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# **CIPS L5M3 Managing Contractual Risk**



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# Latest Version: 6.0

## Question: 1

Which of the following would constitute an offer? Select TWO:

- A. a display in a shop window
- B. an advert on a website
- C. an auction
- D. a bid on an auction
- E. a price proposal that is valid for 14 days

**Answer: D, E**

Explanation:

Offers include bids on an auction and a price proposal that is valid for 14 days. The other three options are Invitations to Treat. See p.3 for the full list of what constitutes an Invitation to Treat. The tricky thing here is that an auction is an invitation to treat but a bid on an auction is an offer. An auction is an ITT because you're encouraging people to make an offer to you. A bid on the auction is the offer (you offer to buy something at a price you propose).

## Question: 2

Which of the following would not be considered acceptance of a contract term?

- A. silence
- B. accepting a delivery of a product into the factory
- C. an invoice
- D. a handshake

**Answer: A**

Explanation:

Silence is not acceptance. Acceptance can be in writing, verbal or implied by conduct. The three other options are ways in which a contract could be accepted by conduct. See p.8 of the study guide

## Question: 3

David is selling his house and Barbera would like to buy it. David is expecting to get £100,000 for his house. Barbera offers £80,000 and David asks Barbera if she'll pay £90,000 instead. Barbera says no. After a week David hasn't had any other offers so would like to accept Barbera's offer. Can he do this?

- A. yes- Barbera's offer is still valid as it didn't come with a time clause attached
- B. yes- Barbera's offer is the best he will receive
- C. no - David's counter offer rescinded Barbera's offer
- D. no- he waited too long and Barbera's offer has expired

**Answer: C**

Explanation:

"No - David's counter offer rescinded Barbera's offer" is the correct answer. Remember: "once a counter offer is made, the original offer is viewed as rejected" - p.6 of the study guide. What this means is when David goes back to Barbera about the £80,000 - he is now the offeror - and Barbera has the option to reject this. David is no longer in a position to accept or reject - Barbera is.

### Question: 4

A large financial organisation ensures that they have contracts with all of their suppliers. In which instance would indemnity not necessarily form part of the contract?

- A. A Deed of Appointment of a Consultant
- B. In assignment of intellectual property rights
- C. A software licence agreement
- D. A confidentiality agreement

**Answer: D**

Explanation:

Indemnity isn't usually used for confidentiality agreements - this is stated on p.21 of the study guide. This is because it's hard to indemnify against- you don't know what the consequence of a breach of confidentiality is going to be so it's hard to quantify. Unliquidated damages is more suitable. The study guide does state that indemnity is frequently used in intellectual property rights, software licence agreements and share purchase agreements. This is also written on p. 21.

### Question: 5

Molly is a wedding planner who has just set up as a sole-trader. She has a meeting with a potential couple to organise their wedding. The couple is extremely risk adverse and have asked Molly to email them a copy of her insurances. Which insurances should Molly send? Select TWO

- A. Products Liability Insurance
- B. Employers Liability Insurance
- C. Professional Indemnity Insurance
- D. Public Liability Insurance

**Answer: C, D**

Explanation:

The correct answers are indemnity insurance and public liability insurance. Molly doesn't have any products so this wouldn't be required- she's a consultant. As a sole-trader she doesn't have employees so doesn't need Employer's Liability Insurance. The book does not go into much detail about types of insurances - but this is a known exam topic. So if you aren't confident on these four types of insurance and when you'd expect a supplier to have them - do some extra research before the exam. Insurance types are briefly mentioned on p. 25

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