiting authority, and she has refused to ratify); Nakul is the proper defendant.
- **(C)** Apparent authority requires the principal to have made a representation to the third party that the agent had the relevant authority; on these facts, Mala's express written limitation of authority negates any claim of apparent authority to sell below Rs. 9,00,000.

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

Answer: (D)

Go Back to Q18

Solution

Sol. 19.

Concept: Recovery of Specific Movable Property—Section 7, Specific Relief Act, 1963

Section 7 of the Specific Relief Act, 1963 provides that a person entitled to the possession of specific movable property may recover it in specified circumstances—including where the property is held by the defendant as trustee or agent for the plaintiff, or where compensation in money would not afford adequate relief. A rare, historically unique and irreplaceable manuscript is precisely the kind of property for which monetary compensation is inadequate; no sum of money can substitute for an irreplaceable item. Courts may therefore decree specific recovery of such property under Section 7.

Why other options are wrong:

- **(B)** Section 7 expressly authorises courts to decree recovery of specific movable property in appropriate circumstances; claims relating to movables are not confined to monetary compensation.
- **(C)** Recovery of specific movable property is not automatic upon proof of ownership; the court must be satisfied that monetary compensation would be inadequate or that one of the other specified conditions is met. The court retains discretion.
- **(D)** The Specific Relief Act, 1963 expressly covers both movable and immovable property; the suggestion that it applies only to immovables is factually incorrect.

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

Answer: (A)

Go Back to Q19

Solution

Sol. 20.

Concept: Discretionary Nature of Specific Performance—Hardship as a Ground for Refusal

Specific performance is not a remedy of right; it is a discretionary equitable relief granted by courts under the Specific Relief Act. The court may, in its discretion, decline to grant specific performance where enforcement would cause the defendant hardship out of all proportion to the benefit it would confer on the plaintiff—particularly where that hardship arises from circumstances the defendant did not foresee at the time of contracting or from events beyond her control. In such cases, the court may award compensation in lieu of specific performance. The existence of a valid contract and a clear breach does not compel the court to grant the decree.

Why other options are wrong:

- **(A)** The court is not compelled to grant specific performance simply because a valid contract has been breached; the remedy is explicitly discretionary, and hardship is a legitimate ground for refusal.
- **(C)** Hardship is a well-recognised factor in the court's equitable discretion; the court is not limited to examining only validity and breach—it must consider whether it would be just and equitable to enforce the contract in the specific circumstances.
- **(D)** There is no categorical rule against specific performance of contracts involving ancestral property; each case turns on its own facts, and the nature of the property as ancestral is not in itself a bar to the remedy.

Final Answer: B

Answer: (B)

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ANSWER KEY

1	C	2	D	3	A	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