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**PRESIDENCY UNIVERSITY**

**Bengaluru**

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| **End - Term Examinations – MAY 2025** | | | |
| **Date:** 22-05-2025 **Time:** 01:00 pm – 04:00 pm | | | |
| **School:** SOL | | **Program:** BA.LLB, BBA. LLB. , BCL. LLB | |
| **Course Code :** LAW2025 | | **Course Name:** Law of Contracts- II | |
| **Semester**: II | | **Max Marks**: 100 | **Weightage**: 50% |

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| **CO - Levels** | **CO1** | **CO2** | **CO3** | **CO4** | **CO5** |
| **Marks** | **20** | **22** | **28** | **15** | **15** |

**Instructions:**

1. *Read all questions carefully and answer accordingly.*
2. *Do not write anything on the question paper other than roll number.*

**Part A**

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| **Answer ALL the Questions. Each question carries 2marks. 10Q x 2M=20M** | | | | |
| **1.** | Can there be a bailment of money? Justify your answer briefly. | **2 Marks** | **L** | **CO1** |
| **2.** | Explain whether a contract of indemnity can arise from circumstances not involving express agreement. | **2 Marks** | **L** | **CO2** |
| **3.** | What is the difference between a continuing guarantee and a specific guarantee? | **2 Marks** | **L** | **CO1** |
| **4.** | Discuss whether the Indian Contract Act provides a complete definition of indemnity. | **2 Marks** | **L** | **CO2** |
| **5.** | Discuss the legal position when the bailor demands the return of goods before the agreed time. | **2 Marks** | **L** | **CO2** |
| **6.** | If the principal debt is time-barred, can the surety still be made liable? Give a brief explanation. | **2 Marks** | **L** | **CO1** |
| **7.** | Analyze whether the pledge of future goods is valid under Indian law. | **2 Marks** | **L** | **CO3** |
| **8.** | Analyze whether an involuntary bailee (such as a warehouse operator receiving wrong delivery) has the same duties as a regular bailee. | **2 Marks** | **L** | **CO2** |
| **9.** | Explain the effect of variance made in the terms of the contract between the principal debtor and the creditor without the surety’s consent. | **2 Marks** | **L** | **CO3** |
| **10.** | Explain the rights of a pawnee when the pawnor defaults but the goods pledged are insufficient to cover the debt. | **2 Marks** | **L** | **CO2** |

**Part B**

**Answer the Questions. Total Marks 80M**

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| 11. | a. | What is the difference between constructive delivery and future delivery, answer in reference to the contract of pledge? | 10 Marks  (4+3+3) | L | CO2 |
|  | **b.** | A gives his camera to B for repair. B, after using the camera for personal use, accidentally damages it. A claims that B should compensate for the damage. Is B liable for the damage caused? Discuss the duties of a bailee under the Indian Contract Act and the consequences of breaching these duties. |  | **L** | **CO3** |
|  | **c.** | X pledges his watch to Y as collateral for a loan of Rs. 20,000. After the loan defaults, Y decides to sell the watch without informing X. X claims that the sale was unlawful. Can X recover the watch from the buyer? Discuss the rights of a pledgor and the pawnee in relation to the pledged goods under the Indian Contract Act. |  | **L** | **CO4** |
| Or | | | | | |
| 12. | **a.** | C lends his car to D for a week’s trip. After the trip, C finds the car in a damaged condition. D claims it was an accident and refuses to pay for repairs. Can C hold D liable for the damage under the law of bailment? Discuss the duties of the bailee and the liability of the bailee for damage to the goods. | **10 Marks**  (4+3+3) | **L** | **CO5** |
|  | **b.** | Explain the concept of “bailment for reward” and “bailment without reward” under Section 148-171 of the Indian Contract Act. How do the standards of care differ between the two types of bailments? |  | **L** | **CO1** |
|  | **c.** | Discuss the rights of the pawnee in the case of default by the pledgor under Section 172-181 of the Indian Contract Act. How do the rights of a pawnee differ from those of a bailee in the event of default? |  | **L** | **CO3** |

