

# Law of Contract

## INTRODUCTION

The contracts in India are governed by the Indian Contract Act, 1872. This act regulates all forms of contracts in all the states of India. The basis of this Act is the English Common Law. The Act determines the circumstances in which promises made by the parties to a contract shall be legally binding. Under Section 2(h), the Indian Contract Act defines a contract as an agreement which is enforceable by law.

The Act as enacted originally had 266 Sections, it had wide scope and included.

- General Principles of Law of Contract – Sections 01 to 75
- Contract relating to Sale of Goods – Sections 76 to 123
- Special Contracts- Indemnity, Guarantee, Bailment & Pledge and Agency – Sections 124 to 238
- Contracts relating to Partnership – Sections 239 to 266

At present the Indian Contract Act may be divided into two parts:

- Part 1: deals with the General Principles of Law of Contract Sections 1 to 75
- Part 2: deals with Special kinds of Contracts such as
  1. Contract of Indemnity and Guarantee
  2. Contract of Bailment and Pledge
  3. Contract of Agency.

## Contract: Terms and Meanings

1. **Offer 2(a):** When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal.
2. **Acceptance 2(b):** When the person to whom the proposal is made, signifies his assent there to, the proposal is said to be accepted.
3. **Promise 2(b):** A Proposal when accepted becomes a promise. In simple words, when an offer is accepted it becomes promise.
4. **Promisor and promisee 2(c):** When the proposal is accepted, the person making the proposal is called as promisor and the person accepting the proposal is called as promisee.
5. **Consideration 2(d):** When at the desire of the promisor, the promisee or any other person has done or abstained from doing or does or abstains from doing or promises to do or to abstain from doing something such act or abstinence or promise is called a consideration for the promise. Price paid by one party for the promise of the

other. Technical word meaning QUID-PRO-QUO i.e. something in return.

6. **Agreement 2(e):** Every promise and set of promises forming the consideration for each other. In short,
7. **Contract 2(h):** An agreement enforceable by Law is a contract.  
Therefore, there must be an agreement and it should be enforceable by law.
8. **Reciprocal Promises 2(f):** Promises which form the consideration or part of the consideration for each other are called 'reciprocal promises'.
9. **Void agreement 2(g):** An agreement not enforceable by law is void.
10. **Voidable contract 2(i):** An agreement is a voidable contract if it is enforceable by Law at the option of one or more of the parties there to (i.e. the aggrieved party), and it is not enforceable by Law at the option of the other or others.
11. **Void contract 2(j):** A contract which ceases to be enforceable by Law becomes void when it ceases to be enforceable.

## 7 Essential Elements of a Contract

The 7 essential elements of a contract are the offer, acceptance, meeting of the minds, consideration, capacity, legality, and sometimes a written document.

### Offer

First, an offer must be extended in order to begin a contract. This should include details of the agreement and its terms and conditions. Simply put, the offer is the offeror's attempt at entering into a contract with another.

Sometimes businesses will look for contractors through an invitation to treat by letting people know that they are interested in entering into a contract.

### Acceptance

Once the offer is extended, it's in the hands of the offeree to either accept or reject the proposal and its terms and conditions. Offerees can accept offers via mail, email, or verbally.

### Meeting of the Minds

The meeting of the minds in contract law refers to the moment when both parties have recognized the contract and both agreed to enter into its obligations. This is also called:

- Genuine agreement
- Mutual agreement
- Mutual assent
- Consensus ad idem

**Consideration**

Something of value must be exchanged in order to have a valid legal agreement. Usually, things like products, property, protection, or services are offered for the exchange of money.

**Capacity**

Each party must be fully able or have the legal capacity to enter into the contract in order for it to be considered valid. For instance, you cannot enter into a legal contract with a three-year-old. Both parties must be of their right mind in order to form a contract, so a valid agreement could not take place if one of the parties is under the influence of any mind-altering substance.

**Legality**

Contracts cannot be created to govern the trade of illegal products or services. A drug dealer cannot enforce a contract with their buyer if their buyer doesn't pay them.

**Law of Contract in India**

This is governed by the Indian Contract Act 1872. The contract Act defines contract as an agreement enforceable by law. All agreements are not enforceable by law and therefore all agreements are not contracts.

**Example:** - An agreement to go to see a movie may be a mere agreement not enforceable by law. Thus all agreements are not contracts.

**AGREEMENT**

Every promise and every set of promises forming the consideration for each other is an agreement. An agreement arises by an "offer or proposal" by one of the parties and the "acceptance" of such offer by the other. In other sense, in an agreement there is a promise from both sides.

**Example :-** A promises to deliver his watch to B and in return B promises to pay a sum of Rs. 200 to A. There is said to be an agreement between A & B.

**PROPOSAL/OFFER** - When one person signifies to another his willingness to do, to abstain from doing anything, with a view of obtaining the assent of that other to such act or abstinence, he is said to make a proposal.

**For example :-** A's willingness to sell his radio set to B for Rs. 500 if B accepts to purchase the same, amounts to proposal by A for the sale of the radio set.

**OFFER AND INVITATION TO OFFER (DISTINGUISHED)**

**OFFER :-** When one person expresses his will to another person to do or not to do something, to take his approval is known as an offer. An offer must be definite, certain and complete in all respects. It must be communicated to the party to whom it is made.

**EXAMPLE :-** A tells to B, "I want to sell my motorcycle to you at Rs. 30,000, will you purchase it?"

x says to y, "I want to purchase your car for Rs. 2,00,000 will you sell it to me?"

**INVITATION TO OFFER**

It is an act prior to an offer, in which one person induces another person to make an offer to him. The invitation to offer is made to inform the public the terms and conditions and also in which a person is interested to enter into a contract with the other party.

- Example Menu card of a restaurant showing the prices of food items.
- A company invites applications from public to subscribe for its shares.

**Express and Implied Offer:**

An express offer is expressed by words written or spoken. An implied offer is an offer made otherwise than in words. It may be made by conduct.

**Example:** - A person who boards a bus or who hires a taxi, undertakes to pay the fare at his destination, even though he makes no express promise to do so.

**PROMISE**

When the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted.

A proposal when accepted becomes a promise. The person making the proposal is called the promiser and the person accepting the proposal is called the promisee.

**CROSS OFFERS**

When the offers made by two persons to each other containing similar terms of bargain cross each other in post, they are known as cross offers.

**Example:-** A offered to sell his watch to B for Rs. 2000 through a letter sent by post. On the same date B also wrote to A making an offer to purchase A's watch for Rs. 2000. When A or B sent their letters they did not know about the offer which was being made by the other side. In these cross offers, even though both the parties intended the same bargain, there would arise no contract. A contract could arise only if either A or B after having the knowledge of the offer, had accepted the same.

**SPECIFIC AND GENERAL OFFERS**

When the offer is made to a specific or an ascertained person it is known as a specific offer but when the same is not made to any particular person but to the public at large, it is known as general offer.

**Example:-** An offer to give reward to anybody who finds a lost dog is general offer.

**STANDING, OPEN OR CONTINUING OFFER**

An offer which is allowed to remain open for acceptance over a period of time is known as a standing, open or a continuing offer.

**Example :-** An offer to supply 1,000 bags of wheat from 1<sup>st</sup> January to 31<sup>st</sup> December, in accordance with the orders which may be placed from time to time is a standing offer. As and when the orders are placed that amounts to acceptance of the offer to that extent. In the above stated illustration if an order for the supply of 100 bags of wheat is placed on 15<sup>th</sup> January, there is acceptance of the offer to that extent. So far as the remaining quantity is concerned, this offer can be revoked just like any other offer.

**COMMUNICATION OF OFFER**

The communication of a proposal is complete when it comes to the knowledge of the person to whom it is made. Hence, an offer cannot be accepted unless and until it has been brought to the knowledge of the person to whom it is made.

**Example:** - Mr. X makes an offer that whoever finds his lost dog, will get Rs, 10,000 from him; through a newspaper advertisement. If Mr. Y reads the advertisement and finds his lost dog, he is entitled to get the said amount. But suppose Mr. Y did not read the advertisement, he found the dog moving astray on the road and submitted it to the police. Or suppose, Mr. Y happens to be the neighbor of Mr. X and he finds the dog during his morning walk and takes it to the owner, he will not be entitled to the reward amount. In this scenario, Mr. Y has come to know of the reward of 10,000 after the dog has been found. In both the situations Mr. Y will not be entitled to claim the amount from X because there was no communication of the offer to Mr. Y. Hence there cannot be a valid acceptance of the offer and hence no contract is formed.

### ESSENTIALS OF A VALID CONTRACT

1. An agreement between the two parties, an agreement is a proposal or an offer by one party and its acceptance by the other.
2. Agreement should be between the parties who are competent to contract.
3. There should be a lawful consideration and lawful object in respect of that agreement.
4. There should be a free consent of the parties.
5. The agreement must not be one which has been expressly declared to be void.

### VOID AGREEMENTS

An agreement not enforceable by law is said to be void. These agreements include an agreement without consideration, an agreement in restraint of trade, etc.

### VOIDABLE CONTRACTS

An agreement which is enforceable by law at the option of one or more of the parties thereto; but not at the option of the other is a voidable contract. Thus a voidable contract is one which could be avoided by one of the parties to the contract at his option.

**Example:-** When the consent of a party to a contract has been obtained by coercion, undue influence, fraud or misrepresentation the contract is voidable at the option of the party whose consent has been so obtained.

### ACCEPTANCE

When the person to whom the proposal is made signifies his assent, the proposal is said to have been accepted.

A proposal when accepted becomes a promise. It is only after the acceptance of the proposal that a contract between the two parties can arise.

### EFFECT OF ACCEPTANCE

A contract comes into effect only after the offer is accepted. Before its acceptance, neither party is bound by it.

### ESSENTIALS OF A VALID ACCEPTANCE

1. Acceptance should be communicated by the offeree to the offeror. It means that the offeree must signify his assent or communicate the acceptance.
2. Acceptance should be absolute and unqualified. Thus conditional acceptance is not the proper acceptance for the creation of a valid contract.

**For example:** If I offer to sell my radio to you for Rs 500 and you convey that you are willing to pay only Rs 400 for the same, there is no contract in this case.

3. Acceptance should be made in some usual and reasonable manner, unless the proposal prescribes the manner of acceptance.
4. Acceptance should be made while the offer is still subsisting. Acceptance after the lapse of the offer cannot give rise to a contract.

### WHEN IS ACCEPTANCE COMPLETE?

In case the parties to the contract are present at the same place, one making the offer and the other communicating the acceptance, both the parties become bound immediately. But the problem arises when the parties are at different places at the time of communication of offer and acceptance is made by post or telephone etc. The law has laid down the following rules when the communication of acceptance is made by post/telegram :-

1. The communication of acceptance is complete as against the proposer, when it is put in the course of transmission to him so to be out of the power of the acceptor.
2. The communication of acceptance is complete as against the acceptor, when it comes to the knowledge of the proposer.

### EXAMPLE :-

B accepts A's proposal by a letter sent by post. The communication of the acceptance is complete –

As against A when letter is posted.

As against B, when letter is received by A.

### REVOCATION OF OFFER & ACCEPTANCE

A proposal may be revoked at any time; before the communication of acceptance is complete as against the proposer but not afterwards and in case of acceptance, it is at any time before the communication of the acceptance is complete as against the acceptor but not afterwards.

### MODES OF REVOCATION OF OFFER

- (1) By communication of notice of revocation by proposer.
- (2) By lapse of time.
- (3) By failure of acceptor to fulfill a condition precedent.
- (4) By death / insanity of proposer.

### CONSIDERATION

Consideration means to do something in return i.e. quid Pro quo under Indian contract Act.

Consideration is defined as: - when at the desire of the promisor, the promisee has done or abstained from doing or does or abstains from doing or promises to do or abstain something, such an act or abstinence or promise is called consideration for the promise. An agreement must be supported by a lawful consideration on both sides.

### ESSENTIALS

1. Consideration to be given at the desire of the promisor.
2. Consideration to be given by the promisee or any other person.
3. Consideration may be past, present or future.

4. There should be some act, abstinence or promise by the promisee which constitutes consideration for the promise.

A executed an agreement with B who was a minor age 17 years at the time of execution of agreement. After attaining majority, the erstwhile minor cannot ratify the agreement.

- Past Consideration means that the consideration for any promise was given earlier and the promise is made thereafter.

