

MEANING AND NATURE OF A CONTRACTDefinition :

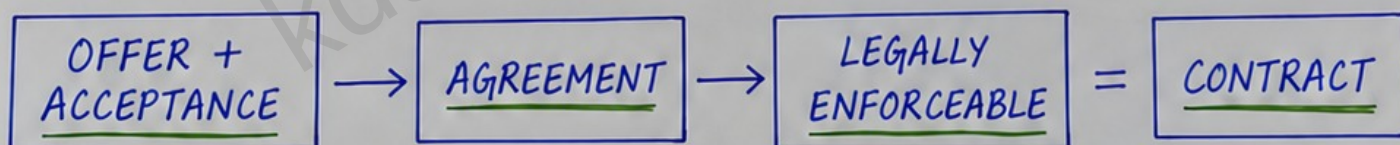
Section 2(h) of the Indian Contract Act, 1872 defines a contract as an agreement enforceable by law.

Explanation :

An agreement becomes a contract when it satisfies the legal requirements for enforcement.

Illustration :

A offers to sell a bicycle to B for ₹3,000. B accepts the offer. If the other legal requirements are satisfied, the agreement becomes a contract.



Q - Is every agreement a contract ?

A - No. A social promise, such as agreeing to meet a friend for tea, ordinarily does not create legal obligations.

Remember :

Every contract is an agreement, but not every agreement is a contract.

ESSENTIAL ELEMENTS OF A VALID CONTRACT

Under Section 10 of the Indian Contract Act, 1872, agreements are contracts when parties give free consent, are competent to contract, and agree for lawful consideration and a lawful object, provided the agreement is not expressly declared void.

1. A clear offer and valid acceptance.
2. Free consent of the parties.
3. Legal capacity to contract.
4. Lawful consideration and lawful object.
5. An agreement not expressly declared void.
6. Compliance with any additional formalities required by law.

Illustration: A agrees to paint B's room for ₹2,000, and B accepts. The arrangement can be enforceable if the legal conditions are fulfilled.

Note: Not every contract must be written or executed on stamp paper. Particular transactions may require a prescribed form.

OFFER OR PROPOSALDefinition :

Under Section 2(a), a proposal is made when a person communicates willingness to do, or refrain from doing, something in order to obtain another person's assent.

Explanation :

The person making the proposal is the proposer or offeror.
The person receiving it is the offeree.

Illustration :

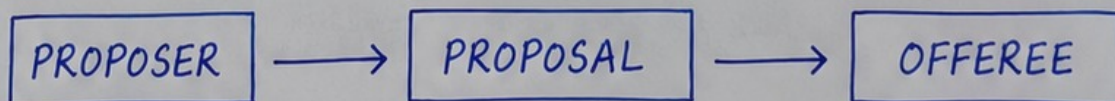
A says to B, 'I am willing to sell my laptop to you for ₹15,000.' This is a specific proposal.

Essentials :

- ① The proposal must indicate a clear intention to obtain acceptance.
- ② Its terms should be sufficiently certain.
- ③ It must be communicated to the offeree.

Distinction :

'I might sell my laptop someday' is generally a statement of intention, not a definite proposal.

Diagram :

GENERAL AND SPECIFIC OFFERS

An offer may be addressed to the public or to a particular person.

General offer

A general offer is addressed to the public. A person who knows of it may accept it by fulfilling its conditions.

Illustration:

A notice offers ₹1,000 to anyone who returns a lost bag.

Case:

Carlill v. Carbolic Smoke Ball Co. (1893) illustrates that a clear reward advertisement may constitute an offer.

Specific offer

A specific offer is made to an identified person or group.

Illustration:

A offers to sell a laptop to B for ₹10,000.

Important note:

A person cannot accept an offer without knowing of it. See Lalman Shukla v. Gauri Dutt (1913).

Conclusion:

General = public; specific = identified recipient.

OFFER AND INVITATION TO TREAT

Q - How does an offer differ from an invitation to treat?

An offer may form a contract upon valid acceptance. An invitation to treat merely invites other people to make offers.

OFFER

Expresses willingness to be bound upon acceptance.

