

	UNIVERSITY OF RUHUNA FACULTY OF MANAGEMENT & FINANCE	No of Pages : 08 No of Questions : 40 Total Marks : 15
BBA21053- BUSINESS LAW		
BACHELOR OF BUSINESS ADMINISTRATION DEGREE 2000 LEVEL SEMESTER I		01 Hour
MID SEMESTER EXAMINATION – JUNE 2025		

Answer all questions.

Select the most appropriate answer (A, B, C, D, or E) for each multiple-choice question (MCQ) and mark the correct answer with a cross (X) on the letter of your choice.

E.g. If the correct answer is C, then A B D.

If more than one option is marked, the answer will not be evaluated.

1. Under the postal rule in contract law, what is the legal effect if the offeree posts an acceptance before receiving a revocation from the offeror?
 - A. A binding contract is formed at the moment the acceptance is posted, regardless of the actual receipt.
 - B. The offer is automatically revoked upon posting of the revocation, preventing contract formation.
 - C. No contract arises until the acceptance is physically received by the offeror.
 - D. The contract is voidable at the offeror's discretion until actual receipt of acceptance.
 - E. None of the above; the postal rule does not apply to revocation and acceptance.

2. Which of the following statements about the legal capacity to contract is correct?
 - A. All individuals, regardless of age or mental state, have the legal capacity to contract.
 - B. Minors can enter into all contracts without restrictions if they provide verbal consent.
 - C. A contract entered into by a person lacking mental capacity may be voidable if it can be proven that the individual did not understand the nature of the agreement.
 - D. Individuals declared bankrupt by the court retain full capacity to enter into contracts without any legal limitations.
 - E. None of the above.

3. Ravi was forced by his employer to sign a contract agreeing to reduce his salary, or else he would be fired immediately. Ravi signed the contract because he feared losing his job.

This can be challenged under :

- A. Negligent misrepresentation.
- B. Fraud.
- C. Duress.
- D. Mutual mistake.
- E. None of the above.

4. Sarath booked a hall for her wedding reception. A week before the event, the hall was completely destroyed in a fire, making it impossible to hold the event there.

Legally, this contract is considered:

- A. Breached by non-performance.
 - B. Frustrated due to impossibility.
 - C. Capable of part-performance.
 - D. Void due to misrepresentation.
 - E. None of the above.
5. Nimal sees a TV with a price tag in a store and offers to buy it. The display is:
- A. An express offer.
 - B. An invitation to treat.
 - C. A binding agreement.
 - D. A form of acceptance.
 - E. None of the above.
6. Nuwan posts an online advertisement offering a used laptop for sale. Mahesh sees the advertisement and contacts Nuwan. In response, Nuwan sends him a direct message stating: "I'm willing to sell the laptop to you for Rs. 60,000. It's in good condition and comes with a charger. Let me know by Friday if you're interested."

Based on contract law principles, which of the following best describes Nuwan's message?

- A. It is a general communication and not specific enough to be an offer.
 - B. It is a valid offer because it is clear, definite, and capable of acceptance.
 - C. It is not an offer because it was not made in a formal written document.
 - D. It is not valid because it is conditional upon performance.
 - E. None of the above.
7. In *Carlill v Carbolic Smoke Ball Co*, the court decided that:
- A. Every advertisement creates a binding offer.
 - B. An offer can be accepted by completing the requested action.
 - C. The advertisement was only an invitation to make an offer.
 - D. There was no exchange of value, so no contract was formed.
 - E. None of these statements are correct.
8. Ravi offers to sell his motorbike to Sanduni for Rs. 200,000. Sanduni replies, "Would you take Rs. 180,000 instead?" Ravi says no. Later that day, Sanduni tells Ravi, "Okay, I'll accept your original price of Rs. 200,000."

Which of the following statements best reflects the legal position?

- A. Sanduni's reply was just a request for more details, so the original offer still stands.
- B. The offer was still open because there was no formal rejection.
- C. Sanduni's counter-offer terminated the original offer, so it cannot be accepted later.
- D. A delay in acceptance always means the offer is still valid.
- E. None of the above.