**Example:-** I request you to find my lost dog. After you have done the same, if I promise to pay you Rs. 100 for that, it is a case of past consideration under this the act recognizes only such consideration which has been given at the desire of the promisor, rather than voluntarily.

- Executed or Present Consideration – when one the parties to the contract has performed his part of the promise, which constitutes the consideration for the promise by the other side. In other words consideration is provided simultaneously along with the making of the contract.
- Executory or Future Consideration - When one person makes a promise in exchange for the promise by the other side, the performance of the obligation by each side to be made subsequent to the making of the contract, the consideration is known as executory.

**For example:** A agrees to supply certain goods to B and B agrees to pay for them on a future date, this is a case of executory consideration.

### WHO ARE COMPETENT TO CONTRACT

Every person is competent to contract who is of the age of majority according to the law of land of which he is a subject and who has not been disqualified from entering into a contract is competent to contract.

Therefore the following persons are parties incompetent to contract :-

1. A minor i.e. a person below the age of 18 years.
2. A person of unsound mind or insane.
3. A person disqualified by any law to contract.

Thus an agreement with a minor is absolutely void.

### AGREEMENT WITHOUT CONSIDERATION AS VOID

#### Exceptions:

- (1) Natural love and affection.
- (2) Compensation for past voluntary services.
- (3) Promise to pay time barred debt.

In a very popular case, Mohiri Bibee in Dharmodas Ghose (ILR 1903) 30 cal 539 a minor mortgaged his house in favour of a money lender and received certain amount from him. The privy council held that the money lender is not entitled to get the money back which was advanced to a minor. This is because only a person capable of entering into a agreement can make a contract.

### MINOR AND RULE OF ESTOPPEL

Further a situation may arise where a minor has declared or intentionally caused or permitted another person to believe him to be a person who has attained the age of majority upon such belief, if the money lender advances some money to the minor, can the minor be held liable to pay? The Mohiri Bibee

case clearly ruled out that the rule of estoppels does not apply against minor. It means a minor cannot be held liable to repay a loan even if he has procured it by misrepresenting him as a major person.

### MINOR AND RULE OF RESTITUTION

Again a question arises as to the rule of restitution applying against a minor. Restitution means to restore or return the benefit received by a minor under an agreement. A minor is not liable to restore the benefits received under a void contract except under certain cases.

A minor who has obtained money or goods by misrepresenting him to be major, can be compelled to restore the benefit to the extent, he or his estate has benefited. If some benefit of permanent nature has been accrued to him, he has to restore it.

**Example:** A patient in a lunatic asylum, who is at intervals, of sound mind may contract during intervals.

A person, who is delirious from fever or who is so drunk that he cannot understand the terms of a contract or form a rational judgments as to its effect on his interests cannot contract whilst such delirium or drunkenness lasts.

### CONSENT DEFINED

Two or more persons are said to be consented when they agree upon the same thing in the same sense.

### FREE CONSENT

Consent is said to be free when it is not caused by coercion, undue-influence, fraud, misrepresentation and mistake.

### COERCION

Coercion is the committing or threatening to commit any act forbidden by the Indian Penal code or the unlawful detaining, or threatening to detain any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement.

**For example :-** A threatens to shoot B is B does not agree to sell his property to A at a stated price. B's consent in this case has been obtained by coercion.

### UNDUE INFLUENCE

Undue influence takes place where two persons stand in such a relation that one party is in a position to dominate the will of the other. When such person uses his position to obtain an unfair advantage over the other, any agreement entered into is vitiated by undue influence a person can be said to dominate the will of other or able to exercise undue influence over the other if –

1. He has real or apparent authority over the other or he stands in a fiduciary relation with him and
2. He makes a contract with a person whose mental capacity is temporarily or permanently affected due to old age, illness or mental or bodily distress.

**Example :** Mr A is heavily indebted to Mr. B the money lender of the village. B gets on agreement signed by A in which he sells all his land to B at a price much below, say one-fourth of the existing market price of the land can A challenge the agreement on the ground of being induced by undue influence? The answer is yes. It lies upon B to prove that the contract was not induced by influence.

### **Fraud:**

Fraud means and includes any of the following acts committed by a party to a contract, or with his connivance, or by his to enter into the contract :-

1. The suggestion, as a fact, of that which is not true, by one who does not believe it to be true.
2. The active concealment of a fact by one having knowledge or belief of the fact.
3. A promise made without any intention of performing it.
4. Any other act failed to deceive.
5. Any such act or omission as the law specially declares to be fraudulent. Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud, except in two cases –
  - (a) where there is a duty to speak.
  - (b) where silence is equivalent to speech.

**For example:** B says to A – if you do not deny it, I shall assume that the horse is sound”. A says nothing mere A’s silence is equivalent to speech and if the horse is found unsound, he would be guilty of fraud.

### **MISREPRESENTATION**

Misrepresentation means misstatements or unwarranted statements which are not true though the person believes it to be true. The statement believes it to be true. Whereas, ‘fraud’ is also called a wilful misrepresentation where makes of the statement known and believes it not to be true.

### **VOIDABILITY**

In contracts, voidable is a term typically used with respect to a contract that is valid and binding unless avoided or declared void by a party to the contract who is legitimately exercising a power to avoid the contractual obligations.

### **MISTAKE**

Mistake as to matter of fact:-

1. Where both the parties to an agreement are under a mistake as to a matter of that essential to the agreement, the agreement is void.

**Example:-** A agrees to buy from B a certain horse. It turns out that the horse was dead at the time of the bargain, though neither party was aware of the fact. The agreement is void.

1. A contract is not voidable merely because it was caused by one of the parties to it being under a mistake as to a matter of fact. In other words if any one party is under mistake as to a matter of fact, then that would be considered as a valid contract.

### **EFFECT OF MISTAKES AS TO LAW**

A contract is not voidable because it was caused by a mistake as to any law in force in (India), but a mistake as to a law not in force in (India) has the same effect as a mistake of fact.

**Example :-** A and B make a contract grounded on the erroneous belief that a particular debt is barred by the Indian law of limitation, the contract is not voidable.

1. What consideration and objects are lawful and what not –
  - The consideration or object of an agreement is lawful unless

- it is forbidden by law, or
- is of such a nature that, if permitted, it would defeat the provisions of any law, or is fraudulent or
- involves or implies injury to the person or property of another
- or the court regards it as immoral or opposed to public policy.

In each of these cases, the consideration or object of an agreement is said to be unlawful. Every agreement of which the object or consideration is unlawful is void.

### **Example :-**

- A promises to pay B 1000 rupees at the end of six months, if C who owes that sum to B, fails to pay it. B promises to grant time to C accordingly. Here the promise of each party is the consideration for the promise of the other party and they are lawful considerations.
- A, B and C enter into an agreement for the division among them of gains acquired or to be acquired by them by fraud. The agreement is void, as its object is unlawful.

### **CONTINGENT CONTRACTS**

A contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does not happen

**For example :-** A contracts to pay to B Rs. 10000 if B’s horse is burnt. This is a contingent contract.

### **SOME IMPORTANT POINTS**

- When consent to an agreement is caused by coercion, fraud or misrepresentation the agreement voidable at the option of the party whose consent was so caused.
- If any part of a single consideration for one or more objects or nay one or any part of any one of several considerations for a single object is unlawful, the agreement is void.
- Agreement without consideration, void, unless is in writing and registered or is a promise to compensate for something done or is a promise to pay a debt barred by limitation law.
- Every agreement in restraint of the marriage any person other than a minor, is void.
- Every agreement by which any one is res rained from exercising a lawful profession, trade or business of any kind is to that extent void.
- Agreements, the meaning of which is no certain, or capable of being made certain, are void
- Agreements by way of wages are void and no suit shall be brought for recovering anything alleged to be won on any wager or entrusted to any person to abide the result of any game or other uncertain event on which any wager is made.

### **NOVATION:**

Substitution of an existing contract with a new one.

1. Change in terms of contract
2. Change in parties of contract

### **REMEDIES FOR BREACH OF CONTRACT**

1. Damages
2. Quantum merit
3. Specific performance
4. Injunction

# EXERCISE

**DIRECTIONS (Qs. 1 - 23):** Given below are a legal principle and a factual situation. Apply the given legal principle to the factual situation and select the most appropriate answer given below.

- 1. Legal Principle:** Personal contract cannot be performed either by agent or by legal representative.  
**Factual Situation:** A promises to marry B on 1<sup>st</sup> January 2014 but he died on 31<sup>st</sup> December 2013.  
Which one of the followings is the correct alternative?

  - (a) A has made a breach of the contract
  - (b) A's agent must marry B
  - (c) Contract is discharged by A's death and A cannot be replaced by anybody
  - (d) None
- 2. Legal Principle:** Personal contract cannot be performed either by agent or by legal representative.  
**Factual Situation:** A promises to paint B's picture but he died.  
Which one of the followings is the correct alternative?

  - (a) A has made a breach of the contract
  - (b) A's agent or A's son must paint B's picture
  - (c) Contract is discharged by A's death and A cannot be replaced by anybody
  - (d) None
- 3. Legal Principle:** Contracting parties by mutual agreement may substitute the original contract with a new contract or rescind the original contract or even modify the terms of the original contract.  
**Factual Situation:** A owes money to B under a contract. It is agreed between A, B and C that B shall thenceforth accept C as his debtor.  
Which one of the followings is the correct alternative?

  - (a) Original contract between A and B stands terminated
  - (b) New contract between B and C comes into existence
  - (c) Both (a) and (b)
  - (d) None
- 4. Legal Principle:** Contracting parties by mutual agreement may substitute the original contract with a new contract or rescind the original contract or even modify the terms of the original contract.  
**Factual Situation:** A owes B 1,000 rupees under a contract. B owes C 1,000 rupees. B orders A to credit C with 1,000 rupees in his books, but C does not assent to the arrangement.  
Which one of the followings is the correct alternative?

  - (a) A new contract has come into existence
  - (b) A new contract has not come into existence because C has not given his assent
  - (c) Original contract can never be modified
  - (d) None
- 5. Legal Principle:** Every promisee may dispense with or remit, wholly or in part, the performance of the promise made to him or may accept instead of it any satisfaction which he thinks fit.  
**Factual Situation:** A owes B 5,000 rupees under a contract. A pays to B, and B accepts, in satisfaction of the whole debt, 2,000 rupees paid at the time and place at which the 5,000 rupees were payable.  
Which one of the followings is the correct alternative?

  - (a) A has completely discharged his obligations
  - (b) A has only partially discharged his obligations
  - (c) A cannot modify the original terms of contract entered into with B.
  - (d) None
- 6. Legal Principle:** A person to whom money has been paid or anything delivered, by mistake or under coercion, must repay return it.  
**Factual Situation:** A and B jointly owe 100 rupees to C. A alone pays the amount to C, and B, not knowing this fact, pays 100 rupees over again to C.  
Which one of the followings is the correct alternative?

  - (a) C is bound to repay the amount to B.
  - (b) C is not bound to repay the amount to B.
  - (c) B was negligent and so no question of return arises.
  - (d) None
- 7. Legal Principle:** A person to whom money has been paid or anything delivered, by mistake or under coercion, must repay or return it.  
**Factual Situation:** A railway company refuses to deliver up certain goods to the consignee, except upon the payment of illegal charge for carriage. The consignee pays the sum charged in order to obtain the goods.  
Which one of the followings is the correct alternative?

  - (a) Consignee is entitled to recover so much of the charge as was legally excessive.
  - (b) Consignee has given illegal amount and so he be punished
  - (c) Railway company is not required to return the amount
  - (d) None
- 8. Legal Principle:** A person who is interested in the payment of money which another is bound by law to pay, and who (interested person) therefore pays it, is entitled to be reimbursed by the other (person bound by law to pay it).

**Factual Situation:** B holds a land in Bengal, on a lease granted by A, the zamindar. The revenue payable by A to the Government being in arrear, his land is advertised for sale by the Government. Under the revenue law, the consequence of such sale will be annulment of B's lease. B, to prevent the sale and the consequent annulment of his own lease, pays to the Government the sum due from A.

Which one of the followings is the correct alternative?

- (a) B has made payment for the protection of his interest and so A is not entitled to do anything.
- (b) A is bound to reimburse B.
- (c) A is not entitled to reimburse B because B has made payment without any instruction from A
- (d) None

9. **Legal Principle:** If a person, incapable of entering into a contract or anyone whom he is legally bound to support, is supplied by another person with necessaries suited to his condition in life, the person who has furnished such supplies is entitled to be reimbursed from the property of such incapable person.