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| 13. | a. | A pledges a diamond ring to B for a loan of Rs. 50,000. A later claims that B has sold the ring at a low price. Can A challenge the sale, and what rights does B have under the law of pledge? | 10 Marks  (4+3+3) | L | CO3 |
|  | **b.** | Explain the principle of indemnity under Section 124 of the Indian Contract Act. How does indemnity differ from guarantee in terms of liability and third-party involvement? |  | **L** | **CO2** |
|  | **c.** | A enters into a contract with B to act as a surety for a debt. The agreement states that B will indemnify A for any financial loss incurred due to default by C. C defaults on the loan, and A seeks compensation from B. Is A entitled to claim indemnity from B? Discuss the scope of indemnity and the conditions under which a person is liable to indemnify another. |  | **L** | **CO4** |
| Or | | | | | |
| 14. | **a.** | X guarantees the payment of Rs. 2,00,000 for Y’s debt to Z. Y pays 50% of the debt, but Z demands the entire amount of the debt from X, claiming that the debt has not been settled. Can X be held liable for the payment despite Y's repayment? Explain the concept of discharge of a surety under Section 133-147. | **10 Marks**  (4+3+3) | **L** | **CO2** |
|  | **b.** | Under the Indian Contract Act, discuss the difference between personal liability in an indemnity contract and contingent liability in a guarantee contract. How does this distinction affect the enforcement of these contracts? |  | **L** | **CO1** |
|  | **c.** | X enters into an indemnity agreement with Y, where Y agrees to indemnify X for any loss due to Y’s actions. X suffers a loss due to an event caused by Y’s negligence. Can X claim indemnity for the loss, and what are the conditions that must be met for indemnity to be enforceable under Section 124? |  | **L** | **CO5** |

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| 15. | a. | Discuss how indemnity in a contract can be limited by conditions precedent or precedent acts, and provide examples of how such clauses may limit the indemnifier's liability under Section 124 of the Indian Contract Act. | 10 Marks  (4+3+3) | L | CO3 |
|  | **b.** | Discuss the distinction between "primary liability" in a guarantee contract and "secondary liability" in an indemnity contract. How does this distinction affect the rights of a creditor? |  | **L** | **CO2** |
|  | **c.** | A pledges his paintings to B as security for a loan of Rs. 10,00,000. B, after A defaults on the loan, decides to sell the paintings to recover the loan amount. However, A disputes the sale, arguing that B had no right to sell the paintings since the loan was being renegotiated. Is B entitled to sell the pledged paintings? Discuss the pawnee’s rights under the law of pledge, including the impact of a renegotiated loan. |  | **L** | **CO5** |
| Or | | | | | |
| 16. | **a.** | A hands over a valuable artifact to B for exhibition in B’s gallery. B accidentally damages the artifact during the exhibition and claims no responsibility, stating that it was beyond his control. Can A claim compensation from B for the damage? Discuss the duties of the bailee, specifically in relation to the care and custody of goods in a bailment contract under Section 148-171. | **10 Marks**  (4+3+3) | **L** | **CO4** |
|  | **b.** | Explain the concept of co-surety and the rights and liabilities of co-sureties under the Indian Contract Act. How does the principle of contribution apply between co-sureties? |  | **L** | **CO2** |
|  | **c.** | B agrees to indemnify A for any damages caused due to a contractual breach between A and C. C successfully sues A, and A seeks indemnity from B. However, B claims that A failed to mitigate the loss by not acting timely. Can B avoid indemnifying A on these grounds? Discuss the principle of indemnification in the context of mitigation of damages under the Indian Contract Act. |  | **L** | **CO3** |

