




# INDIAN CONTRACT ACT, 1872

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# ESSENCIAL ELEMENTS OF a VALID CONTRACT IN BUSINESS LAW


Sections 2(h) and 10 of the Act state that there are some essential elements of a valid contract. If any of these elements is not satisfied by an agreement, it will affect the validity and will not form a valid contract.



According to Sec. 10, “All agreements are contract if they are made by the free consent of parties competent to contract for a lawful consideration and with a lawful object and are not expressly declared to be void.”



# Essentials of a valid contract:-

- Offer and acceptance.
  - Legal relationship.
  - Consensus-ad-idem.
  - Competency of parties.
  - Free consent.
  - Lawful consideration.
  - Lawful object.
  - Not declared to be void.
  - Certainty and possibility of performance.
  - Legal formalities.
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# Offer and acceptance:

- In a contract there must be at least two parties one of them making the offer and the other accepting it. There must thus be an offer by one party and its acceptance by the other. The offer when accepted becomes agreement.



proposal

Acceptance

Promise


The diagram illustrates the legal concept of an agreement. It features three green circles on a dark blue background. The top-left circle is labeled 'Promise'. The bottom-left circle is labeled 'Consideration'. A large plus sign is positioned between these two circles. A large arrow points from the plus sign to a large green circle on the right labeled 'Agreement'. On the far left edge, there are vertical bars of various colors (black, white, grey, orange, pink) and a small black rectangle at the top.

Consideration

Agreement



# Legal relationship:


- Parties to a contract must intend to constitute legal relationship. It arises when the parties know that if any one of them fails to fulfill his part of the promise, he would be liable for the failure of the contract.
  - If there is no intention to create legal relationship, there is no contract between parties. Agreements of a social or domestic nature which do not contemplate a legal relationship are not contracts.
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# case: Balfour vs. Balfour (1919)

- Mr. Balfour and his wife went to England for a vacation, and his wife became ill and needed medical attention. They made an agreement that Mrs. Balfour was to remain behind in England when the husband returned to Ceylon (Sri Lanka) and that Mr. Balfour would pay her £ 30 a month until she returned. This understanding was made while their relationship was fine. Later she filed suit against her husband. The court was held that arrangements made between husbands and wives are not generally contracts as the parties do not intend to be legally bound by the agreements.



# Consensus-ad-idem:

- The parties to an agreement must have the mutual consent i.e. they must agree upon the same thing and in the same sense. This means that there must be consensus ad idem (i.e. meeting of minds).
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# Competency of parties:

- The parties to an agreement must be competent to contract. In other words, they must be capable of entering into a contract.
- According to Sec 11 of the Act, "Every person is competent to contract who is of the age of majority according to the law to which he is subject to and who is of sound mind and is not disqualified from contracting by any law to which he is subject."
- Thus, according to Section 11, every person with the exception of the following is competent to enter into a contract:-
  - A minor,
  - A person of unsound mind, and
  - A person expressly declared disqualified to enter into a contract under any Law.

## • Free consent:

- Another essential of a valid contract is the consent of parties, which should be free.

Under Sec. 13, "Two or more parties are said to consent, when they agree upon the same thing in the same sense." Under Sec. 14, the consent is said to be free, when it is not induced by any of the following:-

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|---------------------|-----------------|
| ■ Coercion          | Undue influence |
| ■ Misrepresentation | Fraud           |
| ■ Fraud             |                 |

# Lawful consideration:

- Consideration is known as 'something in return'. It is also essential for the validity of a contract. A promise to do something or to give something without anything in return would not be enforceable at law and, therefore, would not be valid.
- Consideration need not be in cash or in kind. A contract without consideration is a 'wagering contract' or 'betting'. Besides, the consideration must also be lawful.

# Lawful objects:


- According to Sec. 10, an agreement may become a valid-contract only, if it is for a lawful consideration and lawful object. According to Sec. 23, the following considerations and objects are not lawful:-
  - (i) If it is forbidden by law;
  - (ii) If it is against the provisions of any other law;
  - (iii) If it is fraudulent;
  - (iv) If it damages somebody's person or property; or
  - (v) If it is in the opinion of court, immoral or against the public policy.
- Thus, any agreement, if it is illegal, immoral, or against the public policy, cannot become a valid contract.

# . Agreement not expressly declared void:

- An agreement to become a contract should not be an agreement which has been expressly declared void by any law in the country, as it would not be enforceable at law.
- Under different sections of the Contract Act, 1872, the following agreements have been said to be expressly void, viz :-
  - (i) Agreements made with the parties having no contractual capacity, e.g. minor and person of unsound mind (Sec. 11).
  - (ii) Agreements made under a mutual mistake of fact (Sec. 20).
  - (iii) Agreements with unlawful consideration or object (Sec. 23).
  - (iv) Agreements, whose consideration or object is unlawful in part (Sec. 24).
  - (v) Agreements having no consideration (Sec 25).
  - (vi) Agreements in restraint of marriage (Sec. 26).
  - (vii) Agreements in restraint of trade (Sec. 27).
  - (viii) Agreements in restraint of legal proceedings (Sec. 28).
  - (ix) Agreements, the meaning of which is uncertain (Sec. 29).
  - (x) Agreements by way of wager (Sec. 30). and
  - (xi) Agreements to do impossible acts (Sec. 56).




# Certainty and possibility of performance:

- Agreements to form valid contracts must be certain, possible and they should not be uncertain, vague or impossible. An agreement to do something impossible is void under Sec. 56.
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# Legal formalities:

- The agreement may be oral or in writing. When the agreement is in writing it must comply with all legal formalities as to attestation, registration. If the agreement does not comply with the necessary legal formalities, it cannot be enforced by law.
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THANK YOU