**Factual Situation:** A supplies B, a lunatic, with necessaries suitable to his condition in life.

Which one of the followings is the correct alternative?

- (a) A is entitled to be reimbursed from the property of B
- (b) A is not entitled to be reimbursed from the property of B because the act of supply of necessaries is voluntary
- (c) A cannot claim anything from a lunatic
- (d) None

10. **Legal Principle:** If a person, incapable of entering into a contract or anyone whom he is legally bound to support, is supplied by another person with necessaries suited to his condition in life, the person who has furnished such supplies is entitled to be reimbursed from the property of such incapable person.

**Factual Situation:** A supplies the wife and children of B, a lunatic, with necessaries suitable to their condition in life.

Which one of the followings is the correct alternative?

- (a) A is entitled to be reimbursed from the property of B
- (b) A is not entitled to be reimbursed from the property of B because the act of supply of necessaries is voluntary
- (c) A cannot claim anything from a lunatic
- (d) None

11. **LEGAL PRINCIPLE :** The acceptance of an offer will be valid only if it is made in the way it was expected to be made.

**FACTUAL SITUATION :** There was a telephonic discussion between 'J' and 'K' for negotiating the sale of the shop of former to the latter. Upon reaching an agreement as to the price of the shop of 'J' at ₹ 20 lakh, 'J' told 'K' to send a letter to him within two weeks confirming that she

wishes to buy the shop for the price finalized. Two days thereafter, 'K' gave her acceptance to 'J' over telephone but sent the letter of confirmation after lapse of one month. Is 'J' bound by acceptance of 'K'?

**DECISION:**

- (a) Yes, because the acceptance was conveyed within two weeks over telephone and it was followed by a letter of acceptance as stipulated.
- (b) No, because although the acceptance over telephone was conveyed in time but not in the mode specified and the letter of acceptance was also not sent within two weeks.
- (c) No, because sale of immovable property cannot be finalized online; neither any acceptance can be given over phone. Hence, the entire negotiation is invalid.
- (d) Yes, because no law can compel the purchaser to give his acceptance through the mode prescribed by the vendor.

12. **LEGAL PRINCIPLES :**

- 1. Once a person accepts another's offer, and signifies such acceptance to the former, a contract comes into existence between them.
- 2. Uncertain agreements are void agreements.
- 3. Rejected offers can be accepted only if renewed.

**FACTUAL SITUATION :** Bakshi wanted to purchase a particular land. He sent a letter to his cousin. Dutt, offering him ₹ 4 lakhs for it. Dutt replied that he would not sell it below 5 lakhs. Bakshi communicated his willingness to pay this amount. Dutt did not sell the land to Bakshi. Bakshi sued him for breach of contract.

**DECISION :**

- (a) Dutt is liable because once he communicates an offer to Bakshi and Bakshi accepts it, a contract comes into existence.
- (b) Dutt is liable as he has misled Bakshi by his actions.
- (c) Dutt is not liable because he has rejected the offer by giving a counter offer which is also not specific.
- (d) Dutt is not liable as there is no legally enforceable contract.

13. **LEGAL PRINCIPLE :** An agreement is void if the court regards it as opposed to the public policy.

**FACTUAL SITUATION :** Sunita, while her husband Shankar was alive, promised to marry Neel in the event of Shankar's death. Subsequently, Shankar died, but Sunita refused to marry Neel. Neel sues Sunita for damages for breach of promise.

**DECISION :**

- (a) Sunita is liable as she is bound to marry Neel.
- (b) She is liable to compensate Neel for breach of promise.
- (c) Neel can marry someone else.
- (d) She is not liable as the contract is opposed to public policy and so void.

14. **LEGAL PRINCIPLE :** An agreement is void if its object is unlawful.

**FACTUAL SITUATION:** Sunil had a rich uncle who owned prime property in Chennai and had lot of money

in the bank. Being the only heir. Sunil was sure that he would inherit the property. One day, the uncle called him to his room and announced that he planned to marry again. This angered Sunil and he plans to murder his uncle so he hired Anuj, a murderer and entered into a contract with him to kill his uncle. Sunil agreed to pay ₹ 10 lakhs to Anuj and even paid 5 lakhs as advance. The following night Anuj entered the uncle's house intending to kill him. On reaching there, he realised that Sunil's uncle was already dead so he left without doing anything. Next day, after post mortem report, it transpired that Sunil's uncle had died due to heart attack. Now, sunil wants to recover the advance from Anuj. Will he succeed ?

**DECISION :**

- (a) Yes
- (b) No
- (c) Anuj is liable to return the amount as the act was done by him.
- (d) None of the above.

**15. LEGAL PRINCIPLES :**

- 1. Consideration must be of value in the eyes of law.
- 2. Consideration is not real if it is illusory.

**FACTUAL SITUATION:** Arjun received summons to appear at a trial as a witness on behalf of Bitu, the accused. Bitu promised to pay him a sum of ₹ 1,000 for his trouble. On default by Bitu, Arjun filed a suit to recover the said sum. Will he succeed?

**DECISION :**

- (a) No, as the consideration is of no value in the eyes of law.
- (b) Yes, as the contract is supported by consideration.
- (c) No, as there is no consideration for the premise.
- (d) Yes, as he appeared before court only after Bitu agreed to pay him the amount of Rs. 1,000.

**16. LEGAL PRINCIPLE :** A minor is not competent to contract.

**FACTUAL SITUATION :** Deep, a 9<sup>th</sup> standard student realize that he being a minor, he is not permitted by law to execute a contract, appoints Mandeep as his agent to conclude purchase of a land to gift it to his mother on her birthday. Mandeep accordingly prepares the papers for the transaction but at the last minute the seller who had agreed to sell it now refuses to sell it contending that he does not wish to sell the land to a minor. Deep seeks to enforce the contract against the seller.

**DECISION :**

- (a) Deep can enforce the contract—since Mandeep is his agent. Deep is deemed to have personally entered into a contract.
- (b) Deep cannot enforce the contract—only Mandeep can, since seller has entered into the contract with Mandeep.
- (c) Deep cannot enforce the contract since he is a minor.
- (d) Deep can neither appoint an agent nor enforce the contract since he is a minor.

**17. LEGAL PRINCIPLES :**

- 1. Acceptance must be given only by the person to whom the offer is made.
- 2. Communication of acceptance to a person who did not make the offer does not bind the offeror.

**FACTUAL SITUATION :** Pal sold his business to Sam without disclosing it to his customers. Mani, an old customer sent an order for goods to Pal by name. Sam, the new owner, executed the order. Mani refuses to accept the goods from Sam as he intended to deal only with Pal. In a suit by Sam against Mani:

**DECISION:**

- (a) Sam cannot recover as Mani never intended to deal with him.
- (b) Can recover the price as he had supplied goods only against the order made by Mani.
- (c) Sam cannot recover as it was only an invitation to offer by Mani on which no acceptance can be given by Sam.
- (d) Sam can recover as the price of the goods as an offer once accepted results in a contract.

**18. Principle:** When a person represents to another something as a true fact knowing well truly that it is not true," he is guilty of fraud. The person subjected to fraud may avoid an agreement.

**Factual Situation:** A presents a horse for sale. The horse is kept on display, so that anyone interested could examine it. The horse has a cracked hoof and it is cleverly concealed by the owner. B tells "if you do not deny it, I Shall assume that the horse is sound." A keeps silent. B purchases the horse.

**DECISION :**

- (a) B can avoid the agreement on discovery of the defect
- (b) B cannot avoid the agreement, as the horse was on display and he could have satisfied himself of its soundness by personal examination
- (c) B cannot avoid the agreement as A did not make any representation to mislead him. He merely kept silent so that B could find things by himself
- (d) None of the above

**19. Principle:** When one person signifies to another his willingness to do or abstain from doing anything, with a view to obtaining the assent of that person to such an act or abstinence, he is said to have made a proposal.

**Factual Situation:** Xavier telegraphed to William, "Will you sell me your house? Telegram the lowest cash price." William also replied by Telegram "Lowest price for my house is ₹30 lakh. Xavier immediately sent his reply consenting to William's telegram by saying "I agree to buy your house for ₹ 30 lakh asked by you." William refused to sell his house.

**DECISION :**

- (a) William cannot refuse to sell the house because the contract has already been made
- (b) William can refuse to sell the house because it was only invitation to offer and not the real offer.
- (c) It was not a valid offer because willingness to enter into a contract was absent
- (d) None of the above

20. **Principle:** Where both the parties to an agreement are under a mistake as to a matter of fact essential to the agreement, the agreement is void.

**Factual Situation:** Roxanne supplies designer clothes to big showrooms and famous cloth houses. Max agrees to buy a certain consignment of only pink designer clothes for his shop due to the pink coloured theme of his famous shop. Issue cropped up when the exclusive pink coloured dresses were not delivered to Max's showroom, but to some other buyer, who had earlier contracted with Roxanne's store and all this was neither in the knowledge of Roxanne nor Max. Decide whether the contract between Roxanne and Max is void?

- (a) Yes, because Roxanne and Max were under a mistake as to matter of fact which is essential to the agreement
- (b) No, because Max's agreement was fresh, so it is legally binding
- (c) Yes, because an earlier commitment made by store owner to some other buyer 'is far more relevant than another commitment
- (d) Roxanne and Max's contract is valid

21. **Principle:** Money or good given to person by mistake must be returned to the person who gave them.

**Factual Situation:** Sunil and Burma jointly owed ₹ 1000 to Siraj. Sunil pays the whole amount to Siraj in Suman's absence. Suman after returning from his vacations also paid full amount to Siraj not knowing the fact that Sunil had already paid the same. Is Siraj bound to repay or return the extra money to Suman that he obtained under mistake from her?

- (a) No, this is not Siraj's mistake but Suman's, hence there is no point of returning the money back
- (b) Yes, because Suman and Sunil owed only ₹1000 to Siraj. Suman paid extra ₹ 1000 by mistake and now Siraj has a total of ₹ 2000 which is extra from the original owed amount
- (c) No, extra ₹ 1000 are interest from Suman's side
- (d) Facts are not clear.

22. **Principle:** Contract is an agreement entered into between the parties.

**Factual Situation:** Ramlal was a dealer in cement. The Government of India, by an order issued under the Essential Commodities Act, fixed the price of cement and also, the quantity which a person can buy from the dealer, Ramlal carried on his business under this new order for sometime, but he refused to pay sales tax on his sales transactions on the ground that these were not the contracts freely entered into by him.

**DECISION :**

- (a) Ramlal would succeed because free consent between the parties were there despite the restriction on price and quantity
- (b) Ramlal would not succeed because free consent between the parties were there despite the restriction on price and quantity
- (c) Ramlal would succeed because the government under the new order, forced him to enter into contracts
- (d) None of the above

23. **Principle:** When a future event on which a contract is dependent is the way in which a person will act at an unspecified time, then the event shall be considered to become impossible when such person does anything which renders it impossible that he should so act within any definite time, or otherwise than under further contingencies. If the event become impossible such agreements become void.

**Factual Situation:** A agrees to pay B a sum of ₹1 if B marries D in A's lifetime. D marries E and soon thereafter. A dies. Whether an agreement between A and B could be enforced if E dies within 1 year of marriage and B marries D?

- (a) No, the agreement has become void
- (b) Yes, because B married D which was so agreed between A and B
- (c) Yes, because essence of contract was marriage between B and D
- (d) Both 'b' and 'c'

**DIRECTION (Q. 24) :** The following questions consist of two statements, one labelled as 'Assertion' and the other as 'Reason'. Read both the statements carefully and answer using the codes given below.

24. **Assertion (A):** A person claims compensation for his non-gratuitous act.

**Reason (R):** A person who enjoys benefit from lawful, non-gratuitous act of another must compensate him even though there is no contract.

- (a) Both A and R are true and R is the correct explanation of A
- (b) Both A and R are true but R is not the true explanation of A
- (c) A is true but R is false
- (d) A is false but R is true

**DIRECTIONS (Qs. 25-28):** Study the following information and answer the questions that follow:

**Principle:** A 'fixture' is something attached to land or a building in such a way that it is regarded as an irremovable part of the property you are considering buying. Some typical 'fixtures' in a home include the hot water service, range top, wall oven, fixed floor coverings, light fittings and a built-in (under bench) dishwasher. Garden plants, including bushes and trees are also 'fixtures'.