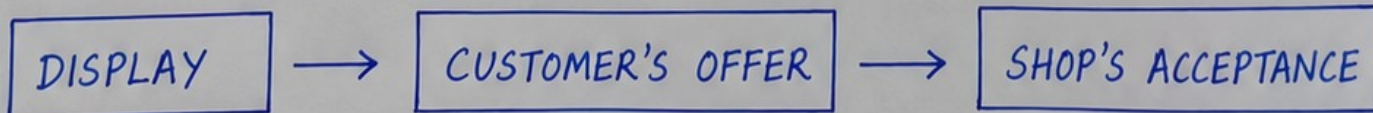
INVITATION

Invites negotiation or proposals.

Illustration: Displaying goods with prices on a shop shelf is usually an invitation to treat. A customer makes an offer by presenting an item for purchase; the retailer may accept it.

Case: Pharmaceutical Society of Great Britain v. Boots Cash Chemists (1953) concerned goods displayed for self-service.

Note: Advertisements are generally invitations to treat, but a sufficiently definite reward advertisement may amount to an offer.



COMMUNICATION OF A PROPOSALPage 6 of 15

Q - When is an offer communicated?

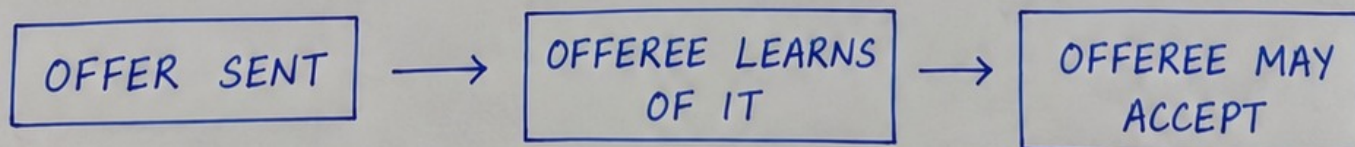
Rule: Under Section 4 of the Indian Contract Act, the communication of a proposal is complete when it comes to the knowledge of the person to whom it is made.

Illustration: A sends B a letter offering to sell a bicycle.

B learns of the offer when the letter reaches B and is read. At that point, the proposal has been communicated.

Why it matters: A person cannot knowingly accept an offer of which they are unaware.

Case note: Lalman Shukla v. Gauri Dutt (1913) illustrates the importance of knowing about a reward offer.



Takeaway: Communication is essential; merely deciding to make an offer is not enough.

REVOCATION OF A PROPOSAL

Q - What is revocation of a proposal?

Revocation means withdrawing a proposal before it has been validly accepted.

Q - What is the rule?

Under Section 5, a proposer may revoke a proposal before communication of acceptance becomes complete against the proposer, but not afterwards.

Q - Illustration.

A offers to sell a watch to B. A communicates the withdrawal before B posts an authorised letter of acceptance. The offer is revoked in time.

Q - When does a proposal come to an end under Section 6?

Section 6 sets out ways a proposal may end:

- (1) The proposer communicates revocation.
- (2) The stated time, or a reasonable time, expires.
- (3) A condition required before acceptance is not fulfilled.
- (4) The proposer dies or becomes insane, and the acceptor knows this before accepting.

Q - Summary.

A timely, properly communicated revocation prevents later acceptance of that proposal.

ACCEPTANCE OF A PROPOSAL

Definition : Under Section 2(b), a proposal is accepted when the person to whom it is made signifies agreement to it.

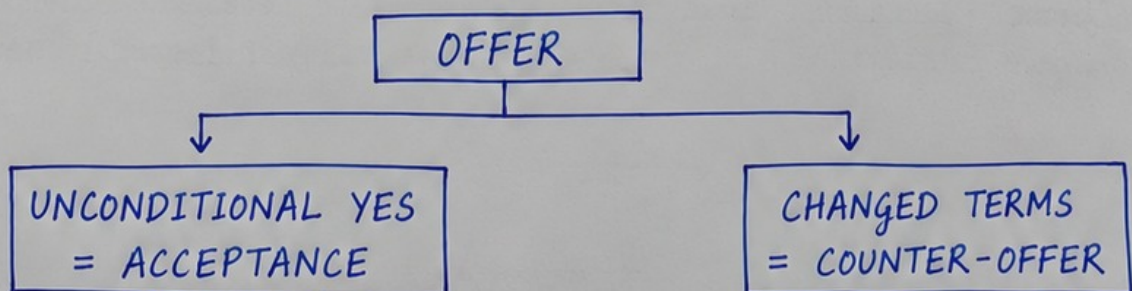
Rule : Section 7 requires acceptance to be absolute and unqualified. It must also follow the prescribed or usual manner of communication.

