CIPS L5M3 Practice Questions

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Question 1

Question Type: MultipleChoice

Restitution Measures are an award which seeks to return the value of a benefit which has been seen to be unfairly received. Which of the following statements about Restitution Measures is TRUE? Select TWO

Options:

A- restitution damages intend to return the innocent party to the position they were in be-fore the contract
B- restitution damages considers the position of the breaching party before the contract
C- restitution damages are based on how much was gained by the breaching party as a re-sult of the breach
D- restitution damages are not limited to pre-agreed levels stated in the contract

Answer:

A, C

Explanation:

The correct answers are 1 and 3. These are taken from p. 124. Option 2 is incorrect - this is the definition of reliance damages. Option 4 is also incorrect- restitution damages are limited to pre-agreed levels stated in the contract.

Question 2

Question Type: MultipleChoice

Sally is shopping and sees an advert in a travel agent's window that says that flights to Malta are 50% off. She enters the shop and begins to speak to a travel agent who informs her that the poster she'd seen is out of date. Is the travel agent obliged to give Sally the discounted flight?

Options:

A- yes- the offer was displayed and therefore must be honoured
B- yes- the offer is valid until another offer or counter offer is provided
C- no- the offer has been rescinded

D- no - the advert is an invitation to treat

Answer:
D

Explanation:

Adverts are invitations to treat - not offers. Therefore the travel agent isn't bound to provide the discounted flight. See p.3 for more information on offers and ITTs

Question 3

Question Type: MultipleChoice

When a contract becomes 'crystalised' what does this mean?

Options:
A- a fundamental breach has occurred
B- the contract has been terminated
C- a dispute has arisen which qualifies for resolution by adjudication
D- a minor dispute has occurred and has been resolved between the parties

Answer:
C

Explanation:

Crystalised means ' a dispute has occurred which qualifies for resolution by adjudication'. This is a direct quote from p. 144

Question 4

Question Type: MultipleChoice

Which of the following would be included in a contract to assign costs and responsibilities between buyer and seller when products are delivered?

Options:

A- Indemnity
B- Liquidated Damages
C- Liability
D- Incoterms

Answer:

D

Explanation:

Incoterms assign costs and responsibilities about when products are delivered. See p. 37 for a full list of the different Incoterms. You don't need to know all Incoterms for the exam, but it's a good idea to know what they are and why they'd be put into a contract

Question 5

Question Type: MultipleChoice

A breach which is so severe that it goes to the root of the contract is known as what?

Options:

A- fundamental breach
B- condition breach
C- major breach
D- essence breach

Answer:

A

Explanation:

This is a Fundamental Breach. Fundamental Breach and Major Breach are very similar- they're both really bad and can lead to damages and the termination of the contract. The difference is that a Fundamental Breach is so bad that it goes to the root of the contract - a breach so bad that the contract is basically worthless. For example if you make a contract with a supplier to have potatoes delivered but it turns out they don't sell potatoes, only apples, and they keep sending you apples instead of potatoes. This would be a fundamental breach because its something so fundamental to the contract that there's no point in the contract existing if there's a breach like this. Condition Breach and Essence Breach are made up words- they don't exist. P.44

Question 6

Question Type: MultipleChoice

If a party is to 'repudiate' a contract, what does this mean?

Options:

A- the party is cancelling the contract as it is no longer needed
B- the party is using the break-clause to end the contract
C- the party indicates they no longer intend to fulfil their contractual obligations, usually in response to a breach
D- the party gives notice that they anticipate that they will not be able to fulfil their future obligations

Answer:

C

Explanation:

'the party indicates they no longer intend to fulfil their contractual obligations, usually in response to a breach'. This is the definition of 'repudiate' given on p. 128 Before the exam check you understand the difference between repudiate, rescind and revoke. These are all ways contracts can end but are slightly different.

Question 7

Question Type: MultipleChoice

Where two parties are engaged in international trade and have a long term relationship and a degree of mutual trust, which payment mechanism is commonly used?

Options:

A- Letter of Credit
B- Documentary Collection
C- Bill of Exchange
D- Stage Payment

Answer:

B

Explanation:

Documentary collection is used in international transactions where there is trust. This is explained on p. 35 It's basically when supplier and buyer delegate collection of payments to their respective banks. They need to trust that each other will actually pay - otherwise they wouldn't delegate this. A Letter of Credit is a documentary credit confirmed by a bank, usually for export. A Bill of Ex-change is a promise to pay at a later date, usually supported by a bank. Stage payments are used in big purchases, such as construction projects where payment is given to the contractor when certain milestones are hit.

Question 8

Question Type: MultipleChoice

Which of the following will you put into box 6?

Options:

A- liability
B- payment terms
C- liquidated damages
D- Contract variation

Answer:

C

Explanation:

The correct answers are as follows:

	Conflict Resolution Approach	Contract Term
Supplier A	1 avoid	5 liability
Supplier B	2 compete	6 liquidated damage
Supplier C	3 compromise	7 contract variation
Supplier D	4 collaborate	8 payment term

The answer is liquidated damages as they're seeking compensation for loss.