**Rule A.** When land is sold, all 'fixtures' on the land are also deemed to have been sold.

**Rule B.** If a movable thing is attached to the land or any building on the land, than it becomes a 'fixture'.

**Factual Situation** Khaleeda wants to sell a plot of land she owns in Beghmara (Meghalaya) and the sale value decided for the plot includes the fully-furnished palatial six-bedroom house that she has built on it five years ago. She sells it to Gurpreet for ₹ 60 lakh. After completing the sale, she removes the expensive Iranian carpet which used to cover entire wooden floor of one of the bedrooms. The room had very little light and Khaleeda used this light-coloured radiant carpet to negate some of the darkness in the room. Gurpreet, after moving in, realises this and files a case to recover the carpet from Khaleeda.

Assume that in the above fact scenario, Khaleeda no longer wants the carpet. She removes the elaborately carved door to the house after the sale has been concluded and claims that Gurpreet has no claim to the door. The door in question was part of Khaleeda's ancestral home in Nagercoil (Tamil Nadu) for more than 150 years before she had it fitted as the entrance to her Beghmara house.

25. As a judge you would decide in favour of
- Gurpreet because when the price was agreed upon, Khaleeda did not inform her about removing the carpet
  - Gurpreet because the carpet was integral to the floor of the bedroom and therefore, attached to the building that was sold
  - Khaleeda because a fully-furnished house does not entail the buyer to everything in the house
  - Khaleeda because by virtue of being a carpet, it was never permanently fixed to the floor of the building
26. As a judge, you would decide in favour of
- Khaleeda because while the rest of the building belongs to Khaleeda exclusively, the door is ancestral property and therefore, the decision to sell it cannot be Khaleeda's alone
  - Gurpreet because the door is an integral part of the building as it is attached to it
  - Khaleeda because the door can be removed from the building and is therefore, not attached to it
  - Gurpreet because the contract is explicitly for the whole house and since the door is part of house, it cannot be removed subsequent to the sale
27. Amongst the following options, the most relevant consideration while deciding a case on the basis of the above two principles, would be
- whether the movable thing was included in the sale agreement
  - whether the movable thing was merely placed on the land or building
  - whether the movable thing had become as inseparable part of the land or building
  - whether the movable thing could be removed
28. Rule C If a moveable thing is placed on land with the intention that it should become an integral part of the land or any structure on the land, it becomes a fixture. Applying Rules A and C, to the fact situations in questions 44 and 45, as a judge you would decide in favour of
- Khaleeda in both situations
  - Gurpreet only in 44
  - Khaleeda only in 45
  - Gurpreet in both situations

29. **LEGAL PRINCIPLE :** When one person signifies to another his willingness to do or abstain from doing anything, with a view to obtaining the assent of that person to such an act or abstinence, he is said to have made a proposal.

**FACTUAL SITUATION :** Ram sends a telegram to Sohan, writing: "Will you sell me your Rolls Royce car? Telegram the lowest cash price." Sohan also replied by telegram: "Lowest price for car is ₹ 20 lakh." Ram

immediately sent his consent through telegram stating: "I agree to buy the car for ₹ 20 lakh asked by you." Sohan refused to sell the car.

**DECISION:**

- He cannot refuse to sell the car because the contract has already been made.
- He can refuse to sell the car because it was only invitation to offer and not the real offer.
- It was not a valid offer because willingness to enter into a contract was absent.
- It was not a valid contract as offer and acceptance is conveyed through telegram.

30. **LEGAL PRINCIPLE :** A person is said to be of sound mind for the purpose of making a contract if, at the time when he makes it, he is capable of understanding it and of forming a rational judgment as to its effect upon his interests.

**FACTUAL SITUATION :** Mr. X who is usually of sound state of mind, but occasionally of unsound state of mind, enters into a contract with Mr. Y when he was of unsound state of mind. Mr. Y having come to know about this fact afterwards, wants to file a suit against Mr. X.

**DECISION :**

- Mr. X cannot enter into contract because he is of unsound state of mind when he entered into contact.
- Mr. X can enter into contract but the burden is on other party to prove that he was of unsound state of mind at the time of contract.
- Mr. X can enter into contract but the burden is on Mr. X to prove that he was of sound state of mind at the time of contract.
- Contract with a person of unsound mind is void.

31. **LEGAL PRINCIPLE :** A contract which is impossible to perform becomes void.

**FACTUAL SITUATION :** Surender agreed to deliver a specific quality of rice to Sonakshi identified by both of them. Before delivery, the rice was burnt by short circuit. Is Surender discharged from the performance of the contract?

**DECISION :**

- Surender is discharged from performance as the subject matter of the contract is destroyed.
- Surender is discharged from performance as the subject matter has been specifically identified.
- Surender is not discharged from performance as he can procure rice from other sources.
- None of the above.

**DIRECTION (Q. 32):** The following questions consist of two statements, one labelled as 'Assertion' and the other as 'Reason'. Read both the statements carefully and answer using the codes given below.

- Both A and R are true and R is the correct explanation of A
- Both A and R are true but R is not the true explanation of A
- A is true but R is false
- A is false but R is true

32. **Assertion (A) :** The parties to the contract must be

competent to contract otherwise it will be a void contract.

**Reason (R) :** All wagering agreements are void.

**DIRECTIONS (Qs. 33-41):** Consists of legal proposition(s)/ principle(s) (herein after referred to as 'principle') and facts. Such principles may or may not be true in the real and legal sense, yet you have to conclusively assume them to be true for the purposes of this Section. In other words, in answering these questions, you must not rely on any principle except the principles those are given herein below for every question.

Further, you must not assume any facts other than those stated in the question. The objective of this section is to test your interest towards study of law, research aptitude and problem solving ability, even if the 'most reasonable conclusion' arrived at may be absurd or unacceptable for any other reason. It is not the objective of this section to test your knowledge of law.

Therefore, to answer a question, principle is to be applied to the given facts and to choose the most appropriate option.

**33. Principle:** It is a case of fraud where a party to a contract knows or believes a fact to be true, but conceals it actively from the other party with a view to induce that person to enter into the contract.

**Facts:** While taking a life insurance policy, in reply to questions by the insurance company during the inquiry into his proposal, Zameer deliberately concealed the fact of his medical treatment for a serious ailment, which he had undergone only a few weeks ago.

- (a) The concealment of fact by Zameer amounted to fraud.
- (b) The act of Zameer did not amount to fraud, as disclosing the fact would have resulted in exposure of his privacy.
- (c) The act of Zameer did not amount to any misrepresentation.
- (d) The act of Zameer amounted to innocent misrepresentation.

**34. Principle:** Where one of the parties to a contract was in a position to dominate the decision of the other party, the contract is enforceable only at the option of the party who was in a position to dominate the decision of the other party.

**Facts:** A doctor asked his patient to make a payment of rupees Ten Lakh for treatment of his fever. The patient paid an amount of rupees Five Lakh and promised to pay the remaining amount after the treatment. After treatment the patient recovered from fever. The doctor demanded the remaining amount from the patient. The patient refused to pay.

- (a) The contract is not enforceable as doctor was in dominating position.
- (b) The contract is enforceable against the patient by the doctor.
- (c) The contract is enforceable against the doctor.
- (d) The contract is not enforceable without the consent of the patient.

**35. Principle:** Every agreement, by which any party is restricted absolutely from enforcing his right in respect of any contract, by the usual legal proceedings in the ordinary Tribunals, is void to that extent. The law also provides that nobody can confer jurisdiction to a civil court by an agreement between parties.

**Facts:** A and B entered into a valid contract for rendering certain service. A clause in the contract was that in case of any dispute arose out of the contract; it shall be referred to for Arbitration only. Is the contract valid?

- (a) The parties were trying to confer jurisdiction to some authority to decide a dispute and hence the clause would be invalid.
- (b) Arbitration is also a valid dispute settlement machinery recognized by law and hence the entire contract is valid.
- (c) The contract is valid but the clause regarding Arbitration is void.
- (d) Arbitrator cannot be termed as an ordinary Tribunal. Hence, the agreement is void and would be unenforceable.

**36. Principle:** Every agreement, of which the object or consideration is opposed to public policy, is void. An agreement which has the tendency to injure public interest or public welfare is one against public policy. What constitutes an injury to public interest or public welfare would depend upon the times and the circumstances.

**Facts:** 'A' promises to obtain for 'B' an employment in the public service, and 'B' promises to pay rupees 5,00,000/- to 'A'.

- (a) The agreement is void because rupees 5,00,000/- is excessive.
- (b) The agreement is valid, as it is with consideration for public service.
- (c) The agreement is valid, as it is a contract between two parties with their free consent.
- (d) The agreement is void, as the object and consideration for it is opposed to public policy.

**37. Principle:** Contract is a written or spoken agreement, with specific terms between two or more persons or entities in which there is a promise to do something in return for a valuable benefit known as consideration. Such an agreement is intended to be enforceable by law. A unilateral contract is one in which there is a promise to pay or give other consideration in return for actual performance.

**Facts:** A Toilet Soap Manufacturing Company in India in order to promote the sale of their product, published an advertisement in all the Newspapers on January 1, 2017 that the Company has kept a model ignition key of an Audi A3 Car. The advertisement also stated that whoever gets the said key before December 31, 2017 from a soap bar will be gifted with the Audi A3 Car. Mr. Martin, a foreigner who came to India as a Tourist who was staying in a Hotel found a Key similar to same Car Ignition Key. Mr. Martin brought this matter to the notice of the Hotel Manager. The Manager informed Mr. Martin about the Company's advertisement on January 1, 2017. Mr. Martin wants to claim the Car. Will he succeed?

- (a) The Hotel Manager who could legally claim the Car as he was the one actually purchased the soap for the use in the Hotel.
- (b) No. The Soap Company has not entered into a contract with Mr. Martin as he was not in India on January 1, 2017 when the advertisement was published.
- (c) No. Actual intention of the Company was to promote the sale of the Soap.
- (d) Mr. Martin obtained the Key before the stipulated date from the Soap Bar. So he is covered by the offer of the Soap Company and can claim the car.

**38. Principle:** An agreement, the terms of which are not certain, or capable of being made certain, is void.

**Facts:** Sunder agreed to take Bhola's penthouse on rent for three years at the rate of rupees 12, 00, 000/- per annum provided the house was put to thorough repairs and the living rooms were decorated according to contemporary style.

- (a) There is no valid contract because it has vague and uncertain terms, as the term 'present style' may mean one thing to Sunder and another to Bhola.
- (b) There is a valid contract because there is an offer from Sunder and acceptance from Bhola
- (c) It is voidable contract at the option of Bhola.
- (d) There is a valid contract because all the terms of contract are certain and not vague as the rent is fixed by both of them and the term 'present style' only can be interpreted to mean the latest style.

**39. Principle:** When a person who has made a promise to another person to do something does not fulfill his promise, the other person becomes entitled to receive, from the person who did not fulfill his promise, compensation in the form of money.

**Facts:** 'X' made a promise to 'Y' to repair his car engine. 'Y' made the payment for repair. After the repair, 'Y' went for a drive in the same car. While driving the car, 'Y' met with an accident due to bursting of a tyre.

- (a) 'X' will be entitled to receive compensation from 'Y' in the form of money.
- (b) 'X' will not be entitled to receive compensation.
- (c) 'Y' will be entitled to receive compensation from 'X' in the form of money.
- (d) 'Y' will not be entitled to receive compensation from 'X'.

**40. Principle:** If a party to a contract agrees to it under undue influence of any other party then the party under the undue influence may refuse to perform in accordance with the agreement.

**Facts:** A, a rich youngster became a member of a religious group and soon he was appointed by P the head of the group as his personal secretary. As per the rules of the group, all officials and staff of the group were supposed to stay in the group's official premises itself. Some days later, A was asked by P to execute a Gift deed in favour of P, in which it was mentioned that all immovable properties in his name are being gifted to P. A was unwilling to execute the deed, but he was forcefully restrained by P and his body guards in P's office and made A sign the gift deed. Soon after this

A left the group and refused to hand over the property as agreed to in the gift deed. Is A's action valid?

- (a) It is illegal for religious groups acquire property from its members.
- (b) A executed the deed, under compulsion and undue influence, and was right in withdrawing from the contract.
- (c) As the gift deed was executed by A, he cannot refuse.
- (d) As Gift is also a contract, the consent of A was not obtained by P while executing the deed.

**41. Principle:** A contract would be invalid and unlawful, if the contract is for an immoral or illegal purpose.

**Facts:** P, was a young and helpless widow, living on the pavement. R, a neighbour gave her a house, registered in her name, on the condition that she should allow R to keep his smuggled goods and drugs in her house. After the registration was done, according to the condition in the contract, R's agents went to keep some packets in her house, she refused. R told her the condition under which the house was given to her. She still refused. Is P justified in her action?

