CASE LAW UPDATES

Landmark Cases on the Indian Contract Act (Part 1): Formation of Contract, Capacity and Free Consent

Hanspal Bakul · 18 Aug 2026

Contract law on paper looks deceptively simple until courts start interpreting it. For CLAT PG, these eight judgments matter less for their facts and more for the reasoning that followed them. Here's a breakdown that sticks to what actually gets tested.

1. Carlill v. Carbolic Smoke Ball Co. (1893) 1 QB 256

Facts: A pharmaceutical company promised £100 to anyone who caught influenza despite using their smoke ball as instructed. Mrs Carlill did exactly that, fell ill anyway, and asked for the money. The company refused, claiming there was never a proper contract between two specific parties.

Issues:

- Can an advertisement addressed to the whole world create a binding offer?
- Does acting on the offer's terms count as acceptance even without informing the offeror beforehand?

Judgment: The court sided with Mrs Carlill. ***A general offer, once acted upon by someone meeting its conditions, becomes enforceable against the offeror.*** The company had even deposited money with a bank to show *sincerity, which killed their "no real intention" defence. Performance itself served as acceptance here, no separate communication needed.*

CLICK HERE TO READ THE BASICS OF CONTRACT LAW

2. Lalman Shukla v. Gauri Dutt (1913) 40 All 489

Facts: A servant was sent out to find his employer's missing nephew. While he was still searching, the employer announced a cash reward for information leading to the boy's recovery. The servant found the child first and only heard about the reward afterward, then tried claiming it.

Issues: Does an act performed in complete ignorance of an offer still amount to acceptance?

Judgment: The Allahabad High Court said no. *Acceptance presupposes knowledge of the offer at the moment the act is done.* Since Lalman had no idea about the reward when he traced the boy, there was nothing for him to "accept."

3. Bhagwandas Kedia v. Girdharilal Parshottamdas & Co. AIR 1966 SC 543

Facts: A telephone conversation between parties in two different cities led to a contract, but a dispute broke out over where exactly it was formed. This mattered because the answer decided which court had jurisdiction to hear the case.

Issues: Should telephone communication be treated like postal communication, where the contract forms the moment a letter is posted? Or does it need actual, real-time receipt of acceptance?

Judgment: The Supreme Court reasoned that a ***phone call is closer to a face-to-face conversation than a letter.*** *So the contract is complete only where the acceptance is actually heard by the offeror, not where the acceptor spoke it.* The postal rule, in other words, *doesn't extend to instant communication.*

4. Chinnaya v. Ramaya (1882) ILR 4 Mad 137

Facts: A mother gifted land to her daughter on the condition that the daughter pay an annual sum to the mother's sister. The daughter agreed in writing but stopped paying later. The sister, who technically gave nothing in the transaction, sued to enforce the promise anyway.

Issues: Since consideration is supposed to move between the promisor and promisee, can a third party who provided no consideration still sue on the contract?

Judgment: The Madras High Court allowed the suit, pointing to ***Section 2(d), which permits consideration to move from "the promisee or any other person."*** The consideration had

flowed from the mother, not the sister, but that was enough under Indian law. This case is why Indian contract law is often said to be more liberal than English law on privity of consideration.

Section 2(d) - "When, at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing, or promises to do or to abstain from doing, something, such act or abstinence or promise is called a consideration for the promise;"

5. Mohori Bibee v. Dharmodas Ghose (1903) 30 IA 114

Facts: A minor mortgaged his property to obtain a loan, and the lender's own agent was aware he was dealing with a minor. When the lender tried to recover the money by enforcing the mortgage, the minor's side argued the entire agreement was invalid from the start.

Issues: Is a contract entered into by a minor void, or simply voidable at his option like it is under English law?

Judgment: The Privy Council settled this firmly - ***a minor's agreement is void ab initio in India, not voidable.*** *Section 11 makes majority a precondition for contractual capacity, so no contract ever technically existed.* The lender lost both the mortgage and the chance to recover the money advanced.

Section 11- Who is competent to contract? - "Every person is competent to contract who is of the age of majority according to the law to which he is subject , and who is of sound mind, and is not disqualified from contracting by any law to which he is subject."

6. Ranganayakamma v. Alwar Setti (1889) ILR 13 Mad 214

Facts: A widow's relatives blocked the removal of her husband's dead body for cremation until she agreed to adopt a son. Under that pressure, she gave in and adopted, then later tried to have the adoption set aside.