9. Ananda agrees orally to buy land from Hasitha, but nothing is written. Is the contract enforceable?
- A. The agreement is clear and binding.
 - B. Land contracts must be in writing to be enforceable.
 - C. Enforceable if money has been paid.
 - D. Enforceable if the agreement is witnessed.
 - E. None of the above.
10. A condition in a contract is:
- A. A subsidiary or minor term whose breach gives rise only to damages.
 - B. A contractual term breach of which allows the innocent party to claim damages but not terminate the contract.
 - C. An essential or major term breach of which entitles the innocent party to terminate the contract and claim damages.
 - D. An event which may or may not occur in the future affecting contract obligations.
 - E. None of the above.
11. A warranty is:
- A. An essential term of the contract, breach of which entitles the innocent party to terminate the contract.
 - B. A collateral term, breach of which allows the innocent party to reject the contract entirely.
 - C. A subsidiary or minor term, breach of which gives rise only to a claim for damages without termination rights.
 - D. A gratuitous promise that is not legally enforceable.
 - E. None of the above.
12. Which of the following best describes the legal requirements for an exclusion clause to be effective in a contract?
- A. Valid only if communicated orally before contract formation.
 - B. Reasonable, properly incorporated, and clearly brought to the attention of the other party.
 - C. Must be signed by both parties after the contract is made.
 - D. Can be valid even if introduced only after the contract is concluded.
 - E. None of the above.
13. Which of the following best describes misrepresentation in a contract?
- A. A deliberate attempt to breach a term of the contract.
 - B. A false statement of fact made by one party to persuade another to enter into the contract.
 - C. A misunderstanding about the terms of the contract by both parties.
 - D. An agreement where one party intentionally hides the terms of the contract.
 - E. None of the above.
14. Undue influence typically occurs in:
- A. Equal bargaining relationships
 - B. Contracts formed under standard terms with no special relationship.
 - C. Relationships involving trust and confidence where one party exerts pressure over another.
 - D. Situations where both parties have equal knowledge and bargaining power.
 - E. None of the above.

15. Which case is an example of frustration due to impossibility?
- A. *Taylor v Caldwell*.
 - B. *Dunlop v Selfridge*.
 - C. *Hadley v Baxendale*.
 - D. *Carlill v Carbolic Smoke Ball Co.*
 - E. None of the above.
16. Prasad's luggage was lost during transport. The ticket had a clause excluding liability for lost items. He hadn't read it.

What applies?

- A. The clause is unenforceable because it was not signed.
 - B. Exemption clauses are always invalid.
 - C. Reasonable notice is required for enforcement.
 - D. Such clauses are illegal in all contracts.
 - E. None of the above.
17. Ruwan paid Nimal to use his political connections to help secure a government contract. Nimal failed to perform.

On what basis can Ruwan recover?

- A. For breach of contract.
 - B. The contract is illegal and unenforceable.
 - C. Under the doctrine of estoppel.
 - D. Because it was a unilateral mistake.
 - E. None of the above.
18. Vajira arranges a contract with a tour company for Bandara. When the services failed, Bandara sued.

The primary issue is:

- A. Lack of consideration.
 - B. Lack of capacity.
 - C. Lack of privity of contract.
 - D. Misleading representation.
 - E. None of the above.
19. Which of the following is correct regarding a restrictive trade clause in a contract?
- A. All restrictive trade clauses are illegal and unenforceable.
 - B. A restrictive clause is valid only if it protects a legitimate business interest and is reasonable in scope and duration.
 - C. Restrictive clauses are always valid if the parties agree to them freely.
 - D. Restrictive clauses must apply only within the city where the business is located.
 - E. None of the above.

20. The principle that silence cannot constitute acceptance was established in:
- A. *Fisher v Bell*.
 - B. *Carlill v Carbolic Smoke Ball Co.*
 - C. *Felthouse v Bindley*.
 - D. *Partridge v Crittenden*.
 - E. None of the above.
21. Dilini receives a letter from Tharindu offering to sell his camera for Rs. 500,000. The letter says, "This offer will remain open for 7 days."
On Day 3, before Dilini accepts, she gets another message from Tharindu saying he has changed his mind and sold the camera to someone else.

Which of the following best explains the legal position?

- A. Tharindu cannot revoke the offer because he said it was open for 7 days.
 - B. The offer was in writing, so it cannot be withdrawn.
 - C. If a deposit was included, revocation would not be allowed.
 - D. Tharindu can revoke the offer as long as he communicates it before Dilini accepts.
 - E. None of the above.
22. A unilateral contract arises when:
- A. Both parties exchange mutual promises before the performance.
 - B. Acceptance is made by performing the requested act in response to a general offer.
 - C. The contract is incomplete and subject to further negotiation.
 - D. There is no intention to create legal relations between the parties.
 - E. None of the above.
23. Which of the following is a legally recognised reason for an offer to lapse under contract law principles?
- A. There is a delay in the delivery of goods after acceptance.
 - B. The offeror dies before the offeree has communicated acceptance.
 - C. The parties renegotiate the terms of the original offer.
 - D. The offeree requests clarification of a term in the offer.
 - E. None of the above.
24. Kamal and Amal both send identical offers to each other by post on the same day, unaware of the other's offer.

What is the legal position in this situation?

- A. The offers cancel each other out, resulting in no contract.
- B. The latter offer acts as an acceptance of the earlier one.
- C. A binding contract arises automatically when the offers cross in the post.
- D. One of the parties must expressly accept the other's offer for a contract to arise.
- E. None of the above.

25. Dilani signs a contract believing it is for a gym membership, but it is actually a loan agreement. She was unaware of the true nature of the contract at the time of signing.

