BLOGS

Learn in a Minute: Acceptance under Contract Law

Mihika Kanani · 16 Apr 2026

Acceptance under Contract Law is a fundamental concept serving as the critical step that transforms a mere proposal into a legally binding agreement. Read more here!

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Introduction

In the formation of a contract, two primary elements are indispensable: an offer (or proposal) and acceptance. The Indian Contract Act, 1872, recognizes that no valid contract can come into existence without a valid acceptance of a proposal.

The process begins with one party making a proposal to another, and the contract is completed only when the other party signifies their assent to that proposal. This assent, known as acceptance, is what converts the proposal into a promise, thereby creating binding obligations between the parties involved.

This article explores the concept of acceptance under the Indian Contract Act, 1872, covering its definition, essential elements, the postal rule of acceptance, and concluding with its significance in contract formation.

Definition of Acceptance

Section 2(b) of the Indian Contract Act, 1872, defines acceptance as follows:

“When the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. A proposal, when accepted, becomes a promise.”

This definition highlights two key points:

- Acceptance is the expression of assent by the offeree (the person to whom the offer is made) to the terms of the offer.
- Once acceptance is communicated, the proposal transforms into a promise, which is legally enforceable.

Acceptance must be clear, unequivocal, and communicated to the offeror. It can be expressed either expressly (in words or writing) or implied through conduct. However, mere silence or inactivity does not amount to acceptance unless there is a prior agreement that silence will be treated as acceptance.

Essential Elements of Acceptance under Contract Law

For acceptance to be valid and to result in a binding contract under the Indian Contract Act, 1872, it must satisfy certain essential elements, primarily outlined in Sections 7 and 8 of the Act.



1. Acceptance Must Be Absolute and Unqualified

Section 7 of the Act mandates that acceptance must be absolute and unqualified. This means the offeree must accept the offer exactly as it is, without any modifications, conditions, or additions. Any attempt to alter the terms of the offer is considered a counter-offer, not acceptance, which effectively rejects the original offer.

For example, if A offers to sell a car to B for ₹2,00,000, B cannot accept the offer by stating they will buy it for ₹1,00,000. Such a response is a counter-offer, not acceptance.

This principle was established in the landmark case of *Hyde v. Wrench (1840)*, where a counter-offer was held to reject the original offer. Similarly, in *Felthouse v. Bindley (1862)*, it was held that silence cannot be deemed acceptance.

2. Acceptance Must Be Communicated

Acceptance must be communicated to the offeror to be effective. The communication can be made through any reasonable means, such as orally, in writing, or by conduct, but it must reach the offeror within the time prescribed or within a reasonable time if no time is specified.

If acceptance is not communicated, no contract is formed, and the offeror is not bound by the proposal. This principle ensures that both parties are aware of the agreement and consent to be bound by it.

3. Acceptance Must Be Made by the Person to Whom the Offer Is Made

Only the person to whom the offer is made (the offeree) can accept it. Acceptance by a third party is not valid and does not create a contract.

4. Acceptance Must Be Made in the Manner Prescribed by the Offeror

If the offeror specifies a particular mode of acceptance, the offeree must comply with that mode. For instance, if the offeror requires acceptance by registered post, acceptance by any other means may not be valid.

5. Acceptance Must Be Made Within the Prescribed Time or Within a Reasonable Time

If the offeror specifies a time limit for acceptance, the offeree must accept within that period. If no time is specified, acceptance must be made within a reasonable time, failing which the offer lapses.

6. Acceptance Can Be Express or Implied

Acceptance may be express, where the offeree explicitly communicates assent, or implied, where acceptance is inferred from the offeree's conduct. For example, performing the conditions of the offer or accepting the consideration can amount to acceptance.

Section 8 of the Indian Contract Act recognizes acceptance by performance, especially in unilateral contracts, where the offeror promises something in return for the offeree's performance of a specified act.

Postal Rule of Acceptance

The postal rule is a significant exception to the general rule that acceptance must be communicated to the offeror to be effective. Under this rule, acceptance is deemed complete at the moment the offeree posts the letter of acceptance, not when the offeror receives it.

This rule applies when it is reasonable to use the post as a means of communication and the parties have not specified otherwise. The rationale is that the offeree has done everything in their power to communicate acceptance once the letter is posted.

For example, if A offers to sell goods to B and B posts a letter of acceptance, the contract is formed at the time of posting, even if the letter is delayed or lost in transit.

However, the postal rule does not apply to instantaneous modes of communication such as telephone, fax, or email, where acceptance is effective only upon receipt.

Read More: Rule of Postal Communication in Contract Law

Conclusion

Acceptance under the Indian Contract Act, 1872, is a cornerstone of contract formation. It signifies the offeree's unqualified assent to the terms of the offer, converting the proposal into a binding promise. The Act lays down clear rules to ensure that acceptance is absolute, communicated, made by the rightful person, and within the prescribed or reasonable time.

The postal rule provides a practical exception, recognizing acceptance at the time of posting in appropriate circumstances. Understanding these principles is essential for anyone engaged in contractual dealings to ensure that agreements are valid, enforceable, and free from disputes.

In essence, acceptance is not merely a formality but the decisive act that creates legal obligations and rights, making it indispensable in the realm of contract law in India.