

BLOGS

Passage-based Questions on Contract Law for CLAT UG 2026 [Part II]

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PASSAGE

The Indian Contract Act, 1872, in its second part, governs special classes of contracts such as contracts of indemnity (Sections 124–125), guarantee (Sections 126–147), bailment and pledge (Sections 148–181), and contracts of agency (Sections 182–238). These contracts are distinct in nature but retain foundational contractual principles.

A contract of indemnity, defined under Section 124, is a contract by which one party promises to save the other from loss caused by the conduct of the promisor or any third party. It is a promise to make good the loss and comes into effect when the indemnified party suffers a loss. However, Indian law is more restrictive in its definition compared to English law, which also includes indemnity against loss caused by events or accidents.

A contract of guarantee, under Section 126, is a contract to perform the promise or discharge the liability of a third person in case of default. It involves three parties—principal debtor, creditor, and surety. The surety's liability is co-extensive with that of the principal debtor, unless otherwise agreed. The discharge of the principal debtor in insolvency does not discharge the surety unless the terms of the contract or the conduct of the creditor justify such discharge.

Bailment, as defined in Section 148, is the delivery of goods by one person (the bailor) to another (the bailee) for some purpose, upon a contract that the goods will be returned or disposed of according to instructions. It is essential that the delivery of goods is voluntary and for a lawful purpose. The bailee is bound to take reasonable care of the goods and not to make unauthorized use of them.

A pledge is a special form of bailment, wherein goods are delivered as security for payment of a debt or performance of a promise. The rights of a pawnee include the right to retain the goods and, in certain cases, to sell them after giving notice. Even non-owners, such as mercantile agents or persons in possession with consent, can create valid pledges under certain conditions.

Contracts of agency involve a principal and an agent, where the agent is authorized to act on behalf of the principal. The agent's acts, if within authority, bind the principal as if the principal had performed them. Agency can arise by express appointment, implication, necessity, or ratification.

QUESTIONS

1. Under Section 124, a contract of indemnity must involve:

- A. A third-party guarantee
- B. A loss suffered by the promisor
- C. A promise to save from loss caused by a third party or promisor's act
- D. Transfer of goods

Correct Answer: C

Explanation: Section 124 defines indemnity as a promise to save from loss caused by the promisor or a third party.

2. In a contract of guarantee, who is primarily liable for the debt?

- A. Surety
- B. Principal debtor
- C. Creditor
- D. Bailor

Correct Answer: B

Explanation: The principal debtor is primarily liable; the surety steps in only upon default.

3. The surety's liability is discharged in which of the following situations?

- A. Principal debtor defaults
- B. Surety signs without consideration
- C. Creditor enters into a contract varying terms without surety's consent
- D. Principal debtor is declared insolvent

Correct Answer: C

Explanation: Any variation in contract terms without the surety's consent discharges the surety (Section 133).

4. Which of the following is essential for a valid bailment under Section 148?

- A. Written contract
- B. Consideration in cash
- C. Delivery of goods voluntarily for a purpose
- D. Agency relationship

Correct Answer: C

Explanation: Bailment requires voluntary delivery of goods for a purpose under a contract.

5. The bailee is entitled to compensation:

- A. Only if he is the owner of goods
- B. For any authorized expense incurred for the preservation of goods
- C. If he pledges the goods
- D. Only if stated in writing

Correct Answer: B

Explanation: The bailee has a right to be reimbursed for necessary and authorized expenses.

6. A valid pledge can be made by a person who is:

- A. A thief in possession
- B. A finder of goods
- C. A mercantile agent with possession and authority
- D. A gratuitous bailee

Correct Answer: C

Explanation: A mercantile agent with possession and apparent authority can validly pledge (Section 178).

7. The right of lien in a pledge allows the pawnee to:

- A. Demand replacement goods
- B. Retain pledged goods until payment
- C. Sell goods without notice
- D. Take possession of debtor's other property

Correct Answer: B

Explanation: Pawnee has a right to retain goods until dues are paid (Section 173).

8. Which of the following does not give rise to a contract of agency?

- A. Express appointment
- B. Implied authority
- C. Agency by ratification
- D. Transfer of ownership

Correct Answer: D

Explanation: Transfer of ownership is not an act of agency; agency arises from authority to act on another's behalf.

9. When an agent exceeds their authority:

- A. The principal is always bound
- B. The principal is bound only for the authorized part if it is separable
- C. The contract is void
- D. The agent automatically becomes principal

Correct Answer: B

Explanation: Under Section 227, the principal is bound only to the extent of the agent's authority if separable.

10. In indemnity contracts, when can the indemnified party claim indemnity under Indian law?

- A. Immediately upon entering the contract
- B. Only after actual loss is suffered
- C. Upon apprehension of possible loss
- D. Before any contract is signed

Correct Answer: B

Explanation: Under Indian law, indemnity can be claimed only after actual loss is suffered, unlike broader English law.