Issues: Does obstructing a dead body's cremation qualify as "coercion" under Section 15, given that coercion is usually linked to acts punishable under the IPC?

Judgment: The court held that ***preventing cremation was indeed an unlawful act, which brought it within the definition of coercion.*** The adoption was *declared voidable because*

consent had been extracted through this pressure.

7. Raghunath Prasad v. Sarju Prasad AIR 1924 PC 60

Facts: A man mortgaged his property for a loan carrying a steep compound interest rate. Years later he challenged the deal, arguing the lender had exploited a position of dominance over him to extract unfair terms.

Issues:

- When does a lender's financial advantage over a borrower cross into "dominant position" under Section 16?
- Does a harsh interest rate alone prove undue influence?

Judgment: The ***Privy Council set out a now-famous three-stage test:*** first check if a *dominant position existed*, then whether *it was actually used*, and only then whether the *resulting bargain was unconscionable*. In fact, ***the court found no real evidence of dominance being exploited, so the mortgage stood.*** *High interest by itself, the court clarified, doesn't automatically mean undue influence.*

8. Gherulal Parakh v. Mahadeodas Maiya AIR 1959 SC 781

Facts: Two partners formed a partnership specifically to enter into wagering contracts on commodities. When one partner asked for accounts and his share of profits, the other resisted, *arguing the whole partnership was void since it rested on wagering agreements.*

Issues:

- Does forming a partnership for wagering purposes make the partnership itself illegal, or just the underlying wager unenforceable?
- Can something collateral to a void agreement still survive under Section 23?

Judgment: The Supreme Court ***drew a clear line between "void" and "illegal."*** *A wagering agreement is void under Section 30, but that doesn't make it forbidden by law or opposed to public policy.* So the partnership itself remained valid, and the partner could still claim accounts.



8 LANDMARK CASES ON THE INDIAN CONTRACT ACT



PART 1

FORMATION OF CONTRACT, CAPACITY & FREE CONSENT

1 Carlill v. Carbolic Smoke Ball Co. (1893)



Essence
Public advertisement offering reward for using a smoke ball became a binding offer.

Principle
Performance of a public offer creates a binding contract.

2 Lalman Shukla v. Gauri Dutt (1913)



Essence
Ignorance of the offer is no excuse when reward is claimed.

Principle
Knowledge of offer is essential for acceptance.

3 Bhagwandas Kedia v. Girdharilal Parshottamdas & Co. (1966 SC)



Essence
Contract formed over telephone; acceptance communicated through letter.

Principle
Real-time receipt is necessary in telephonic communication.

4 Chinnaya v. Ramaya (1882)



Essence
Mother gifted land to one daughter, excluding the other and aunt. Gift valid.

Principle
Consideration is not essential for love and affection.

5 Mohori Bibee v. Dharmodas Ghose (1903)



Essence
A minor mortgaged property. Contract held void.

Principle
Minor's agreements are void (Sec. 11).

6 Ranganayakamma v. Alwar Setti (1889)



Essence
Widow's relatives blocked cremation unless she adopted a son.

Principle
Consent obtained by coercion is not valid (Sec. 15).

7 Raghunath Prasad v. Sarju Prasad (1924 PC)



Essence
Loan at high compound interest held unconscionable.

Principle
Agreement opposed to public policy is void (Sec. 23).

8 Gherulal Parakh v. Mahadeodas Maiya (1959 SC)



Essence
Partnership for wagering on commodities held illegal.

Principle
Wagering agreements are void (Sec. 30).

WHAT DO THESE CASES TEACH?

- Offer & acceptance must be clear.
- Capacity of parties is crucial.
- Consent must be free.
- Contracts against law or public policy are void.

QUICK RECAP

- Offer & Acceptance
- Consideration
- Capacity
- Free Consent



REMEMBER THE PRINCIPLE, NOT JUST THE CASE.
THAT'S HOW YOU WIN CLAT PG!

Read & share online: https://clatalogue.com/landmark-cases-on-the-indian-contract-act-part-1-formation-of-contract-capacity-and-free-consent

CLICK HERE TO READ PART 2 of LANDMARK CONTRACT LAW CASES

For CLAT PG, knowing the ratio in each case matters far more than memorising facts, since that's usually where the actual question is hiding.