BLOGS

Steps to Form a Valid Contract Under the Indian Contract Act, 1872

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Read this post to learn about the essential steps to form a valid contract under the Indian Contract Act.

Introduction

A contract is an agreement enforceable by law. The Indian Contract Act, 1872 governs contracts in India and lays down the essential elements required to form a valid contract.

This article will discuss the essential steps involved in forming a valid contract under the Act, citing relevant sections, landmark cases, and illustrations.

1. Offer (Proposal) – Section 2(a)

A contract begins with an offer or proposal by one party to another. According to Section 2(a) of the Indian Contract Act, 1872, an offer is defined as:

“When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other to such act or abstinence, he is said to make a proposal.”

For an offer to be valid, it must be clear, definite, and communicated to the offeree. Offers can be specific (made to a particular person) or general (made to the public at large). An offer can also be express (written or spoken) or implied (inferred from conduct).

A offers to sell his car to B for Rs. 5,00,000. This is a valid offer under Section 2(a). However, if A simply expresses his intention to sell his car without specifying a buyer or price, it is an invitation to treat and not a valid offer.

Landmark Case: Carlill v. Carbolic Smoke Ball Co.

Carlill v. Carbolic Smoke Ball Co. is a landmark English contract law case that established the validity of unilateral contracts. The Carbolic Smoke Ball Company advertised that it would pay £100 to anyone who used its product as directed and still contracted influenza. Mrs. Carlill, relying on the advertisement, used the smoke ball but fell ill and claimed the reward.

The company refused to pay, arguing there was no binding contract. The Court of Appeal ruled in Carlill's favor, holding that the advertisement constituted a unilateral offer, which she accepted by performing the stated conditions.

The case clarified that advertisements can form enforceable contracts if they show a clear intention to be legally binding, especially when backed by a deposit, as the company had done.

2. Acceptance – Section 2(b)

Once an offer is made, it must be accepted to form an agreement. Section 2(b) defines acceptance as:

"When the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted."

Acceptance must be absolute and unconditional, meaning the offeree must agree to the exact terms of the offer without modifications. If any modifications are made, it becomes a counteroffer, which must then be accepted by the original offeror to form a contract.

Acceptance must also be communicated effectively to the offeror. Mere silence or mental agreement does not constitute acceptance. If the mode of acceptance is specified in the offer, the offeree must follow it; otherwise, the acceptance must be made in a reasonable manner.

A offers to sell his laptop to B for Rs. 50,000. B accepts the offer without any conditions. This forms a valid agreement. However, if B responds by saying he will buy the laptop for Rs. 45,000, it is a counteroffer and not an acceptance.

Landmark Case: Felthouse v. Bindley

Felthouse v. Bindley is a landmark English contract law case that established the principle that silence cannot amount to acceptance. In this case, Felthouse, intending to buy a horse from his nephew, wrote in a letter that if he did not hear back, he would assume the horse was his.

The nephew did not respond but instructed an auctioneer, Bindley, not to sell the horse. However, Bindley mistakenly sold it. When Felthouse sued Bindley for conversion, the court ruled that no valid contract existed between Felthouse and his nephew since the nephew had never explicitly accepted the offer.

3. Consideration – Section 2(d)

A contract must be supported by consideration, which is the price paid by one party for the promise of the other. Section 2(d) defines consideration as:

“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 abstain from doing something, such act or abstinence or promise is called consideration for the promise.”

Consideration must be lawful, real, and not vague. It can be past, present, or future, but it must have some value in the eyes of the law. A contract without consideration is generally void, except in cases like natural love and affection (Section 25).

For example, A agrees to sell his bike to B for Rs. 30,000. Here, B’s payment of Rs. 30,000 is the consideration. However, if A promises to give his bike to B as a gift, there is no consideration, making the contract unenforceable.

Privity of Consideration

The doctrine of privity of consideration means that consideration need not necessarily move from the promisee alone; it can move from any third party.

Unlike the doctrine of privity of contract, which states that only the contracting parties can enforce the contract, privity of consideration allows a contract to be enforceable even if consideration is provided by someone who is not a direct party to the contract.

Landmark Case: Chinnaya v. Ramayya

Chinnaya v. Ramayya is a significant Indian contract law case that highlights the principle of privity of consideration. In this case, an old lady gifted land to her daughter, Ramayya, with the condition that Ramayya would pay an annuity to Chinnaya, the plaintiff, who was the donor’s brother.

However, Ramayya later refused to pay, arguing that there was no direct contract between her and Chinnaya. The Madras High Court held that since consideration had moved at the desire of the promisor (the old lady), the contract was valid, even though Chinnaya was not directly a party to the original agreement.

This case reinforced that under Indian law, consideration need not always flow directly from the promisee, differing from the English doctrine of privity of contract.

4. Intention to Create Legal Relations

For a contract to be enforceable, parties must have the intention to create legal obligations. Social or domestic agreements, like promises between family members or friends, are generally not enforceable unless there is evidence of legal intent.

For example, A invites B for dinner, and B accepts. This is a social agreement and not legally binding. However, if A hires B as a caterer and agrees to pay Rs. 5,000 for the service, a legally enforceable contract is formed.

Landmark Case: Balfour v. Balfour

Balfour v. Balfour is a significant English contract law case that established the principle that domestic agreements between spouses are generally not legally enforceable. Mr. Balfour, who worked in Ceylon (now Sri Lanka), promised to send his wife £30 per month while she stayed in England due to health issues.

When he later stopped the payments, Mrs. Balfour sued him for breach of contract. The Court of Appeal ruled that agreements made in a domestic setting, without the intention to create legal relations, are not legally binding.

5. Capacity to Contract – Section 11

To enter into a valid contract, parties must have the legal capacity to do so. Section 11 states that a person is competent to contract if:

- They are of sound mind.
- They have attained the age of majority (18 years in India).
- They are not disqualified by any law.

X, a 17-year-old, enters into a contract to sell his land. This contract is void. However, if a minor enters into a contract for necessities like food or medical services, the minor is liable to pay for them.

Landmark Case: Mohori Bibee v. Dharmodas Ghose

Mohori Bibee v. Dharmodas Ghose is a landmark case in Indian contract law that established that a minor's agreement is void ab initio (i.e., invalid from the beginning). In this case, Dharmodas Ghose, a minor, mortgaged his property to a moneylender, who later sought to enforce the mortgage. The Privy Council ruled that since Ghose was a minor when he entered into the contract, the agreement was entirely void under Section 11 of the Indian Contract Act, 1872. The ruling reinforced that a minor cannot be bound by a contract and is not required to return any benefits received under such an agreement.

Let's say, X, a 17-year-old, enters into a contract to sell his land. This contract is void. However, if a minor enters into a contract for necessities like food or medical services, the minor is liable to pay for them.

6. Free Consent – Section 14

A contract must be entered into with free consent of both parties. Section 14 states that consent is free when it is not caused by:

1. Coercion (Section 15) – Use of force or threats, making the contract voidable.
2. Undue Influence (Section 16) – One party taking advantage of their superior position to influence the other party's decision.
3. Fraud (Section 17) – Deliberate deception to gain undue advantage.
4. Misrepresentation (Section 18) – Providing false information without fraudulent intent.
5. Mistake (Section 20-22) – Both parties or one party being under a false belief.

Conclusion

Understanding these steps to form a valid contract helps in ensuring legally valid agreements and avoiding disputes. Every agreement must be reviewed carefully to confirm compliance with the Indian Contract Act, 1872. A contract that lacks any essential element may be void or voidable.