BLOGS

Notes on Contract Law: Introduction to Indian Contract Act

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With less than 2 weeks remaining for CLAT 2024, it is important to revise legal concepts as they can aid comprehension and save crucial time during the actual exam.

Here is a brief overview of the Law of Contracts to help you ace CLAT 2024!

Introduction

The law of contracts is **civil in nature**, which means that harms caused are redressed by paying compensation and damages which can be liquidated or unliquidated. This law is used to enforce **rights in personam** which means rights that can be claimed only against specific persons.

Indian Contract Act of 1872 came into effect from **1st September, 1872**. It is a codified law in India, governed by the **Indian Contract Act, 1872**. Section 2 of this act contains the **definition of 'contract'** and other relevant terms.

Elements of Contracts

Contracts are defined as agreements enforceable by law. The essential elements of a contract are as follows:-

- Two or more parties
- Competency to contract
- Free Consent – The parties should not be coerced or misguided into agreeing.

- Lawful consideration and Lawful object – Consideration is what one party agrees to do or abstain from doing for the other party, while object refers to the purpose for which the contract is made.
- Agreement must not be expressly declared to be void– Agreements that are prohibited by the law cannot become contracts.

Stages of a Contract

- A contract starts off as a proposal or an offer, when one person expresses their willingness to do or not do something in exchange of something.
- The person who makes this offer is known as ‘offeror’ and those who accept the offer are called ‘offeree’.
- When an offer is accepted, it becomes a ‘promise’. Person who makes the promise is known as the ‘promisor’, while the person to whom it is made is known as ‘promisee’.
- When two sets of promises form consideration for each other, it becomes an agreement.
- When an agreement fulfils the essential elements fulfils all requirements of a contract, only then is it becomes a contract.

Offer under Indian Contract Act

- The parties should have an intention to enter into a legally binding relationship. A parent promises to buy a bicycle if the child scores an A+. Even if the child scores an A+, the parent is not bound by law to buy a bicycle because they did not intend to create a legal relationship.
- On the contrary, an agreement to start a bakery in partnership will be legally binding. Only a display of goods or supplying of information or expression of desire is not an offer, but an invitation to offer. An offer should not be vague. It should be made in specific terms.
- An offer is complete only when it comes to the knowledge of the person it is made to.
- Offer can be of various kinds. A general offer is made to the public at large and is accepted by fulfilling the terms and conditions. A specific offer is only made to a specific person or group and can be only accepted by them. An implied offer is made by performing actions accordingly.

Acceptance under Indian Contract Act

- Acceptance is when the offeree accepts the offer. It must be absolute and unconditional.
- Any additional conditions will not be an acceptance but a counter-offer. It can be express, that is said explicitly, or implied, shown by actions.
- Acceptance can be communicated verbally, electronically or through post.
- When communication of acceptance is completed, it becomes an agreement.

Competency of Parties to Contract

- Only parties competent to contract can enter into a contract. They should understand the nature and consequence of entering into the agreement.
- A person is competent to contract if they:- Are major, that is above the age of 18. Are of sound mind. Not insolvent or bankrupt.

Free Consent under Indian Contract Act

For an agreement to become a contract, it should be entered into by the free consent of parties. If that is not the case, then the contract becomes voidable at the option of the aggrieved party. Consent is both parties agreeing to the same thing in the same sense.

Free consent is that which is not caused by:-

- Coercion– Threatening to commit or committing an act forbidden by the Indian Penal Code.
- Undue influence– When a party with a dominating position takes undue advantage of the other.
- Fraud– When a party knowingly supplies false information inducing the other party to enter into contract.
- Misrepresentation– When a party unknowingly supplies information that is not true with the intention of inducing the other party to enter into contract
- Mistake– When both the parties make a mistake regarding a material fact of the contract, it is void. However, a mistake of law is not void.

Void, Voidable and Valid Agreements

- An agreement that cannot be enforced by the court of law is void.

- This includes agreements made by incompetent parties or those with unlawful consideration or object.
- Voidable contracts can be declared void at the option of the party whose consent was not freely obtained.
- Valid agreements fulfil all essential requirements and can be enforced in the court of law.

You can find the Indian Contract Act here.

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