Legally, this situation is best described as:

- A. A mutual mistake.
 - B. A unilateral mistake.
 - C. A misrepresentation.
 - D. A common mistake.
 - E. None of the above.
26. Sanjeewa sells an antique van to Roshan but later refuses to deliver it. What is Roshan's most appropriate legal remedy?
- A. Injunction
 - B. Rescission of the agreement
 - C. Specific performance
 - D. Quantum meruit
 - E. None of the above
27. Consideration in a contract must be:
- A. Reasonable.
 - B. Of equal value.
 - C. Something of value in the eyes of the law.
 - D. Fair.
 - E. None of the above.
28. Which case confirmed that existing contractual obligations cannot form new a consideration?
- A. *Carlill v Carbolic Smoke Ball Co.*
 - B. *Stilk v Myrick.*
 - C. *Harvela Investments v Royal Trust.*
 - D. *Entores v Miles Far East Corp.*
 - E. None of the above.
29. In which situation is there no intention to create legal relations?
- A. A business agreement.
 - B. A contract between two strangers.
 - C. A domestic agreement between spouses.
 - D. A written employment contract.
 - E. None of the above.
30. A promise made out of moral obligation only:
- A. Can constitute a legally binding agreement.
 - B. Can act as a consideration.
 - C. Is not legally enforceable.
 - D. Must be made in writing.
 - E. None of the above.

31. Perera agrees to buy a shipment of rice from Fernando, both believing it is currently stored in a warehouse in Galle. Unknown to both, the rice was destroyed in a flood two days before the agreement.

What is the legal effect of this situation?

- A. The contract is valid and must be performed.
- B. The contract is void due to a common mistake about an essential fact.
- C. The buyer must bear the loss since the risk passes upon agreement.
- D. The seller can demand payment because the mistake was made in good faith.
- E. None of the above.

32. Dilani wants to buy a second-hand laptop. The seller, Nuwan, tells her that the laptop is "just like new" and has never had any repairs. Based on this, Dilani buys it. A week later, the laptop broke down. A technician finds that it had been repaired several times before the sale.

Which of the following best describes the legal issue in this situation?

- A. There is no legal issue because the laptop was second-hand.
- B. This may be a case of misrepresentation, as the buyer relied on a false statement.
- C. The buyer has no remedy unless the seller gives a written guarantee.
- D. The seller is only responsible if he offers a refund policy.
- E. None of the above.

33. Saman bought a car from Dileepa under a contract that included a term for Dileepa to deliver the car with a full tank of petrol. Dileepa delivered the car with half a tank. Saman accepted the car but wanted to claim a refund for the breach.

Which of the following is true?

- A. Delivering with half a tank breaches a condition, so Saman can reject the car.
- B. Delivering with half a tank breaches a warranty, so Saman can claim damages but not reject the car.
- C. The contract is void because the car was not delivered as promised.
- D. Saman must accept the breach since the car was delivered.
- E. None of the above.

34. The case *Pharmaceutical Society v Boots* decided that:

- A. Displaying goods on shelves is an offer to sell.
- B. Displaying goods on shelves is an invitation to treat, not an offer.
- C. Customers must accept all terms on display.
- D. A contract is formed when goods are placed on shelves.
- E. None of the above.

35. A mutual mistake occurs when:

- A. Only one party is mistaken about a material fact.
- B. The parties have different subjective beliefs about the contract terms.
- C. Both parties share the same fundamental mistaken belief about an essential fact.
- D. One party intentionally deceives the other.
- E. None of the above.

36. A contract may be discharged through:
- A. Due performance of contractual obligations by the parties.
 - B. A fundamental breach that goes to the root of the contract, allowing termination.
 - C. Frustration, where unforeseen events make performance impossible or radically different.
 - D. Mutual agreement between parties to end the contract.
 - E. All of the above.
37. Ruwan enters into a contract to supply imported furniture from overseas to a local hotel within two months. Due to sudden shipping delays and increased freight costs, delivery becomes more expensive and time-consuming, but still possible. Ruwan claims the contract is frustrated.

Which of the following best reflects the legal position?

- A. The contract is frustrated because it has become more burdensome and costly.
 - B. The contract is void because the increased cost makes it unfair.
 - C. The contract is not frustrated because mere difficulty or expense does not excuse performance.
 - D. The contract is frustrated as performance within the agreed time is harder now.
 - E. None of the above.
38. The primary purpose of contractual damages is to:
- A. Punish the wrongdoer.
 - B. Compensate the innocent party.
 - C. Deter future breaches.
 - D. Enforce criminal law.
 - E. None of the above.
39. A court will not grant specific performance where:
- A. Money damages suffice.
 - B. The breach is minor.
 - C. Performance involves personal service.
 - D. All of the above.
 - E. None of the above.
40. In *Hadley v Baxendale*, the court laid down the rule for:
- A. Orders for specific performance.
 - B. Enforcement of penalty clauses.
 - C. Remoteness of damages.
 - D. Invalidity of voidable contracts.
 - E. None of the above.

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