- (a) As R was making the contract for illegal activities, P's stand is valid in law.
- (b) R can take back the house by cancelling the transfer deed.
- (c) P is not justified as she did not have the right to deny R's request.
- (d) P is right as she did not like smuggled goods to be kept in her house.

**DIRECTIONS (Qs. 42-48):** Given below is a statement of legal principle followed by a factual situation. Apply the principle to the facts given below and select the most appropriate answer.

**Legal Principle:** Contract is an agreement freely entered into between the parties. But when consent to an agreement is obtained to undue influence, the contract is voidable at the option of the party whose consent was so obtained.

**Factual Situation:** The pragya had been worked for a business man Anurag since the age of 18, working for a range of Anurag's businesses. In 2000, (aged 21) Pragya purchased a flat. In 2005, Mr. Anurag's business was facing financial difficulties, and he asked Pragya to offer up her flat as financial security against an overdraft facility for the business. In July of that year, the banks solicitors wrote to Pragya, advising that she should take Independent legal advice before putting her property up as a security for the debt. The bank also notified Pragya that the guarantee was unlimited in both time and financial amount. Having discussed the arrangement with Anurag, Pragya was unaware of the extent of the borrowing, but was assured that her mortgage would not be called upon, and that his own properties which were also used as security would be looked at first. A charge was executed over the Pragya's property in August 2005. In 2009, Mr. Anurag's business went into liquidation and the bank formally demanded ₹ 60,24,912 from Pragya. Pragya raised the defence of undue influence – stating that Mr. Anurag had induced her to enter into the agreement, and the bank had full knowledge/notice of this undue influence which should

set aside the bank's right to enforce the debt recovery against Pragya. Bank is contending that there is no undue influence.

42. Whether the consent to offer the flat as financial security obtained through undue influence?
- (a) No because Pragya was not forced by Anurag to offer her flat as a security.
  - (b) No, because Pragya was an educated and adult employee of Anurag and she knew what she was doing.
  - (c) Yes, an employer/employee relationship was capable of developing into such a relationship for undue influence. There was no benefit to Pragya in the agreement. The lack of benefit to one party was evidence enough.
  - (d) No, an employer/employee relationship is not capable of developing into a relationship for undue influence.
43. Irrespective of your answer to Q. 71, assume it is a case of undue influence. Decide whether the bank has done enough to allay concerns of undue influence?
- (a) The bank had not made all reasonable steps to allay themselves of the concerns regarding undue influence. The fact that, on advice from the bank, the defendant did not seek independent advice, should have been taken as confirmation of undue influence.
  - (b) Yes, the Bank has advised Pragya that she should take independent legal advice before putting her property up as security for the debt.
  - (c) Pragya has a duty to be aware of the consequences of her act.
  - (d) Bank has done enough as it had notified Pragya that the guarantee was unlimited in both time and financial amount.

44. **Legal Principle:** The acceptance must be absolute and unqualified, leaving no ground for doubt or uncertainty. If the acceptance is conditional, no valid contract is formed, and the offer can be withdrawn at any moment till the absolute acceptance has taken place within reasonable time of such offer.

**Factual Situation:** Delhi Government conducted an auction for the sale of license of wine shop. X offered the highest bid which was provisionally accepted "...subject to the confirmation of Chief Commissioner who may reject any bid without assigning any reasons." Since X failed to deposit the required amount, Chief Commissioner rejected the bid. The government held X liable for the difference between the bid offered by him and the highest bid accepted in reaction, and commenced proceedings for the recovery of the sum. It was contended on behalf of the government of Delhi that X was under a legal obligation to pay the difference as it was due to his default that a resale of the excise shop was ordered and hence X was liable for the deficiency in price and all expenses of such resale which was caused by his default.

**Decide, giving reason, whether X is liable to make payment to the Delhi Government.**

- (a) No, X is not liable to make payment as the shop was sold to the highest bidder.
- (b) X is liable to pay because the Government of Delhi has to conduct re-auction and also suffered loss in the sale of the shop.

- (c) X is liable because his bid was accepted but he failed to deposit the required amount on time.
- (d) No, contract for sale was not complete till the bid was confirmed by the Chief Commissioner and till such confirmation: the bidder was entitled to withdraw the bid.

45. **Legal Principle:** An agreement entered into by way of a wager/bet is unenforceable in law.

**Fact Situation:** Thomas is very good at predicting outcomes of cricket matches. Raja and Hoja give him rupees thousand each to enable him to bet with others about the outcome of a cricket match. Thomas wins rupees three lakh after betting three thousand rupees.

Which of the following statements is the most appropriate in relation to the legal principle stated above?

- (a) Thomas must share rupees three lakh with Raja and Hoja equally.
- (b) Thomas must return rupees thousand each to Raja and Hoja.
- (c) Thomas need not share the three lakh with Raja and Hoja since it is the outcome of an unenforceable agreement.
- (d) If Thomas does not pay them rupees two lakh each, Raja and Hoja can sue him to recover their share.

46. **Legal Principle:** An essential condition in a contract for sale of goods is that the seller has title over the goods sold.

**Fact Situation:** Ranjan pays rupees two thousand and buys a watch from Mohit who runs a watch showroom and a repair shop. Jatin sees the watch with Ranjan and tells him that it is his watch and was only given to Mohit for repairs. If what Jatin says is true

Which of the following statements is the most appropriate in relation to the legal principle stated above?

- (a) Ranjan is now the owner of the watch since he paid rupees two thousand for it.
- (b) Ranjan is not the owner of the watch since Mohit did not have a title to it.
- (c) Mohit must pay Jatin rupees two thousand since he sold Jatin's watch.
- (d) Mohit is the owner of the watch since he sold it to Ranjan.

47. **Legal Principle:** The insurer agrees to pay no more than the actual amount of the loss.

**Fact Situation:** Sunny insures his car worth rupees five lakh with X, an insurance company, for its value. He again insures the same car with Y, another insurance company, on the same terms. There is an accident and the car suffers a total loss. In his separate suits against X and Y, if Sunny recovers rupees five lakh from X, how much can he recover from Y?

Which of the following statements is the most appropriate in relation to the legal principle stated above?

- (a) Sunny can recover rupees five lakhs from Y.
- (b) Sunny cannot recover any amount from Y.
- (c) Sunny must pay Y, the rupees five lakhs he received from X.
- (d) Sunny cannot insure his car with both X and Y at the same time.

48. **Legal Principle:** Agreements in restraint of trade are void and unenforceable.

**Fact Situation:** Manu has been working as a blacksmith in his village for many decades. Somu has been undergoing training with him for the past three years. After his training is over, Somu enters into an agreement with Manu that he will not start a competing business in the same village while Manu is alive.

Which of the following statements is the most appropriate in relation to the legal principle stated above?

- (a) This agreement is void and unenforceable since it is a restraint on trade.
- (b) This agreement is valid and enforceable since Manu is Somu's teacher.
- (c) This agreement is valid but not enforceable after Manu's death.
- (d) This agreement is valid and enforceable since it is to protect Manu's interest in consideration for teaching Somu to be a blacksmith.

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**DIRECTIONS (Qs. 49-51):** Apply the legal principles to the facts given below and select the most appropriate answer.

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**Legal Principles:**

- 1. Consideration is something that moves from the promisee to the promisor, at the implied or express request of the latter, in return for his promise. The item that moves can be a right, interest, profit, loss, responsibility given or suffered, forbearance or a benefit which is of some value in the eyes of law.
- 2. An offer may be revoked at any time before the communication of its acceptance is complete as against the proposer, but not afterwards.

49. **Factual Situation:** The defendant, Mr. Dhawan, wrote to the complainant, Mr. Chaman, with an offer to sell his house to him for 8,00,000. He promised that he would keep this offer open to him until Friday. However, on the Thursday Mr. Dhawan accepted an offer from a third party and sold his house. According to Mr. Chaman, he was going to accept this offer but had not said anything to Mr. Dhawan because he understood that he had time until Friday. Mr. Dhawan communicated to Mr. Chaman that the offer had been withdrawn, through a friend to the complainant. After hearing this, Mr. Chaman went to find the defendant, informing of his acceptance to the offer. Thereafter, the complainant brought an action for specific performance and breach of contract against the defendant. Whether the defendant's promise to keep the offer open until Friday morning was a binding contract between the parties and whether he was allowed to revoke this offer and sell to a third party?

- (a) The statement made by Mr. Dhawan amounts to a valid contract and he has committed a breach by selling the house before Friday.
- (b) The statement made by Mr. Dhawan was nothing more than a promise; there was no binding contract

formed. He had communicated an offer for buying his use to the complainant and this offer can be revoked any time before there is acceptance.

- (c) The communication by a friend or other party that an offer had been withdrawn is invalid and could not be treated as if it came from the person himself.
- (d) Promises to keep an offer open until a certain time is a binding agreement as it is accepted by the other party.

50. **Factual Situation:** MXM Co. is a building contractor who entered into an agreement with Star Heights Housing Association to refurbish a block of 27 flats. This contract was subject to a liquidated damages clause if they did not complete the contract on time. The MXM Co. engaged Hasan to do the carpentry work for an agreed price of ₹ 20,000. After six months of commencing the work, Hasan realised he had priced the job too low and would be unable to complete at the originally agreed price. He approached MXM Co. who recognised that the price was particularly low and was concerned about completing the contract on time. MXM Co. agreed to make additional payments to Hasan in return for his promise to carry out his existing obligations. MXM Co. agreed to pay Hasan an additional ₹ 575 per flat. Hasan continued work on the flats for a further period of 6 weeks but only received an additional ₹ 5,000. He then ran out of money and refused to continue unless payment was made. MXM Co. engaged another carpenter to complete the contract and refused to pay Hasan any further sums. Hasan sued for payment under the original agreement and the subsequent agreement. MXM Co. argued that the agreement to make additional payments was unenforceable as Hasan has not provided any consideration to make this agreement a valid contract. Decide.

- (a) The agreement to pay extra was unenforceable as Hasan had provided no consideration as he was already under an existing contractual duty to complete the work.
- (b) Consideration was provided by Hasan in the form of conferring a benefit on the MXM Co. by helping them to avoid the penalty clause. Therefore, MXM Co. was liable to make the extra payments promised.
- (c) There was no consideration provided by Hasan as to avoid the penalty clause was the main object of the contract. Therefore, MXM Co. was not liable to make the extra payments promised.
- (d) MXM Co. is liable to pay compensation to Hasan as they have committed a breach of contract by employing another carpenter.

51. **Factual Situation:** Bournville ran a sales promotion whereby if persons sent in 3 chocolate bar wrappers and a postal order for ₹100 they would be sent a record. Big Beats owned the copyright in one of the records offered and disputed the right of Bournville to offer the records and sought an injunction to prevent the sale of the records which normally retailed at ₹ 1,000. Under the Copyright Act, retailers are protected from breach of copyright if they gave notice to the copyright holders of the ordinary retail selling price and paid them 6.25% of this. Bournville gave notice stating the ordinary selling price was ₹ 100 and three

chocolate bar wrappers. The issue is whether the chocolate bar wrappers formed part of the consideration?

- (a) The wrappers were a mere token or condition of sale and not consideration.
- (b) The wrappers did form part of the consideration for the sale of records despite the fact that they had no intrinsic economic value in themselves.
- (c) The wrappers did not form part of the consideration for the sale of records as they had no intrinsic economic value in themselves.
- (d) There was consideration for the sale of records in the form of postal order for ₹100.

**DIRECTIONS (Qs. 52-53):** Apply the legal principles to the facts given below and select the most appropriate answer.

**Legal Principles:**

1. Offer is a proposal made by one person to another to do an act or abstain from doing it. The person who makes the offer is known as the promisor or offeror and the person to whom an offer is made is known as the promisee or the offeree.
2. A contract comes into being by the acceptance of an offer. When the person to whom the offer is made signifies his consent thereto, the proposal is said to be accepted and the parties are at consensus ad idem regarding the terms of the agreement.

