BLOGS

9 Fundamental Principles of Contract Law

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A Contract is an agreement between two or more persons that is enforceable by law. Read about the 9 fundamental principles of contract law in this article!

Offer and Acceptance

The foundation of any contract is the agreement between parties, established through the principles of offer and acceptance. An *offer* is a clear expression of willingness to enter into a contract on specific terms, intended to become binding upon acceptance.

Acceptance, on the other hand, must be unequivocal and communicated to the offeror. For example, in **Carlill v. Carbolic Smoke Ball Co**, the company's advertisement was deemed a valid offer, and Mrs. Carlill's compliance with its terms constituted acceptance.

In Indian law, Sections 3–8 of the Indian Contract Act, 1872, codify these rules. Silence does not generally amount to acceptance, as established in **Felthouse v. Bindley**, ensuring clarity in contractual commitments.

Read More: Offer and Acceptance under Contract Law

Intention to Create Legal Relations

A key principle of contract law is that parties must intend for their agreement to be legally enforceable. Social or domestic arrangements, such as a promise to host a dinner party, are usually presumed not to have legal intent.

Conversely, commercial agreements are presumed to be binding unless explicitly stated otherwise. For instance, in **Balfour v. Balfour**, the court held that agreements between spouses are typically not enforceable due to the lack of legal intent. This principle ensures that the courts are not inundated with disputes over informal promises.

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Consideration

Consideration is the price paid for the promise of the other party and is a crucial element for the validity of a contract.

Section 2(d) of the Indian Contract Act defines consideration as something of value given by one party to another. It must be lawful, real, and not illusory. The concept of *adequacy of consideration* is often irrelevant, as courts focus on its existence rather than its equivalence in value, as highlighted in Chappell & Co. Ltd. v. Nestlé Co. Ltd.

In India, even a promise to perform an existing duty can constitute valid consideration under certain circumstances, as affirmed in Lampleigh v. Braithwaite. The principle ensures reciprocity in contractual obligations.

Capacity to Contract

A contract is valid and enforceable in a court of law only when the parties are competent to contract. Under Section 11 of the Indian Contract Act, minors, persons of unsound mind, and those disqualified by law are incapable of contracting.

Any agreement entered into by a minor is void ab initio, as decided in **Mohori Bibee v. Dharmodas Ghose**. This principle protects vulnerable individuals from exploitation while ensuring that contractual obligations are undertaken by competent parties.

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Free Consent

Consent is central to the validity of a contract, but it must be *free* and not influenced by factors such as coercion, undue influence, fraud, misrepresentation, or mistake.

Section 14 of the Indian Contract Act defines free consent, and Sections 15–22 address circumstances that vitiate it. For example, in *Undue Influence*, where one party uses their dominant position to obtain an unfair advantage, as in Lloyds Bank v. Bundy, the contract can be

set aside. Free consent ensures that contracts are based on mutual agreement rather than compulsion or deception.

Read More: Consent under Indian Contract Act

Legality of Object

For a contract to be enforceable, its object and consideration must be lawful. Section 23 of the Indian Contract Act declares agreements void if they involve illegal, immoral, or fraudulent objectives, or if they are opposed to public policy.

For example, agreements for smuggling or gambling (in jurisdictions where gambling is illegal) are unenforceable. In *Gherulal Parakh v. Mahadeodas Maiya* , the Supreme Court clarified that the scope of public policy is dynamic and must align with societal values. This principle ensures that contracts do not undermine the rule of law or societal welfare.

Performance of Contract

Performance refers to the fulfillment of contractual obligations by the parties. Section 37 of the Indian Contract Act mandates that parties must either perform or offer to perform their promises unless discharged.

Performance can be actual or attempted (tender). When performance becomes impossible due to unforeseen circumstances, the doctrine of frustration applies, as codified under Section 56.

The landmark case of Satyabrata Ghose v. Mugneeram Bangur & Co clarified that frustration must arise from events beyond the control of the parties. This principle balances the sanctity of contracts with fairness in the face of unforeseen difficulties.

Breach of Contract and Remedies

A breach occurs when a party fails to perform their obligations under the contract. Remedies for breach are designed to compensate the aggrieved party and may include damages, specific performance, injunctions, or rescission.

Damages, as codified in Sections 73–75 of the Indian Contract Act, aim to place the aggrieved party in the position they would have been in had the contract been performed.

In Hadley v. Baxendale, the court distinguished between general and consequential damages, emphasizing foreseeability as a factor. The principle of remedies ensures that parties are not left without recourse in the event of a breach.

Read More: Breach of Contract

Doctrine of Privity of Contract

The doctrine of privity states that only parties to a contract can enforce its terms, as held in Dunlop Pneumatic Tyre Co. Ltd. v. Selfridge & Co. Ltd. This principle ensures that contractual obligations remain confined to those who are party to the agreement.

However, exceptions exist, such as when the contract is made for the benefit of a third party or in cases involving agency, trust, or statutory rights. In India, this principle is subject to judicial discretion, allowing flexibility where justice demands.

Read More: Doctrine of Privity of Contract

Conclusion

These principles—offer and acceptance, intention to create legal relations, consideration, capacity, free consent, legality of object, performance, breach and remedies, privity, and quasi-contracts—constitute the bedrock of contract law. They provide clarity and predictability in the creation, enforcement, and interpretation of contracts while ensuring fairness and justice in commercial and personal dealings.