MICRO EXERCISE

Contracts: What Makes Them Valid

CIPS Level 2 Module 1 (L2M1): Introducing Procurement and Supply

15 multiple-choice questions | intention · consideration · agreement (offer and acceptance) · capacity · framework agreements

This practice paper has been produced independently for study purposes only. It is not an official CIPS publication and is not endorsed by CIPS.

Instructions: Choose the one best answer for each question. Answers, with a brief reason for each, are given at the end of the paper.

Q1. What makes a contract different from an informal arrangement?

- **A.** It is legally binding
- **B.** It is always written on paper
- **C.** It must be signed by a lawyer
- **D.** It can only be made by large companies

Q2. What does a contract tell procurement professionals and their suppliers?

- **A.** Only the name of the supplier
- **B.** Only the colour and size of the goods
- **C.** What should happen, where and when, and what, when and how payment is required
- **D.** How many staff the supplier employs

Q3. Which list shows the elements needed for a valid simple contract?

- **A.** Price, colour, delivery and packaging
- **B.** Intention, consideration, agreement and capacity
- **C.** Offer, invoice, receipt and payment
- **D.** Quality, quantity, time and place

Q4. *Two friends in Riyadh agree that one will drive the other to the airport in return for a cup of coffee.*

Why is this unlikely to be a legally binding contract?

- **A.** There is no consideration
- **B.** Neither person has capacity
- **C.** There is no offer
- **D.** There is no intention to create legal relations

Q5. *A company in Jeddah signs a supply agreement with a packaging supplier. Both sides expect that, if something goes wrong, they can take legal action against the other.*

Which element of a contract does this show?

- **A.** Intention
- **B.** Capacity
- **C.** Consideration
- **D.** Acceptance

Q6. What is consideration in a contract?

- **A.** A written thank-you letter
- **B.** The time it takes to read the contract
- **C.** The bargain or exchange: something of value given by each side
- **D.** The supplier's opinion of the buyer

Q7. *A buyer in Dammam agrees to pay SAR 50,000 to a supplier for 200 office chairs.*

What is the buyer's consideration?

- **A.** The 200 office chairs
- **B.** The SAR 50,000 payment
- **C.** The delivery van
- **D.** The supplier's warehouse

Q8. Agreement has two parts. What are they?

- **A.** Price and payment
- **B.** Intention and capacity
- **C.** Delivery and invoice
- **D.** Offer and acceptance

Q9. *A supplier in Al Khobar sends a buyer a quotation for 500 laptops at SAR 3,000 each, valid for 30 days.*

What is the supplier's quotation?

- **A.** An offer
- **B.** An acceptance
- **C.** Consideration
- **D.** A framework agreement

Q10. *A buyer in Tabuk receives the quotation and sends a purchase order agreeing to all the supplier's terms.*

What does the purchase order represent?

- **A.** An offer
- **B.** Capacity
- **C.** Acceptance
- **D.** Intention

Q11. What does capacity to contract mean?

- **A.** The supplier must have a large factory
- **B.** The parties must be legally able to make a contract, for example being of legal age and of sound mind
- **C.** The contract must be at least ten pages long
- **D.** The buyer must have a large budget

Q12. *A 15-year-old in Abha signs an agreement to buy a new car from a showroom.*

Which element of a valid contract is most likely to be missing?

- **A.** Consideration
- **B.** Offer
- **C.** Intention
- **D.** Capacity

Q13. *A person signs a contract at a time when, because of a serious mental condition, they cannot understand what they are agreeing to.*

Which element of a valid contract is affected?

- **A.** Consideration
- **B.** Acceptance
- **C.** Capacity
- **D.** Intention

Q14. What is a framework agreement?

- **A.** A contract that forces the buyer to buy a fixed amount
- **B.** An agreement that sets out the terms and prices for future orders, without a commitment to buy
- **C.** A type of delivery note
- **D.** A letter rejecting a supplier

Q15. *A hospital in Hail has a framework agreement with three medical suppliers. It has not placed any orders yet.*

Does the hospital have a contract with these suppliers?

- **A.** No. A framework agreement is not a contract. A contract is formed only when an order (call-off) is placed and accepted
- **B.** Yes. A framework agreement is always a contract
- **C.** Yes, but only with the cheapest supplier
- **D.** No, because hospitals cannot make contracts

Answer Key

Contracts: What Makes Them Valid: correct answers with brief reasons

Q	Answer	Reason
1	A	A contract is legally binding, so either party can take legal action if the other does not do what was agreed.
2	C	A contract sets out what should happen, where and when, and how payment will be made.
3	B	A valid contract needs intention to create legal relations, consideration, agreement (offer and acceptance) and capacity.
4	D	This is a social arrangement. Neither friend expects to take legal action if it goes wrong, so there is no intention to create legal relations.
5	A	Intention means both parties intend the agreement to be enforceable by law. In business deals this is normally assumed.
6	C	Consideration is the exchange element: a promise by one party in return for an act or promise by the other, such as goods in return for payment.
7	B	Each side gives something of value. The buyer gives SAR 50,000, and the supplier gives the chairs.
8	D	Agreement is made up of an offer and an acceptance of that offer.
9	A	The supplier is offering to sell something at a quoted price. This is an offer.
10	C	Taking up the offer on its terms is acceptance. Once the offer is accepted, agreement is reached.
11	B	Capacity means the parties have the legal ability to enter a contract. Age and mental capacity both affect this.
12	D	A person under the legal age (18 under English law) generally does not have full capacity to make a binding contract like this.
13	C	Capacity requires the parties to be of sound mind. If a person cannot understand the agreement, the contract may not be valid.
14	B	A framework agreement sets the terms (such as prices and conditions) that will apply to future orders, but it does not commit the buyer to buy anything.
15	A	A framework agreement is not a contract in itself, because there is no commitment to buy. Each call-off order placed under the framework creates a contract.