**52. Factual Situation:** Tejas drove his car to a car park named Super Car Park (SCP). Outside the car park, the prices were displayed and a notice stated cars were parked at the owner's risk. An automatic ticket vending machine provided a ticket, a barrier was raised and Tejas parked his car. In small print on the ticket it was stated that the ticket is issued subject to conditions displayed on the premises. On a pillar opposite to the machine was a notice stating the owners would not be liable for any injuries occurring on their premises. Tejas met with an accident and sought damages from SCP. SCP denied any liability on the basis of the exclusion clause which was mentioned in the notice on the pillar. Whether there is an offer and acceptance of the exclusion clause?

- (a) There is a valid contract between Tejas and SCP as SCP had taken reasonable steps to bring exclusion clause to Tejas's attention at the time of making the contract.
- (b) The contract was made when Tejas received the ticket and parked his car. The ticket amounted to a contractual document which effectively referred to the terms which were clearly visible on the premises.
- (c) The machine itself constituted the offer. The acceptance was by putting the money into the machine. The ticket was dispensed after the acceptance took place and therefore the exclusion clause was not incorporated into the contract.
- (d) The machine itself constituted the offer. The acceptance was by putting the money into the machine and acceptance of the offer mean acceptance of all the terms of the offer and hence SCP is not liable.

**53. Factual Situation:** The plaintiffs offered to provide delivery of a machine tool for a price of ₹ 75,535. The

delivery of the tool was set for 10 months, with the condition that orders only qualified as accepted once the terms in the quotation were met and prevailed over any of the buyer's terms. The buyer responded to the offer with their own terms and conditions, which did not include the price variation clause listed in the seller's terms. This included a response section which required a signature and to be returned in order to accept the order. The sellers returned this response slip with a cover letter signaling that delivery would be in accordance with their original quotation. The tool was ready for delivery but the buyers could not accept delivery, for which the sellers increased the price which was in line with their initial terms. This was denied by the buyer and an action was brought by the seller to claim the cost of delay and interest. Was a contract made with or without a price variation clause ?

- (a) The buyer's order was not an acceptance of the initial offer from the seller but a counter-offer which the sellers had accepted by returning the signature section of the buyer's letter and so the contract was completed without the price variation clause and therefore the seller could not increase the cost of the tool.
- (b) The buyer's order was an acceptance of the initial offer from the seller and so tract was completed with the price variation clause and therefore the seller can increase the cost of the tool.
- (c) The contract was made with price variation clause due to the condition that orders only qualified as accepted once the terms in the quotation were met and prevailed over any of the buyer's terms.
- (d) The contract between the buyer and seller is not valid as both the parties are not agreeing to the same thing in the same sense.

This section consists of fifty (50) questions. Each question consists of legal principle(s) (hereinafter referred to as 'principle') and facts. Such proposition may or may not be true in the real and legal sense, yet you have to conclusively assume them to be true for the purposes of this section. Principles have to be applied to the given facts to arrive at the most reasonable conclusion. Only one of the alternatives, i.e., (a), (b), (c), or (d) is the most reasonable conclusion. In other words, in answering the following questions, you must not rely on any principle except the principles that are given herein below for every question. Further, you must not assume any facts other than those stated in the question. The objective of this section is to test your ability in legal aptitude, study of law, research aptitude and problem solving ability even if the 'most reasonable conclusion' arrived at may be absurd or unacceptable for any other reason.

**54. Principle:** Acceptance of proposal must be the exact mirror image of the proposal.

**Facts:** 'A' made a proposal to 'B' to sell a chair for ₹ 500. 'B' is desirous of buying the said chair for ₹ 400.

- (a) B has accepted the proposal of A.
- (b) B has not accepted the proposal of A.
- (c) It is not clear if B has accepted the proposal of A.
- (d) It is not clear whether A made a proposal to B.

55. **Principle:** An agreement with a boy below the age of eighteen years is not enforceable by law.  
**Facts:** A man entered into an agreement with a girl of seventeen years of age.  
 (a) The agreement is enforceable by law.  
 (b) The agreement is not enforceable by law.  
 (c) The agreement is enforceable by the girl.  
 (d) No inference can be drawn.
56. **Principle:** Sale of liquor is illegal. All agreements relating to prohibited items do not exist in the eyes of law.  
**Facts:** 'A' entered into an agreement with 'B' for the sale of liquor. 'A' failed to supply the agreed quantity of liquor to B.  
 (a) B can bring a legal action against A.  
 (b) B cannot bring any legal action against A.  
 (c) A can bring a legal action against B.  
 (d) A and B can initiate appropriate legal proceeding against each other.
57. **Principle:** The communication of a proposal is complete when it comes to the knowledge of the person to whom it is made.  
**Facts:** 'A' sent a letter making a proposal to 'B' to purchase the house of B.  
 (a) The communication of proposal is complete when A sent the letter.  
 (b) The communication of proposal is complete when B's wife received it.  
 (c) The communication of proposal is complete when B's wife handed over the letter to B.  
 (d) The communication of proposal is complete when B reads the letter.
58. **Principle:** An agreement may be entered into orally, in writing, or by conduct.  
**Facts:** 'A' went to the shop of 'B' and picked a tooth brush and gave a cheque of Rupees twenty to B and left the shop.  
 (a) A entered into an agreement with B.  
 (b) A did not enter into an agreement with B.  
 (c) Payment of tooth brush cannot be made through a cheque.  
 (d) A should have carried a currency note of Rupees twenty to make the payment.
59. **Principle:** Property consists of right to possess, right to use, right to alienate and right to exclude others. Sale is complete when property gets transferred from the seller to the buyer.  
**Facts:** 'A' sold his car to 'B.' B requested A to keep the car in his care on behalf B for one month. A agreed.  
 (a) Sale of car is complete.  
 (b) Sale of car is not complete.  
 (c) Sale will be completed when B keeps the car in his own care.  
 (d) Sale will be automatically completed after the expiry of one month.
60. **Principle:** A person, who is usually mad, but occasionally not mad, may make a contract when he is not mad.  
**Facts:** 'A' generally remains in the state of madness and rarely becomes capable of understanding anything.  
 (a) A can make a contract.  
 (b) A can never make a contract.  
 (c) A can make a contract at any time whenever he pleases.  
 (d) A can make a contract only for his own benefit.
61. **Principle:** An agreement without free consent can be enforced only at the option of the party whose consent was not free.  
**Facts:** A obtains the consent of B to enter into an agreement by putting a gun on the head of B's girl friend.  
 (a) B can enforce the agreement.  
 (b) B cannot enforce the agreement.  
 (c) A can enforce the agreement.  
 (d) Neither A nor B can enforce the agreement.
62. **Principle:** Where one of the parties to a contract was in position to dominate the decision of the other party, the contract is enforceable only at the option of the party who was in a position to dominate decision of the other party.  
**Facts:** A doctor asked his patient to make a payment of ₹ 10,00,000/- (Ten Lac Only) for treatment of his fever. The patient paid an amount of ₹ 5,00,000/- (Five Lac Only) and promised to pay the remaining amount after the treatment. After treatment the patient recovered from fever. The doctor demanded the remaining amount from the patient. The patient refused to pay.  
 (a) The contract is enforceable against the doctor.  
 (b) The contract is enforceable against the patient.  
 (c) The contract is not enforceable.  
 (d) The contract is not enforceable against the patient.
63. **Principle:** When, at the desire of one person, any other person has done or abstained from doing something, such act or abstinence or promise is called a consideration for the promise.  
**Facts:** X, the uncle of Y, made a promise to pay him an amount of ₹ 1,00,000/- as reward if Y quits smoking and drinking within one year. Y quit smoking and drinking within six months.  
 (a) Consideration has moved from the side of X.  
 (b) Consideration has moved from the side of Y.  
 (c) No consideration has moved from the side of Y.  
 (d) Quitting smoking and drinking cannot be a consideration.
64. **Principle:** Law never enforces an impossible promise.  
**Facts:** 'A' made a promise to 'B' to discover treasure by magic.  
 (a) Law will enforce the promise.  
 (b) Law will not enforce the promise.  
 (c) Law will enforce the promise only at the option of A.  
 (d) Law will enforce the promise only at the option of B.
65. **Principle:** When a person who has made a promise to another person to do something does not fulfill his promise, another person becomes entitled to receive, from the person who did not fulfill his promise, compensation in the form of money.  
**Facts:** X made a promise to Y to repair his car engine. Y made the payment for repair. After the repair, Y went for a drive in the same car. While driving the car, Y met with an accident due to bursting of the tyre.

- (a) X will be entitled to receive compensation from Y in the form of money
- (b) Y will be entitled to receive compensation from X in the form of money
- (c) X will not be entitled to receive compensation
- (d) Y will not be entitled to receive compensation from X

66. **Principle:** Mere silence as to facts likely to affect the decision of a person to enter into a contract is not fraud.

**Facts:** A sells to B (A's daughter who is a minor) a horse which A knows to be unsound. A says nothing to B about the unsoundness of the horse.

- (a) A has committed fraud
- (b) A has committed no fraud
- (c) There cannot be a contract between a father and daughter
- (d) The daughter did not ask therefore the father did not tell, hence no fraud

67. **Principle:** When a party to a contract has refused to perform, or disabled himself from performing his promise in its entirety, the other party shall not put an end to the contract.

**Facts:** A engaged B on April 12 to enter his service on June 1, but on May 11, A wrote to B that his services would not be needed. On May 22, B joined C for employment.

- (a) B cannot put the contract to an end.
- (b) B can put the contract to an end.
- (c) C can put his contract with B to an end.
- (d) A must pay damages to B.

68. **Principle:** An interest created, dependent upon a condition fails, if the fulfillment of the condition is impossible.

**Facts:** A promises to pay ₹ Ten Lakh to B on condition that he shall marry A's daughter C. At the date on which A gave ₹ Ten Lac to B, C was dead.

- (a) B's interest fails
- (b) B's interest fails because of immorality
- (c) B's interest fails because of prohibition by law
- (d) B's interest does not fail

69. **Principle:** A condition must be complied with after the happening of the event to which such a condition is attached.

**Facts:** A promises to pay ₹ 5,000 to B on the condition that he shall marry with the consent of C, D and E. B marries without the consent of C, D and E, but obtains their consent after the marriage.

- (a) B has fulfilled the condition
- (b) B has not fulfilled the condition
- (c) The condition is illegal
- (d) B must divorce his wife

70. **Principle:** A condition must be complied in order to claim the benefit of an agreement.

**Facts:** A agrees to transfer a farm to B; if B shall not go to England within three years after the date of the agreement, his interest in the farm shall cease. B does not go to England within the term prescribed.

- (a) B's interest in the farm continues
- (b) B's interest in the farm does not continue
- (c) B has a fundamental right to go to England or not to

- go to England and hence the condition is illegal
- (d) The agreement between A and B is void

71. **Principle:** Terms of any written contract can be proved by producing the written contract only and oral evidence is excluded.

**Facts:** A gives B receipt for money paid by B. Oral evidence is offered to prove the payment.

- (a) Oral evidence to prove payment is allowed
- (b) Oral evidence to prove payment is not allowed
- (c) Oral evidence is always allowed to prove all facts
- (d) Oral evidence is generally disallowed

**DIRECTIONS (Qs. 72-74):** Apply the legal principles to the facts given below and select the most appropriate answer.

**Legal Principles:**

1. A contract comes into being from the acceptance of an offer, When the person to whom the offer is made signifies his assent thereto, the proposal is said to be accepted and the parties are at *consensus* and *idem* regarding the terms of the agreement.
2. Consideration is something that moves from the promise to the promisor, at the implied or express request of the latter, in return for his promise. The item that moves can be a right, interest, profit, loss, responsibility given or suffered, forbearance or a benefit which is of some value in the eyes of law.
3. Contractual rights and liabilities are exclusive to the parties to contract.
4. There are few exceptions to the doctrine of privity of contract like agency, trust, assignment and third-party beneficiary.
5. A quasi contract is a contract that is created by the court when no such official contract exists between the parties to prevent a party from being unjustly enriched, or from benefitting from the situation when he/she does not deserve to do so.

72. **Facts:** Goodytyre is a tyre manufacturer who agreed with their dealer to not sell the tyres below a recommended retail price (RRP). As part of the agreement, Goodytyre also required their dealers to gain the same agreement with their retailers, who in this instance was Bestmotors. The agreement held that if tyres were sold below the RRP, they would be required to pay ₹ 500 per tyre in damages to Goodytyre. This was agreed between the dealer and Bestmotors, which effectively made Goodytyre a third-party to that agreement. Sometime after this, Bestmotor sold the tyres below the agreed price and Goodytyre sued for damages and an injunction to prevent them from continuing this activity. Bestmotors is arguing that Goodytyre could not enforce the contract as it was not part of the contract between the dealer and Bestmotors. The court decided that Goodytyre had no right to access damages. Which of the following are correct reasons?