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| 17. | a. | FreshFarms, an agricultural cooperative, stored 500 quintals of premium basmati rice with ColdStar Warehousing under a bailment contract. The agreement specified that ColdStar would maintain specific temperature and humidity conditions to preserve the quality of the rice. To support its expansion, FreshFarms obtained a loan of ₹30 lakhs from Rural Development Bank, pledging the stored rice as security. Deepak, the cooperative's president, provided a personal guarantee for the loan. During a severe heatwave, ColdStar's climate control systems malfunctioned. Despite receiving automated alerts, the warehouse manager delayed repairs for three days, resulting in significant quality deterioration of the rice. When FreshFarms attempted to sell the rice, they could only secure 60% of the expected price. Rural Development Bank is now demanding full loan repayment and threatening to enforce the guarantee against Deepak. FreshFarms is seeking compensation from ColdStar, which has refused liability, pointing to a clause in their contract limiting damages to 25% of the storage fees. It later emerged that the warehouse manager had been appointed by ColdStar without proper verification of his technical qualifications, contrary to industry standards.  Critically analyze the legal issues involved in this scenario, with specific focus on the relevant provisions of the Indian Contract Act. | 15 Marks | L | CO4 |
| Or | | | | | |
| 18. | **a.** | TechInnovate Ltd., a software development company, contracted GlobalSecure Inc. to provide cybersecurity services for their new banking application. The contract included an indemnity clause whereby GlobalSecure would compensate TechInnovate for any losses arising from security breaches attributable to deficiencies in GlobalSecure's protection systems. To fund the application's development, TechInnovate obtained a ₹2 crore loan from Future Finance Bank, with the company's intellectual property rights pledged as collateral. Aditya, TechInnovate's CEO, provided a personal guarantee for the loan. GlobalSecure assigned Rahul, their senior security architect, to implement security protocols for TechInnovate's project. Rahul had authority to design the security architecture but needed approval for implementing changes to TechInnovate's existing systems. During the final testing phase, the application suffered a severe data breach. Investigation revealed that Rahul had independently implemented an experimental security protocol without obtaining proper approvals, which created a vulnerability exploited by hackers. The breach resulted in significant data loss and delayed the application's launch by six months. TechInnovate faced substantial financial losses, including penalty payments to banking clients who had pre-booked the application. When TechInnovate claimed indemnification, GlobalSecure argued that Rahul had acted outside the scope of his authority and that the experimental protocol was a reasonable innovation not explicitly prohibited by their agreement. Future Finance Bank is now pressing for immediate loan repayment despite the project's setback, threatening to enforce the guarantee against Aditya and liquidate the pledged intellectual property.  Critically analyze the legal issues arising in this complex scenario, with particular reference to the principles of agency, indemnity, guarantee, and pledge. Advise all parties on their rights and liabilities. | **15 Marks** | **L** | **CO5** |

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| 19. | a. | Secure Transport Ltd. provides armoured vehicles for transporting valuable goods. The company's standard contract includes an indemnity clause stating that they will compensate clients for any losses due to theft during transit, except in cases of force majeure. Diamond Jewellers hires Secure Transport to move jewellery worth ₹30 lakhs from their workshop to a new showroom. During the journey, the armoured vehicle is stopped by armed robbers who threaten the driver and security guard. The driver, who was hired just a week earlier without a complete background check, appears unusually calm during the robbery and provides the security code to open the vehicle's safe without much resistance. Later investigation reveals that the driver was in communication with the robbers and had shared details about the shipment. Diamond Jewellers claims compensation under the indemnity clause, but Secure Transport refuses, arguing that employee fraud constitutes an exception under force majeure.  Analyze the legal position of both parties with reference to the principles of indemnity and agency. Discuss whether Secure Transport is liable to compensate Diamond Jewellers for the loss. Consider the implications of the company's negligence in hiring the driver without proper verification | 15 Marks | L | CO5 |
| Or | | | | | |
| 20. | **a.** | Lakshmi owns a vintage saree collection worth ₹5 lakhs. She decides to display these sarees at a cultural exhibition organized by Heritage Arts. According to their agreement, Heritage Arts will safeguard the sarees during the exhibition and return them afterward. Heritage Arts also agrees to insure the collection against any damage or loss. During the exhibition, a fire breaks out due to an electrical short-circuit. Despite the exhibition hall having fire extinguishers, the staff of Heritage Arts are untrained in their use, resulting in significant damage to Lakshmi's saree collection. The insurance company refuses to pay the claim, citing inadequate safety measures at the venue as a violation of the policy terms. Meanwhile, Lakshmi had borrowed ₹2 lakhs from her friend Ramesh, pledging two of her most valuable sarees as security. These sarees were also damaged in the fire.  Analyze this case from the perspective of bailment and pledge. Discuss the liability of Heritage Arts towards Lakshmi for the damaged sarees. Also, examine how the damage to the pledged sarees affects the loan arrangement between Lakshmi and Ramesh | **15 Marks** | **L** | **CO3** |