Example : A offers to sell a phone for ₹ 8,000. B replies, 'I accept your offer for ₹ 8,000.' This is acceptance.

Counter-offer : If B instead offers ₹ 7,000, B has proposed different terms. This is a counter-offer, not acceptance of A's offer.

Section 8 : Acceptance may also occur by performing the conditions of a proposal or accepting consideration for a reciprocal promise.

Note : Silence alone ordinarily does not amount to acceptance. See *Felthouse v. Bindley* (1862).



COMMUNICATION AND WITHDRAWAL OF ACCEPTANCE

Q - When does an acceptance become complete?

Section 4: Against the proposer, acceptance is complete when the letter is placed in transmission beyond the acceptor's control.

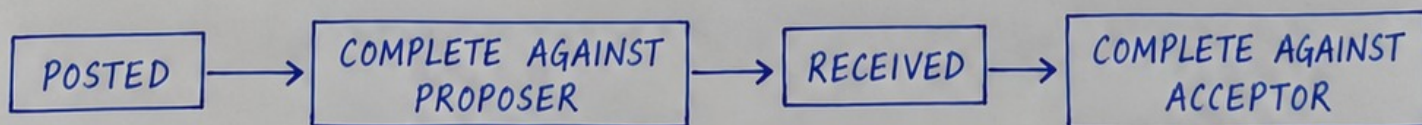
Against the acceptor, it is complete when the proposer learns of the acceptance.

Example: B posts an authorised acceptance letter to A.

The communication becomes complete against A upon posting and against B when A receives it.

Section 5: The acceptor may revoke acceptance before its communication becomes complete against the acceptor, but not afterwards.

Example: B sends a faster withdrawal that reaches A before the acceptance letter. In the postal example, the withdrawal may be effective.



Note: Telephone and electronic communications require separate attention; do not automatically apply the postal rule.

TENDERS AND AUCTIONS1. Tender

A tender process invites suppliers or contractors to submit offers for specified work or goods.

2. General rule

A notice inviting tenders is ordinarily an invitation to offer. A tender submitted by a bidder is normally the offer; whether and when it is accepted depends on the conditions.

3. Illustration

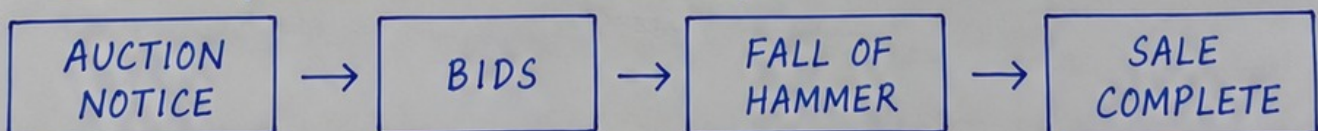
A school requests bids for supplying desks. Suppliers submit their prices.

4. Auction

In a typical auction, each bid is an offer. The auctioneer accepts the successful bid by the fall of the hammer or another customary announcement.

5. Legal reference

Section 64(2) of the Sale of Goods Act, 1930 governs completion of auction sales.

6. Process of an auction (summary)7. Reminder

The particular auction or tender conditions must always be examined.

VALID, VOID AND VOIDABLE AGREEMENTS

①. Valid contract :

A valid contract satisfies the requirements of law and is enforceable.

Example : Two competent adults freely agree to a lawful sale for a stated price.

②. Void agreement (Section 2(g)) :

An agreement that is not enforceable by law.

Example : An agreement expressly declared void by the Indian Contract Act.

③. Voidable contract (Section 2(i)) :

A contract enforceable at the option of one or more parties, but not at the option of the other party or parties.

Example : A contract made because of coercion may be avoided by the party whose consent was improperly obtained, subject to law.

④. Distinction (Section 2(j)) :

A contract that later ceases to be enforceable becomes void at that point.

