BLOGS

# Modes of Discharge of Contract: Meaning, Types, Examples

Ruchika Mohapatra · 21 Oct 2023

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## Introduction

A contract is a legally binding agreement between two or more parties, and the discharge of a contract refers to the ways in which a contract can come to an end or be terminated. A contract is deemed to be discharged when it no longer holds the parties involved bound.

There are various such modes of discharge of contract and therefore, a discharge can be accomplished through a variety of means by the parties themselves. For instance, the parties may explicitly or implicitly concur that a contract has been discharged. Additionally, the parties have the ability to release a contract through their actions.

# Modes of Discharge of Contract

1. By Performance

The most common way to discharge a contract is through performance. This occurs when both parties fulfill their respective obligations as specified in the contract. Once the terms and conditions of the contract are met, the contract is considered discharged. This can be either executed (where the parties have completed their obligations) or executory (where the obligations will be fulfilled in the future).

It is essential to have a comprehensive understanding of the term performance. In the legal context, performance refers to the act or instance of carrying out what is required by a promise or duty.

**Examples of discharge by performance commonly observed are as follows:**

1. The customer remunerates the shopkeeper for goods and acquires them;

2. The bank provides a loan to individual X, who subsequently repays the loan; and

3. A tenant consistently pays rent for an extended period, even after vacating the premises, as long as no other individual has taken possession of it.

## 2. By Operation of Law

Discharge by operation of law may be characterized as a manifestation of legal release that transpires when the stipulations of a contractual agreement are duly satisfied by either party, thereby resulting in the automatic discharge of one or more parties to the said contract.

**The application of discharge by operation of law is applicable in the ensuing circumstances:**

(i) When a minor attains the age of majority.
(ii) When an individual becomes afflicted with a mental incapacity.
(iii) When an infant enters into matrimony.
(iv) When a life insurance policy reaches its maturity date, thereby guaranteeing payment upon the occurrence of death.
(v) In the event of the demise of a party to the contractual arrangement.

## 3. Discharge by Agreement or Consent

Discharge by Agreement may be characterized as a form of release that arises when the parties involved in a contractual arrangement mutually concur that one or more participants ought to be freed from their contractual obligations, all the while keeping the terms and conditions of the contract itself intact.

An illustration of Discharge by Agreement can be exemplified in the subsequent scenario: At the inception of the agreement, the parties involved mutually agree that specific terms and conditions shall no longer be applicable to either party subsequent to a designated date or within a specified duration.

Alternatively, both parties may consent to terminating the contract by providing compensation to the opposing party for any losses or damages incurred as a result of a breach of the contractual agreement.

## 4. Discharge by Subsequent Impossibility (Sec. 56)

Subsequent impossibility means an event which takes place after the contract has been entered into and which makes it physically or commercially impossible for one party to carry out his side of the contract. Impossibility of performance is, as a rule, not an excuse for non-performance," observed Scrutton, L.J. in ***Ralli Bros. v. Compania Nautera***, etc.

## 5. Discharge by Lapse of time

The time stipulated in a contract is called as the period of time fixed for the performance of a particular act under a contract, if such act is not performed within that period of time, then the contract becomes discharged due to lapse of time or because of delay in performance.

## 6. Alteration(Sec. 62)

When one party by altering the terms of a contract has agreed to discharge it, he will have discharged his liability under the old contract and will be liable only under the new modified contract. It must be noted that such alteration must be express or implied but not inferred.

## 7. Novation (Sec. 62)

Novation is a process where the parties agree to replace an old contract with a new one, typically involving the substitution of one of the parties or the alteration of terms. This discharges the original contract and creates a new one.

When one of the parties substitutes another person in his place and binds himself with an original party to discharge him, it is called novation. For example, the substitution of one creditor for another by way of a novation is not permitted as it amounts to discharge by agreement.

But where there is no direct substitution but only an indirect substitution like where an earlier creditor agrees to take less for his debt in lieu of releasing the debtor from his liability, such discharge does not amount to discharge by agreement and is not therefore void under ***Section 19 of the Indian Contract Act 1872***.

### 8. Discharge by Breach of Contract

When one party fails to perform their obligations as outlined in the contract, it can lead to a breach of contract. This breach may result in the other party being discharged from their duties under the contract, and they may be entitled to seek legal remedies such as damages or specific performance.

Breach of Contract is of two types, namely Anticipatory and Actual. An anticipatory breach occurs through the anticipation of the parties. The parties might prepare for such a breach beforehand. An actual breach occurs where the party commits the breach and refuses to abide by the terms.

## Conclusion

The discharge of a contract marks the resolution of a legal agreement between two or more parties. This process can occur in various ways, including through performance, agreement, frustration, breach, or operation of law. The method of discharge depends on the specific circumstances of the contract and the intentions of the parties involved.

When a contract is discharged, it means that the obligations and responsibilities outlined in the contract are no longer binding on the parties. This can be a result of the successful completion of the contract's terms, a mutual agreement to terminate the contract, the occurrence of an unforeseen event that makes performance impossible, or a breach of contract that justifies termination.

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