- I. Goodytyre could not claim for damages as only a party to a contract can claim damages under it.
- II. Goodytyre had not given any consideration to Bestmotors and therefore there could be no binding

contract between the parties.

- III. Goodtyre was not listed as an agent within the contract and could therefore not be included as a valid third-party who had rights to claim on the contract.
- (a) I only                      (b) II only  
(c) I and II                    (d) I, II, III
73. **Facts:** Nandini, by deed of gift, made over certain landed property to Reena, her daughter. By the terms of the deed, which was registered, it was stipulated that an annuity of ₹ 3,000 should be paid every year to Subhashini, sister of Nandini. Reena executed in Subhashini's favour an agreement promising to give effect to stipulation. The annuity was, however, not paid and Subhashini sued to recover it. Reena is defending herself by claiming that there is no valid contract with Subhashini. Which of the following can be ground/s for court's decision?
- I. A promise is enforceable if there is some consideration for it and it is quite immaterial whether it moves from the promise or any other person.
- II. Only a person who is a party to a contract may demand the execution of that contract from other party. But if there is a third party beneficiary to the contract then it is enforced to the extent of his/her benefit.
- III. The agreement is valid as both Reena and Subhashini agreed to it on the same thing in the same sense.
- IV. There is no privity of contract as Subhashini has furnished no consideration. Reena had promised to Subhashini but consideration was furnished by

Nandini.

- (a) I, II                              (b) III, IV  
(c) I only                            (d) II only
74. **Facts:** Tanu's brother, Ishan, tries to talk her into building a greenhouse in her large back-yard. She declines, but Ishan is convinced that, if she were surprised by a lovely greenhouse, she would love it. Knowing that Tanu makes good money, and could easily afford the greenhouse, Ishan contacts greenhouse builder Aditya, and arranges to have him erect the structure while his sister is at work one day. Tanu is not happy by her brother's initiative, but the deed is done. Ishan has directed Aditya to bill his sister for the greenhouse, and that turns out to be the biggest surprise for her. She declines to pay, and Ishan tells Aditya he cannot afford it. Aditya is now out, not only for payment for his many hours of hard work, but cash for the materials he used. He files a civil suit to claim against both Tanu and Ishan. Decide.
- (a) Ishan is liable to pay as he has entered into contract with Aditya for his services.
- (b) Tanu is not liable to pay as there is no contract between Aditya and Tanu.
- (c) Tanu is liable to pay Aditya the costs involved in building the greenhouse as she has being unjustly enriched by this deal.
- (d) Tanu is liable as Ishan is her brother and was acting on her behalf under her implied consent as she liked a greenhouse.

## Hints & Solutions

1. (c) The agreement is valid but it is personal. It cannot be performed by any body else.
2. (c) The agreement can be said to be valid, but it is propounded upon personal skill. It cannot be excused by his agent.
3. (c) Original contract between A and B gets ended whereas a new contract between 'B' and 'C' gets established.
4. (b) Since C is not agreed for this. So a new contract will not come into existence.
5. (a) In this matter (contract). A has completely discharged his loaning or debt.
6. (a) According to law of contract, the section 72 states that a person to whom money is paid or thing delivered by mistake or coercion is bound to repay. Therefore, C is bound to repay the amount to B.
7. (a) According to law of contract, here, the consignee is claimant to recover so much of the charge which was excessive on the ground of legal fact.
8. (b) In this case A is entitled to repay to B. According to section 69 of the Indian Contract Act the person who made the payment is required to repaid by the person who is bound to pay it.
9. (a) Section 68 of the contract law states that if a person incompetent to enter into a contract, is supplied by another person with necessaries suited to him, is entitled to repay from the property of such in capable person.
10. (a)
11. (b) No, because although the acceptance over telephone was conveyed in time but not in the mode specified and the letter of acceptance was also not sent within two weeks.  
The acceptance was supposed to be accepted via a letter but K telephoned J to make the acceptance. The letter of acceptance was made after lapse of one month but should have been done within two weeks.
12. (c) Contract comes into existence only when an offer made is accepted. Here Dutt did not accept offer made by Bakshi, instead he made an unspecific offer, which cannot be assumed as people offer hence there is no contract.
13. (d) Sunita is not binding to marry Neel after the death of her husband because it is against the public policy and there is no breach of promise as well.

14. (b) The contract between Sunil and Anuj is not lawfully enforceable because it is against the law and society.
15. (a) Arjun cannot file a suit for recovery because it is not maintainable in the eye of law.
16. (d) Deep can neither appoint an agent nor enforce any contract because he is minor and contract with minor is not maintainable.
17. (c) When an offer is not accepted by the intended person the contract is not completed. In this matter Mani has given the offer to the Pal but it was executed by the Sam. Therefore, the said invitation to offer is not completed once it was not accepted by Pal himself.
18. (a) Option (a) is correct as the ruling principle clearly states that if the seller KNOWINGLY OR INTENTIONALLY hides truth or misrepresents untrue facts as true, he is guilty of fraud. In present situation despite of B's announcement that without A's denial he will consider horse as sound, A did not disclose truth to B. Hence B can void the contract as fraudulent intention of A is clearly established.
- (b) is incorrect. Although one can't deny the fact that the horse was on display and could be examined by B for its soundness but on declaration by B that he would consider horse to be sound If A didn't deny it, the onus of telling the defect in the horse is on A and thus concealment of defect by A will be considered intentional and fraudulent in nature.
- (c) is also incorrect .Intentional silence will also amount to lying or concealment of truth.
- (d) is not applicable.
19. (b) Option (b) is correct ,as Xavier 's communication is informal and his telegram saying "I agree to buy your house for 30 lakhs as asked by you" will be considered as invitation to offer and not as an acceptance of an offer. Thus there is no legally binding contract between them.
- (a) Option is incorrect .Under the given situation William is not bound to sell his house to Xavier as telegram by William stating lowest price of his house is just a informal quote of the cost of house and will not be considered as an offer in the eyes of Law . When there is no offer the question of its acceptance does not arise hence there is no contract between William and Xavier.
- (c) Option (c) is incorrect . The question of willingness to enter into a contract does not arise as it is not an offer but just an invitation to offer.
- (d) is inapplicable.
20. (d) (d) is correct . An agreement will be binding on both the parties and will remain so until anyone of them violates the terms of the agreement . In the given case what happened between Roxanne and third party does effect the agreement between Roxanne and Max. Further neither of them is planning to violate the terms of agreement so the contract stands valid.
- (c) is incorrect as the agreement between Roxanne and some earlier party holds no relevance whatsoever on the validity of agreement between Roxanne and Max.
- (b) is also incorrect as validity of agreement does not depend upon its freshness or staleness.
- (a) is incorrect . As any commitment with any other party will not be a mistake as to the matter of fact essential to this agreement.
21. (b) is correct . From the given facts one can clearly comprehend that Sunil and Suman under a wrong impression paid ₹1000 extra to Siraj , thus according to the ruling principle Siraj is bound by law to pay back the extra amount received by her by mistake to Sunil and Suman who paid it .
- (a) (b) is incorrect .Above explanation holds valid.
- (c) (c) is incorrect as no such interest is mentioned in the facts given.
- (d) (d) not applicable.
22. (d) is correct as sales tax is the tax levied by the government which is binding on all the persons encompassed under its rulings . Firstly sales tax does not come under contract law further any individual contract can't have an effect on salestax so Ramlal cannot avoid its liability to pay salestax.
23. (a) is correct . The principle ruling the given case clearly states that if the future contract is dependent on a future event and such event becomes impossible than agreement becomes void now in the given case A promises to pay B if and only if B marries D in A's life time but A dies before D marries B hence the agreement between A and B stands void. Further the event of marriage between D and E is irrelevant with regard to this case.
- Thus it can easily be concluded that the given assertion and reason stand individually true but 'R' is not correct explanation of 'A' .
24. (b) The three ingredients to support the cause of action under Section 70 of the Indian Contract Act are these: First, the goods to be delivered lawfully or anything has to be done for another person lawfully. Second, the thing done or the goods delivered is so done or delivered "not intending to do so gratuitously." Third, the person to whom the goods are delivered "enjoys the benefit thereof."
- It is only when the three ingredients are pleaded in the plaintiff that a cause of action is constituted under Section 70 of the Indian Contract Act. If any plaintiff pleads the three ingredients and proves the three features the defendant is then bound to make compensation in respect of or to restore the things so done or delivered." Thus it can easily be concluded that the given assertion and reason stand individually true but 'R' is not correct explanation of 'A' .Hence option (b) is correct.

25. (a) is correct. The facts of the case state that the sale value includes price of fully furnished house and at the time of deal the carpet was spread in the bedroom of the house and Khaleeda did not inform the buyer about her intention of removing the carpet hence it will be assumed as a part of sale and judgment will go in favour of Gurpreet.
26. (a) is correct. The judgment will again go in favor of Gurpreet as sale price includes the house and fixtures thereof and the carved door was part of the house, so the sale will not be complete without the door. Further Khaleeda did not disclose her intention at the time of deal.
27. (a)
28. (d) is correct. Looking into the case, the facts state that khaleeda did not disclose her intention of removing the carpet or the carved door while entering into the contract thus in both cases the judgment until go in favour of gurpreet.
29. (b) When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that to such act or abstinence, he is said to make proposal. It was just invitation to offer, not the real offer. Hence, Soahn can refused to sell the car.
30. (c) According to the Section 12 of the Indian Contract Act a person is said to be of sound mind for the purpose of making a contract if at the time neighbor but presently he did not push Shyam on purpose, further he could not FORSEE that Shyam is carrying crackers which might explode. Thus Ram is not liable.
- (b) is incorrect as there is no prohibition on carrying such package in crowded place. So, this argument can't be taken in favor of Ram.
- (c) is incorrect as Ram UNINTENTIONALLY pushed Shyam, further he was IGNORANT about the fact that Shyam is carrying crackers which might explode.
- (d) is not applicable.
31. (a) Agreement to do impossible act becomes void. In the present matter surrender is discharged from performance as the subject matter of the contract is destroyed.
32. (b) Both A and R are true but R is not the true explanation of A.  
Essential of a Contract under the Indian Contract Act is that the parties participating in the Contract must competent to enter in the contract, i.e., they must have attained the age of majority (ii) should be of sound mind (iii) should be qualified for entering into a contract by any law to which he is subject. Law prohibits (a) minors (b) persons of unsound mind (c) persons who are otherwise disqualified like an alien enemy, insolvents, convicts etc.  
Wagering agreements are (Rajshree Sugars & Chemicals Limited v Axis Bank Limited) nothing but ordinary betting agreements. Section 30 of the

Indian Contract Act states that, "Agreements by way of wager are void; and no suit shall be brought for recovering anything alleged to be won on any wager, or entrusted to any person to abide the result of any game or other uncertain event on which any wager is made."

Incompetent persons as mentioned in the essentials are not competent to enter into a contract while a wagering agreement is a void agreement and not a contract.

33. (a) The concealment of fact by Zameer amounted to fraud.

According to Section 17 of the Contract Act, it is required for every party to disclose all facts to the opposite party before entering into a contract and there should be no active concealment of facts or knowledge by one.

Not disclosing of facts to dishonestly induce the other person to deliver property or alter/ destroy the whole/ part of valuable security or anything which is signed or sealed and is capable of being converted into a valuable security will be held guilty under Section 420 of the Indian Penal Code.

Zameer had a duty to disclose details about his medical treatment to the insurance agency. Deliberate concealment of facts from an insurance company with dishonest intentions about a past medical treatment amounts to Fraud.

34. (b) The contract is enforceable against the patient by the doctor.

The contract between the doctor and patient has the essential of Consideration. The patient is supposed to pay the remaining 5 lakhs after the surgery. The doctor has recovery rights and should be paid the remaining money by the patient.

35. (b) Arbitration is also a valid dispute settlement machinery recognised by law and hence the entire contract is valid.

Arbitration is a procedure in which a dispute is submitted, by agreement of the parties, to one or more arbitrators who make a binding decision on the dispute. The parties opt for a private dispute resolution procedure (Arbitration) instead of going to court.

The contract between A and B provided that in case of a dispute, it would be resolved through an Arbitration only. The contract is valid because Arbitration is a valid dispute settlement means and is recognised by the Indian legal system.

36. (d) The agreement is void, as the object and consideration for it is opposed to public policy.