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| 21. | a. | Heritage Storage Pvt. Ltd. operates temperature-controlled warehouses for storing valuable goods. Vintage Wines Ltd. entered into a bailment agreement with Heritage Storage to store their premium wine collection worth ₹25 lakhs for a period of two years. The agreement stipulated:   1. Constant temperature maintenance between 12-14°C and humidity control between 60-70% 2. Monthly inspection and reporting of storage conditions 3. Limited access to the storage area, with entry permitted only to authorized personnel 4. Insurance coverage by Heritage Storage against damage or loss   During the bailment period, the following incidents occurred:   1. A temporary power failure caused the temperature to rise to 18°C for approximately six hours before backup generators restored normal conditions 2. Heritage Storage's manager allowed his friend, a wine enthusiast, to view the collection, who accidentally damaged two bottles worth ₹60,000 3. Heritage Storage relocated some of the wine to another facility during renovation without informing Vintage Wines   When Vintage Wines requested to withdraw 10 bottles for a special event, Heritage Storage initially claimed they could not locate them, though they were found the next day  Upon the collection's return, Vintage Wines discovered that several bottles showed signs of cork deterioration due to improper storage. Independent assessment estimated the total depreciation in value at ₹3.5 lakhs. Heritage Storage refused full compensation, arguing that:   1. The power failure was beyond their control 2. Their insurance policy had an excess clause of ₹1 lakh 3. The bailment agreement did not explicitly prohibit relocation 4. No permanent loss occurred as all bottles were eventually returned   Questions:  a) Identify and analyze the rights and duties of the bailor and bailee in this case.  b) Evaluate Heritage Storage's liability for each of the incidents that occurred during the bailment period.  c) Advise Vintage Wines on the legal remedies available to them against Heritage Storage. | 20 Marks  (6+8+6) | L | CO4 |
| Or | | | | | |
| 22. | **a.** | Spectrum Real Estate appointed Rajiv as their exclusive selling agent for a new residential project "Green Valley." Their agency agreement specified:   1. Rajiv would receive 2% commission on all sales 2. He was authorized to market properties and negotiate with potential buyers 3. Final sales prices required approval if below the listed price 4. Rajiv could collect booking deposits up to ₹50,000 per flat   During the three-month agency period, the following incidents occurred:   1. Rajiv offered a 5% discount to Mrs. Sharma, a prospective buyer, without seeking approval. He signed a provisional agreement on Spectrum's letterhead 2. Rajiv collected a ₹1 lakh booking deposit from Mr. Patel and temporarily deposited it in his personal account 3. Rajiv hired Amit, a sub-agent, to assist with marketing although the agency agreement was silent on sub-agents 4. When Spectrum increased property prices by 10%, Rajiv continued selling at the original price to clients he had previously quoted   Spectrum terminated Rajiv's agency when they discovered these actions. They refused to honor Mrs. Sharma's discounted price, did not pay commission on Mr. Patel's completed purchase, and demanded Rajiv surrender all marketing materials containing their branding. Rajiv claims he acted within implied authority and is entitled to his full commission. Mrs. Sharma insists her contract is binding on Spectrum despite the unauthorized discount.  **Questions:**  a) Analyze the scope of Rajiv's authority as an agent and whether his actions exceeded this authority.  b) Evaluate Spectrum's liability towards third parties (Mrs. Sharma and Mr. Patel) based on Rajiv's representations and actions.  c) Advise all parties on their legal rights and potential remedies in this situation. | **20 Marks**  **(7+7+6)** | **L** | **CO5** |