<u>VALID</u> = ENFORCEABLE

<u>VOID</u> = NOT ENFORCEABLE
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<u>VOIDABLE</u> = OPTION TO AVOID
--

UNLAWFUL AND ILLEGAL AGREEMENTS

Q - When is an object or consideration unlawful?

Under Section 23 of the Indian Contract Act, an object or consideration is unlawful when it:

- (1) Is forbidden by law;
- (2) Defeats the provisions of a law;
- (3) Is fraudulent;
- (4) Involves injury to another person or their property; or
- (5) Is regarded by the court as immoral or opposed to public policy.

Explanation: A court will not enforce an agreement formed for an unlawful purpose.

Illustration: A promises to pay B to commit fraud. The agreement has an unlawful object.

Important distinction: Illegal agreements are void. However, not every void agreement is illegal.

ILLEGAL $\Rightarrow$ VOID

VOID does not always mean ILLEGAL

Conclusion: Void describes enforceability; illegal concerns the prohibited nature of the agreement.

STANDARD-FORM CONTRACTSDefinition :

A standard-form contract contains pre-drafted terms prepared by one party for repeated use.

Common examples :

Insurance policies, airline tickets, mobile-service subscriptions and online platforms.

Explanation :

A customer may have limited opportunity to negotiate these terms. This is sometimes called a 'take-it-or-leave-it' agreement.

Q - Are standard-form contracts automatically invalid ?

A - No. They can be legally enforceable. However, an unfair or unlawful term may be open to challenge under the applicable law.

Practical checklist :

Read the price, cancellation policy, automatic renewal, liability limits, dispute-resolution clause and refund conditions.

Takeaway :

Read important terms before indicating consent.

ONLINE OR ELECTRONIC CONTRACTS

Definition: An electronic contract is formed through digital communication, such as email, a website or an application.

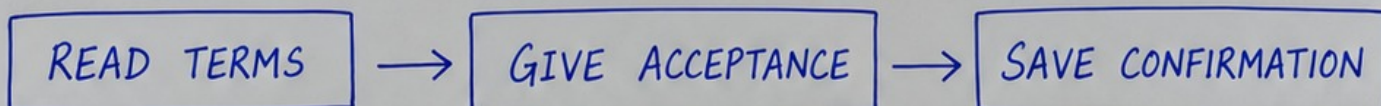
Illustrations: Accepting a freelance assignment by email; ordering goods online; subscribing to a paid digital service.

Legal rule: Section 10A of the Information Technology Act, 2000 recognises that a contract is not unenforceable merely because electronic records were used to form it.

Explanation: Ordinary contract requirements, including lawful terms, competent parties and valid acceptance, still apply.

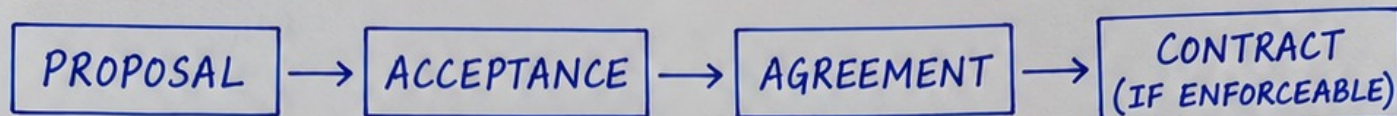
Common forms:

- Click-wrap: the user clicks 'I agree' after being presented with terms.
- Email agreement: the parties exchange a proposal and acceptance by email.



Note: Some transactions require additional legal formalities. Keep copies of the terms and communications.

UNIT I - FINAL REVISION



Offer: a proposal seeking another person's assent.

Invitation to treat: an invitation for others to make offers.

Acceptance: unqualified agreement to a proposal.

Revocation: withdrawal of an offer or acceptance within the permitted time.

Void agreement: not enforceable by law.

Voidable contract: one party has an option to avoid it.

Standard-form contract: terms drafted in advance by one party.

Electronic contract: a contract formed through digital communication.

Statutory References:

Indian Contract Act, 1872: Sections 2(a), 2(b), 2(g), 2(h), 2(i), 4, 5, 6, 7, 10 and 23.

IT Act, 2000: Section 10A.

Practice:

1. Explain the meaning of contract.
2. Distinguish offer from invitation to treat.
3. State the rules of revocation.
4. Differentiate void and voidable contracts.
5. Explain electronic contracts.

END OF UNIT I