Subject Name: Contract Act
Topic Name: Privity of Contract and Consideration

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Who Holds Competency to Contract?

As stipulated in Section 11 of the Indian Contract Act, contractual competency extends to individuals meeting specific criteria: attainment of majority age as defined by applicable law, sound mental capacity, and absence of disqualification by any pertinent legal statute.

In contrast, certain categories of individuals are deemed ineligible or incompetent to engage in legally binding agreements and contracts:

(a) Minors,
(b) Individuals lacking mental capacity, and
(c) Persons rendered legally incompetent due to their status, encompassing political, corporate, or legal contexts.

Minors

As per the definition outlined in Section 3 of the Indian Majority Act, 1875, a minor is an individual who has not yet reached the age of 18. However, there are specific instances where a minor is considered to reach majority upon reaching 21 years of age:

(a) When a guardian is appointed for the minor's person or property under the Guardians and Wards Act, 1890.

(b) When a Court of Wards assumes control over the minor's property.

Void Nature of Contracts Involving Minors

Contrary to English Law, where contracts by minors are typically voidable under certain conditions, Indian Law holds that contracts involving minors are void from the outset, not merely voidable. Consequently, a minor cannot be bound by a contract, as they lack the legal capacity to do so. This

legal stance in India was solidified by the Privy Council in the notable case of Mohiri Bibi vs Dharmodas Ghose, which serves as a definitive reference point.

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Contracts by Persons of Mental Incompetence

Sections 10 and 11 establish the requirement that a person must possess soundness of mind to be competent to enter into a contract. Section 12 further delineates that a person is deemed to be of unsound mind, for contract-making purposes, if they lack the capacity to understand the contract's terms and to form a rational judgement regarding its implications on their interests.

Moreover, the section clarifies that a person who is typically of unsound mind but occasionally exhibits soundness of mind may enter into a contract during those lucid intervals. Conversely, a person who is generally of sound mind but occasionally experiences unsoundness may not engage in contracts during those unsound periods.

Soundness of mind, therefore, hinges on two key factors:
(a) Understanding the contract terms.
(b) Ability to rationally assess its impact on personal interests.

Illustrative Examples

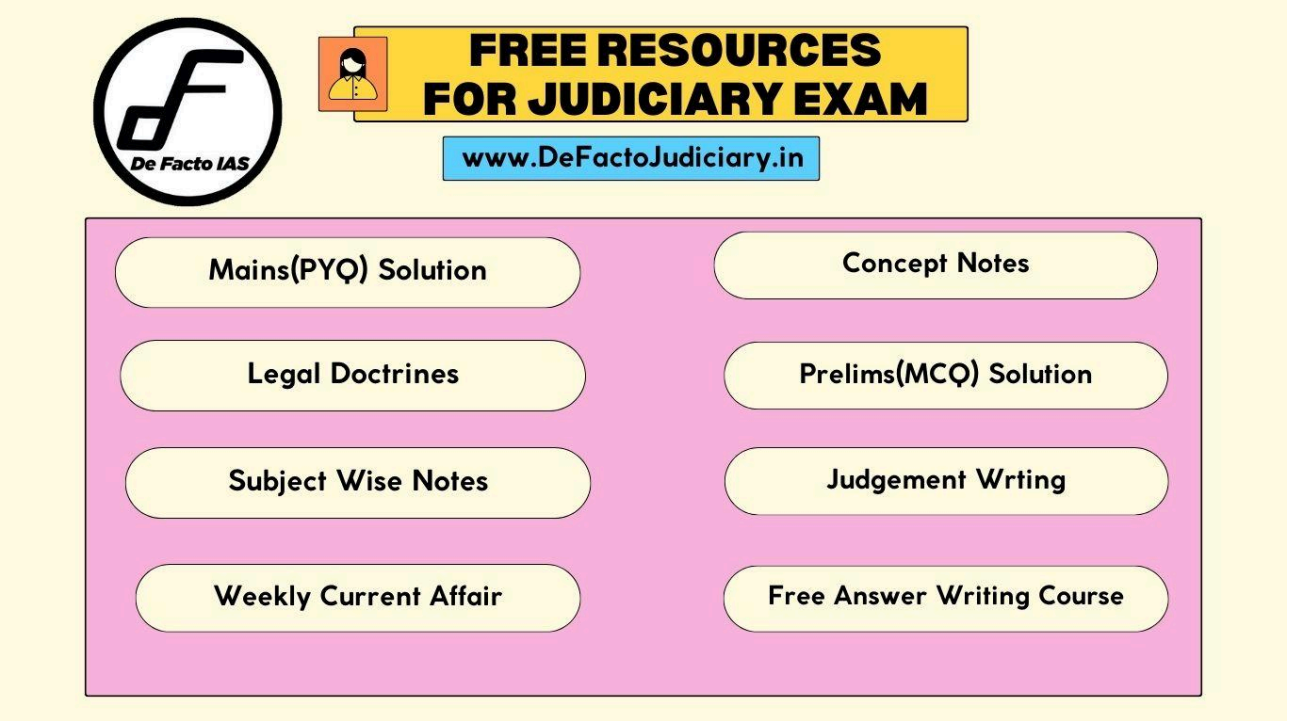
(i) A lunatic confined in an asylum may usually exhibit unsoundness of mind. However, during sporadic intervals of lucidity, albeit brief, they may be deemed competent to enter into valid contracts.

(ii) Conversely, even a mentally sound individual may occasionally experience unsoundness, such as during intoxication or delirium induced by high fever. During such periods of unsoundness, they lack the capacity to enter into valid contracts.

Ultimately, the determination of whether an individual was of sound or unsound mind at the time of contract formation rests with the court, contingent upon the specific circumstances and evidence presented in each case.

An individual classified as an idiot is deemed to be permanently of unsound mind, devoid of any periods of lucidity throughout their lifetime. Consequently, contracts entered into by an idiot are void from the outset, similar to contracts involving minors, as previously discussed.

Moreover, concerning the provision of life necessities to individuals of unsound mind (such as lunatics, intoxicated persons, individuals experiencing delirium, or idiots), the legal liability mirrors that applicable to minors (as per Section 68). Additionally, akin to minors, individuals classified as idiots can still benefit from contracts, thereby entitled to any advantages stipulated therein.



Incompetence Due to Status

Various circumstances can render individuals incompetent to contract, including:

(i) Political Status

(a) An alien enemy, a foreign national from a country at war with India, is prohibited from entering into contracts with Indian citizens during wartime. Contracts made before the onset of war may be dissolved or suspended until the conflict's conclusion. Contracts against public policy or benefiting the enemy country dissolve automatically, while others remain suspended, reviving after the war, provided they haven't become time-barred under the Indian Limitation Act.

(b) Conversely, an alien friend, a citizen of a foreign nation at peace with India, possesses the same contracting rights as an Indian citizen, provided they meet general competency requirements.

(ii) Corporate Status

According to the Companies Act, 1956, a company is prohibited from entering into contracts that contravene its Memorandum of Association.

(iii) Legal Status

Individuals declared insolvent are not deemed competent to enter into contracts until they obtain a certificate of discharge from insolvency.

(iv) Marital Status

Married women hold full capacity to enter into valid contracts. They have the authority to sue and be sued in their own name.

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