The promise made by 'A' to B is opposed to public policy as it has the tendency to injure public interest or public welfare. The agreement is therefore, void.

37. (d) Mr. Martin obtained the Key before the stipulated date from the Soap Bar. So he is covered by the offer of the Soap Company and can claim the car.

According to the advertisement (Contract) of the Soap Company, there was a promise for gift of Audi A3 car in return of the model ignition key. Mr. Martin found the same model ignition key before the stipulated date. He can claim the car.

38. (a) There is no valid contract because it has vague and uncertain terms, as the term 'present style' may mean one thing to Sunder and another to Bhola. The agreement did not state clearly what was contemporary style. It was a subjective and uncertain condition and could have meant differently to Sunder and Bhola. (Smt. Sohbatdei vs Deviplal And Ors AIR 1971 SC 2192, (1972) 3 SCC 495, 1971 III UJ 395 SC)
39. (d) 'Y' will not be entitled to receive compensation from 'X'. The promise made by 'X' to repair the car engine of car of 'Y' and 'Y' making the payment for the same was completed. The accident of 'Y' falls outside the purview of the promise between the two and there will be no compensation involved.
40. (b) A executed the deed under compulsion and undue influence, and was right in withdrawing from the contract. The deed was executed by A who was unwilling, under undue influence, forcefully and under compulsion. A has the right to refuse to perform the deed as it violated the terms of a valid contract. (Mahboob Khan And Ors. vs Hakim Abdul Rahim AIR 1964 Raj 250)
41. (a) As R was making the contract for illegal activities, P's stand is valid in law. The conditions made by R were illegal in nature. Such conditions made the contract invalid and unlawful. The contract does not stand valid in the court of law.
42. (c) Yes, an employer/ employee relationship was capable of developing into such a relationship for undue influence. There was no benefit to Pragya in the agreement. The lack of benefit to one party was evidence enough. The employer Anurag used means of undue influence over employee Pragya as the employer has a dominant position over the employee. One of the essentials of a valid Contract is Consideration and in this case Pragya received no Consideration (benefit). (Mahboob Khan and Ors. vs Hakim Abdul Rahim AIR 1964 Raj 250)
43. (a) The bank had not made all reasonable steps to allay themselves of the concerns regarding undue influence. The fact that, on advice from the bank, the defendant did not seek independent advice, should have taken as confirmation of undue influence. The bank did not take enough steps to put concerns of undue influence at rest. The bank was already aware about the element of undue influence in this case and should have taken more appropriate steps in this regard.
44. (d) No, contract for sale was not complete till the bid was confirmed by the Chief Commissioner and till such confirmation; the bidder was entitled to withdraw the bid. The contract for sale was uncertain and not absolute till confirmed by the Chief Commissioner. Because it was an uncertain contract, the bidder had the choice to withdraw the bid. (smt. Sohbatdei vs Devipal And Ors AIR 1971 SC 2192, (1972) 3 SCC 495, 1971 III UJ 395 SC)
45. (c) Effects of wagering agreement- According to the section 30 of contract act, "agreements by way of wager are void; and no suit shall be brought for recovering anything alleged to be won on any wager, or entrusted to any person to abide the result of any game or other uncertain event on which any wager is made". Thus in the case presented before us there is no agreement and even If there was an agreement ,it was by way of wager , so it is void under section 30 of the contract act . Hence option (c) is the most appropriate and Thomas is not required to share his winnings with Raja and Hoja as there was no enforceable agreement between them .
46. (b) Rules as to title:There is an implied condition on the part of the seller that, in the case of sale, he has the right to sell the goods, and in the case of an agreement to sell, he will have the right to sell the goods when the property is to pass. Thus if the seller has no title to the goods, the buyer can reject the goods, or if he has taken possession of the goods and is deprived of it by the real owner, the buyer can recover the full price of the goods even if he has made use of them.A bought a motor-car from and used it for 4 months. B had no title to the car because he has obtained the possession by theft and consequently A had to surrender it to the real owner. A was entitled to recover from B the full price even though he used the car for 4 months. (Rowland Vs. Divall). Hence option (b) is the most appropriate . Mohit did not have title to the watch so he can not pass it to Ranjan so neither Mohit nor Ranjan is the owner of the watch.
47. (b) The principle of indemnity asserts that on the happening of a loss the insured shall be put back into the same financial position as he used to occupy immediately before the loss. In other words, the insured shall get neither more nor less than the actual amount of loss sustained.This, of course, is always subject to the limit of the sum insured . On going through the case we discover that Sunny had insured his car with two insurance companies and thus getting it insured at double the price of his car . on losing it completely he cannot claim more than 5lakh of rupees according to the above mentioned rule thus option (b) is the most appropriate statement according to which if Sunny has claimed rupees 5lakh from x company then he cannot claim any amount from y company.

48. (a) Under section 27 of the Indian Contract Act, 1872 agreements in restraint of trade are void. It stipulates that an agreement, which restrains anyone from carrying on a lawful profession, trade or business, is void to that extent.

In the given case Manu is restraining Somu to carry on a lawful profession thus the agreement between them is void. Hence option (a) is the most appropriate.

49. (b) Points to be considered while deciding upon the presented case :

(1) Offer to sell house for ₹ 800000, which is not accepted hence no binding contract is entered into. Further this offer was revoked before it was accepted.

(2) Promise to keep the offer open until Friday, which was just a promise again no binding contract in the eyes of law.

Thus in the light of above said arguments option (b) is correct.

50. (b) The court in *Currie v Misa* declared consideration to be a "Right, Interest, Profit, Benefit, or Forbearance, Detriment, Loss, Responsibility". Thus, consideration is a promise of something of value given by a promissory in exchange for something of value given by a promisee; and typically the thing of value is goods, money or an act.

The above case clarifies that "benefit of avoiding penalty clause" will be regarded as consideration on behalf Hasan and hence there exists a valid contract between MXM Co. and Hasan, which makes the co. liable for extra payments. Therefore option (b) is correct.

51. (b) The issue that is to be tackled in the given case is that whether the wrappers formed the part of consideration or not, in view of the guiding principle consideration can be anything which moves from promisor to the promisee, at the implied or express request of the latter, in return for his promise.

The courts do not inquire whether the deal between two parties was monetarily fair-merely that each party passed some legal obligation or duty to the other party. The dispositive issue is presence of consideration, not adequacy of the consideration. The values between consideration passed by each party to a contract need not be comparable.

Thus option (b) is correct.

52. (c) Meeting of the minds (also referred to as mutual agreement, mutual assent **or consensus ad idem**) is a phrase in contract law used to describe the intentions of the parties forming the contract. In particular, it refers to the situation where there is a common understanding in the formation of the contract.

There must be evidence that the parties had each, from an objective perspective, engaged in conduct

manifesting their assent, and a contract will be formed when the parties have met such a requirement.[3]

Thus legally speaking the machine itself constituted the offer by offering parking area for a consideration in form of parking fee, which was accepted by putting money into the machine. However exclusion clause cannot be said to be included in the contract as it was over as soon as the money was put into the machine thus SCP is liable

53. (a) Section 7 of the Contract Act requires that the acceptance must be absolute and unqualified. If there is a variation in the terms of the acceptance, it is not an acceptance, but a counter-offer, which the proposer may or may not accept. A counter-offer destroys the original offer. There after the offeree cannot refer to the original offer and purport to accept it.

In the case presented before us option (a) holds good as per the explanation, further legal principle [2] also talks about "consensus ad idem" meaning "meeting of minds" which is not fulfilled in the given case.

54. (b) It is clear that B has not accepted the proposal of A for the following reasons. The acceptance of the proposal is not reflected as clearly as the mirror image. From the given facts we only know that B is desirous of buying the said chair for Rs. 400, while A wants to sell it for Rs.500.

55. (d) No inference can be drawn in this case because the facts (and the principle) do not provide whether the agreement with a girl of 17 can be enforced. The principle is applicable on boys of certain age. therefore, no conclusion can be drawn.

56. (b) Since the sale of liquor is illegal, all agreements relating to the sale and purchase of liquor is void. Therefore, B cannot initiate legal proceedings against A even if A failed to meet the agreement entered into by A and B.

57. (d) The communication of the proposal is complete only when B reads the paper. This is evident from the principle which states "The communication of a proposal is complete when it comes to the knowledge of the person to whom it is made." It means only after B reads the letter, it comes to his knowledge.

58. (a) The agreement is complete as evident from the writing and conduct of A. A cheque of Rs. 20 is the written form of contract (the contract is that I am paying Rs. 20 for the tooth brush). Secondly A's conduct of entering the shop, picking a tooth brush and making cheque payment shows A and B have entered in to a contract.

59. (a) Sale of car is complete because A has already sold his car to B, which means property has already been transferred to B from A and now it is the discretion of the property owner as to how he uses it. Therefore, B has decided to give his property to B for a limited time for safe keeping.

60. (a) A can make the contract is evident from the principle that a person can make a contract when he is not mad. In this case on the rare occasion when A is not mad, he can make a contract.
61. (a) In this case B can enforce the contract even if the contract was given under the pressure of gun point, that is, there was no free will. The enforceability is based on the principle that the agreement can be enforced only at the option of the party whose consent was not free. In other words, B did not have the free will when the contract was entered into, but he has the option to enforce it, that is, B can enforce it.
62. (b) This contract is enforceable against the patient as evident from the principle, "the contract is enforceable only at the option of the party who was in a position to dominate decision of the other party." In this case, the doctor dominated the decision of the patient. So, if the doctor wants, he can enforce the decision against the patient.
63. (b) In this case, the consideration has moved from the side of Y. Uncle (X) makes a conditional promise to Y, his nephew. Y fulfills the condition. Therefore, the consideration has moved from the side of Y based on the principle. When at the desire of one person (in this case X) any other person (in this case Y) has done or abstained from doing something (in this case abstained from smoking and drinking within six months against the condition of within one year) such act (quitting smoking and drinking) is called a consideration for the promise.
64. (b) Law will not enforce the promise because it is an impossible promise and the principle clearly states that Law will never enforce an impossible promise.
65. (d) Y is not entitled to receive compensation from X because X made a promise to repair Y's car engine and Y met with an accident not because of the engine problem but because of the bursting of tyre. In other words, X fulfilled his promise, and according to the principle Y could receive compensation only when X did not fulfill the promise.
66. (b) A has not committed a fraud because A is merely silent as to the facts likely to affect the decision of a person to enter into a contract. In this case A is silent about the fact of unsoundness of his horse which he sells to his daughter. Hence no fraud has been committed.
67. (a) B cannot put the contract to an end. In this case A and B are the parties to the contract. A wrote to B that his services would not be needed. This message was conveyed after the contract was entered into. Meanwhile, B joined another employer. Since A did not fulfill the promise of the contract in its entirety, the other party, that is B cannot put an end to the contract.
68. (a) In this case B's interest fails because the fulfillment of the condition is impossible. Since A's daughter C dies, the condition that B marries C for the payment of ₹ 10 lacs fails. However, it does not fail because of immorality or prohibition by law.
69. (a) B has fulfilled the condition. The condition as understood in the principle is that the condition must be complied with after the happening of the event. The condition is that B will marry with the consent of C, D, and E. B has taken their consent after the marriage, that is, after the happening of the event.
70. (b) B's interest in the farm does not continue because his interest shall cease is itself the part of condition. Read the facts. Here you will find that "his interest in the farm shall cease" is a part of the successful fulfilment of the condition.
71. (a) Oral evidence to prove payment is allowed. Receipt of money is only on acknowledgement, not a written contract, and oral evidence is excluded from written contract. Therefore, oral evidence of the receipt of payment is allowed.
72. (d) The contract is between Goodtyre and the dealer. There was also an agreement between the dealer and Bestmotors. In this case, Goodtyre could have been considered as a third party to the contract but Goodtyre was not listed as an agent and therefore could not be a valid third party. In this case, Goodtyre is not seen to give any consideration to Bestmotors to make the contract a binding contract.
73. (a) In this case there is a contract between Nandini and Reena because there is an acceptance of offer by Reena from Nandini. There is a consideration in the promise made in this case and therefore this promise is enforceable. The court will look into this aspect to decide that Reena is liable to pay Suhasini as per the terms of the contract.
74. (c) According to principle 5, a quasi contract is a contract that is created by the court when no such official contract exists between the parties to prevent a party from being unjustly enriched or from benefitting from the situation when he/she does not deserve to do so. As Tanu is being unjustly enriched she is liable to pay.