Subject Name: Contract Act
Topic Name: Essential of Valid Contract

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Introduction

The Indian Contract Act of 1872 lays down the sturdy framework upon which the modern business landscape rests. In our daily interactions, we unwittingly engage in a multitude of contracts. Take, for instance, the act of boarding public transportation like a bus or an auto-rickshaw. In doing so, we are, in essence, entering into a contractual agreement.

How so? Let's delve into some illustrative instances. Public transport, with its designated route numbers and details, extends an open invitation to the general public. By stepping onto the bus or auto, one tacitly accepts this offer. This mutual exchange, where the transport company makes an offer and the passenger accepts it, fulfils the essential elements of a contract, thus solidifying the agreement.

Consider another scenario. When one patronises a restaurant, partakes in snacks, lunch, or dinner, an implicit agreement forms. The individual, as the first party, agrees to remunerate the establishment, represented by the hotel management, for the consumed items at the prices stipulated in the menu or displayed price list, inclusive of any applicable taxes.

What is a contract?

A contract, as defined by Section 2(h), is a legally enforceable agreement. Furthermore, according to Section 2(e), it encompasses "every promise and every set of promises forming consideration for each other."

According to Section 2(b), when the individual to whom the proposal is directed signifies their acceptance, the proposal transforms into a promise. In simpler terms, an accepted proposal constitutes an agreement. Therefore, we identify two fundamental components within an agreement:

(i) A proposal or offer, and
(ii) The acceptance of said proposal or offer.

Essential of Valid Contract

It's important to note that not all agreements, even when accepted, automatically become contracts. Instead, only those agreements that are both enforceable in law and intended to be so constitute contracts.

There are two crucial elements at play here:
(i) The agreement must be legally enforceable.
(ii) Both parties involved must have had the intention, at the material time, to make it legally enforceable.

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If either of these conditions is absent, the agreement does not form a valid contract.

Example 1:
Ramesh invites Ranjana for dinner, but Ranjana doesn't show up. In this scenario, Ramesh has no legal recourse against Ranjana because neither party intended to create a legal obligation. Similarly, if Ranjana arrived at Ramesh's house only to find it locked, there's no legal obligation due to the social nature of the agreement.

Example 2:
Krishna agrees to sell his car to Kavita for Rs 1 lakh. This agreement clearly intends to create a legal obligation between both parties. If either fails to fulfil their part of the agreement, the other party has the right to pursue legal action. For instance, if Krishna doesn't deliver the car, Kavita can take legal action against him.

It's evident that while all contracts are agreements, not all agreements are contracts. Social agreements lack legal enforceability. Only agreements entered into with the explicit intention of creating legal obligations constitute contracts.

However, it's essential to remember that not all contracts are enforceable in law. Some contracts are void ab initio (from the very beginning) due to specific reasons, such as:

(i) Agreements in restraint of trade (Section 27)
(ii) Wagering contracts (Section 30)
(iii) Agreements to perform impossible acts (Section 56)

Agreements to engage in unlawful, immoral, illegal, or impossible activities are void from the outset and are non-enforceable in law.

In addition to the two basic essential elements of a contract—agreement and intended legal obligation—Section 10 of the Act enumerates several other essential ingredients necessary to constitute a valid contract.



Section 10 of Indian Contract Act

According to Section 10 of the Indian Contract Act, the essentials of a valid contract are:

(a) Agreement
(b) Intention to create legal relationship
(c) Free and genuine consent
(d) Parties being competent to contract
(e) Lawful consideration
(f) Lawful object
(g) Agreements not declared void or illegal

(a) Agreement

An agreement entails two fundamental elements: offer and acceptance. Consequently, it involves two distinct parties since an individual cannot enter into an agreement with oneself. The party

making the offer is termed the offeror, while the party accepting the offer is the offeree. Furthermore, it's imperative that both parties are contemplating the same thing, in the same sense, and at the same time—a concept known as 'consensus-ad-idem.'

Example:
Rahul offered to sell his car B to Krishna for Rs 50,000, which Krishna accepted. However, later, it was discovered that Krishna assumed Rahul was offering his car A for sale, not car B. This discrepancy indicates a lack of consensus-ad-idem, rendering the agreement invalid and unenforceable.

(b) Intention to create a legal relationship

For a contract to be valid, both parties must intend to bind each other with legal obligations. Agreements involving solely domestic or social duties do not constitute contracts.

An illustrative example highlights this:

A husband failed to remit the promised amount to his wife during his stay abroad. The court ruled against the wife's claim as the agreement lacked the intention to create legal obligations.

(c) Free and genuine consent

The consent of both parties to the agreement must be freely and genuinely given. Consent obtained through coercion, undue influence, fraud, misrepresentation, or mistake renders the contract voidable at the option of the affected party.

(d) Parties being competent to contract

According to Section 11, individuals are deemed competent to contract if they are of the age of majority, of sound mind, and not disqualified by any applicable law. Conversely, minors, lunatics, idiots, drunkards, etc., are considered incompetent to contract.

(e) Lawful consideration

Consideration is the price for which a promise is sought and given by the parties involved. It must be lawful and real for the agreement to be enforceable. Agreements lacking lawful and genuine consideration are void.

(f) Lawful object

In addition to lawful consideration, the object of the agreement must also be lawful and not illegal. Contracts with unlawful objects are void.

(g) Agreements not declared void or illegal

The agreement should not be expressly declared illegal or void by any applicable law. Even if all other conditions for a valid contract are met, an agreement declared illegal or void by law is unenforceable.