

Notes on Breach of Contract: Types, Effects, Remedies

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Introduction

A breach of contract arises when one or more parties involved in a contract deliberately violate or neglect to satisfy the stipulations of a legally binding agreement. The breach is broadly characterized as a transgression of any mutually agreed-upon terms and conditions.

Consequently, the extent of a contract breach can vary from the belated delivery of specific goods or services to the failure to make required payments. In such occurrences, the aggrieved party possesses the option to pursue legal action against the breaching party for monetary damages. They may also, on occasion, resort to the court and seek the enforcement of the promised obligations from the opposing party. **(Section 73 of the Indian Contract Act, 1872).**

A breach of contract has the potential to manifest as either an actual or anticipatory breach. Legal actions seeking damages, specific performance, cancellation of the contract, injunctive relief, and quantum meruit claims all serve as remedies for a breach of contract. These remedies aim to provide compensation for work performed prior to the breach.

Types of Breach of Contract

1. Anticipatory Breach of Contract: This occurs when a breach of contract occurs before the time specified for performance. It can take place in two distinct ways –

- Clearly expressed through spoken or written words
- Implied from one of the parties' conducts.

Anticipatory breaches are usually made by the one who makes the promise.

2. Actual Breach of Contract: This is a case of refusing to perform a promise on the scheduled date. A breach occurs when one of the parties breaks the contract by refusing to deliver their promise by the due date. In that case, the other party maintains the right to sue the party who breached the contract.

Damages for Breach of Contract

The resolution of a breach can be achieved through compelling the breaching party to fulfill their contractual obligations, thereby completing the tasks they have initiated. However, this course of action may not be a feasible option for numerous individuals who have suffered from the breach.

A fundamental breach of any contract differs from a minor breach, as previously discussed. In certain instances, the injured party may be disinclined to continue pursuing the remaining terms of the agreement.

Depending on the kind of breach, the court may opt to grant monetary compensation as a means of redress.

1. Restitution

Restitution, in the context of a breach of contract, is a legal remedy that aims to restore one party to the contract to the position they were in before the contract was formed or to prevent the unjust enrichment of the party who breached the contract.

It is distinct from compensatory damages, which are designed to compensate the non-breaching party for their actual losses. Restitution is typically awarded when the contract itself is unenforceable, void, or when it has been rescinded.

2. Compensatory Damages

Compensatory damages, also known as actual or direct damages, are a type of monetary compensation awarded to a party who has suffered financial losses as a result of a breach of contract.

When one party to a contract fails to fulfill their obligations as specified in the contract, the other party may be entitled to compensatory damages to make them whole, or put them in the position they would have been in had the contract been performed as agreed.

3. Punitive Damages

In a breach of contract case, the primary remedy is typically compensatory damages, which are meant to compensate the non-breaching party for actual financial losses they suffered due to the breach.

The purpose of contract law is to enforce agreements and ensure that parties receive what they are entitled to under the contract. Punitive damages are generally inconsistent with this principle because they go beyond mere compensation and are reserved for situations involving a higher degree of misconduct.

However, there may be rare exceptions where punitive damages could be awarded in a breach of contract case if the breach involves elements of fraud, malice, or when compensatory damages are insufficient to compensate the plaintiff for his or her losses.

4. Liquidated Damages

Liquidated damages are specific, predetermined, and typically fixed sums of money agreed upon by the parties in a contract to be paid by one party to the other in the event of a breach of contract. These damages are intended to compensate the non-breaching party for the anticipated losses resulting from the breach.

In a breach of contract case, when a liquidated damages clause is present and enforceable, the non-breaching party is entitled to the predetermined amount specified in the contract. This amount is paid regardless of the actual losses incurred by the non-breaching party. In contrast, without a liquidated damages clause, the non-breaching party would have to prove the actual damages suffered, which can be more challenging and uncertain.

Remedies for Breach of Contract

1. Suit for Damages

The party may claim compensation for any loss or damage caused by the breach of contract. Remedy by way of damages is the most common remedy available to the injured party.

Ordinary damages, special damages, exemplary damages, nominal damages, delay damage, and pre-fixed damages are all possible. The “**Hadley vs. Baxendale**” rule is important in a Suit for Damage. It simply states that if the contract includes any prior notice of special damages, the injured party may only sue the other party for ordinary damages.

2. Suit for Specific Performances

When monetary compensation is insufficient to cover the loss caused by the breach of contract, the non-breaching party can ask the court to force the breaching party to perform as promised.

3. Eliminate the Contract

When a contract is breached, the promisee can stop doing the performance they are obligated to do and claim compensation from the promiser.

4. Rescission of Contract

Rescission of a contract is a legal remedy that involves the cancellation or annulment of a contract as a result of a breach or other valid legal reasons. In the context of contract breach, rescission allows the innocent party to treat the contract as if it never existed. This remedy is available when one party has materially breached the contract or when there are legal grounds to void the contract.

5. Suit for Quantum Meruit

A suit for quantum meruit is a legal action that allows a party to recover the reasonable value of goods or services they provided to another party when there was no express contract or when the contract did not specify the amount of compensation.

Quantum meruit, which is Latin for “as much as he deserves,” is a legal doctrine that aims to prevent unjust enrichment and ensure that someone who benefits from goods or services must pay a reasonable value for them.

This allows non-breaching party to sue for the amount of money that must be paid to the injured party for the work they had done till the breach of contract happened.

6. Liquidated Damages and Penalty

- **Liquidated Damages** – Liquidated damages are a pre-estimated, fixed amount of money specified in the contract that a breaching party is obligated to pay the non-breaching party in the event of a contract breach. The primary purpose of liquidated damages is to provide a measure of certainty and predictability in cases where it is difficult to ascertain the actual damages resulting from a breach

- **Penalty** – Penalties in a contract are provisions that impose excessive or punitive financial consequences on the breaching party. These penalties are not intended to compensate the non-breaching party for their actual losses but rather to punish the breaching party.

Conclusion

A contract represents a legally binding accord between two or more entities, wherein specific obligations are delineated that pertain to both parties for the duration of said contract.

A breach occurs when one party fails to fulfill their contractual duties. The ramifications of such a breach are detailed in sections 73-75 of the Indian Contract Act of 1872. The breach of contract can manifest in either an actual or anticipatory manner.

When a contract is breached, the aggrieved party has the option to seek redress from the court, which may then compel the other party to fulfill their obligations as agreed upon. In the context of a contract breach, there exist various types of damages to be taken into consideration.

Seeking compensation for damages, pursuing specific performance, terminating the contract, restraining the other party from engaging in certain actions, and pursuing restitution based on the value of work performed are all possible remedies for breach of contract.

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