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# **VIRTUAL COACHING CLASSES ORGANISED BY BOS, ICAI**

## **FOUNDATION LEVEL PAPER 2A: BUSINESS LAWS**

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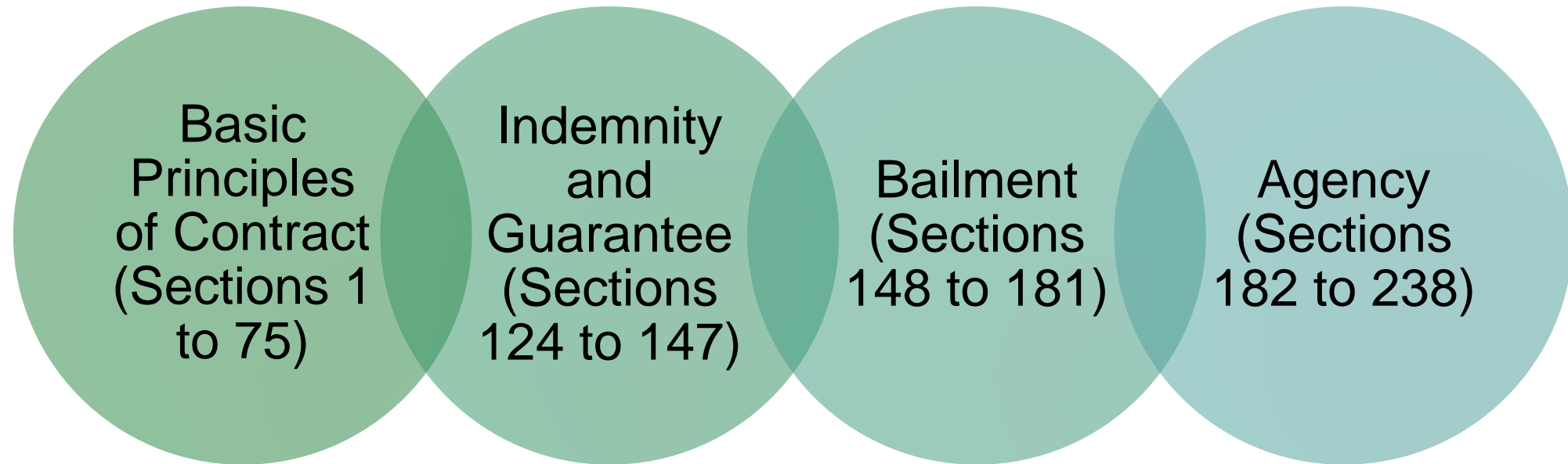
# Indian Contract Act, 1872

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The objective of the Indian Contract Act, 1872 is to ensure that the rights and obligations arising out of a contract are honoured and that legal remedies are made available to an aggrieved party against the party failing to honour his part of agreement. The Indian Contract Act makes it obligatory that this is done and compels the defaulters to honour their commitments.



# Structure of the Act





# What is Contract

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Section 2(h) of the Indian Contract Act, 1872 says “An agreement enforceable by law is a contract”.

**Contract = Agreement + Enforceability by Law**

**Example:** A agrees with B to sell car for Rs. 2 Lacs to B. Here, A is under an obligation to give car to B and B has the right to receive the car on the payment of Rs. 2 Lacs and also B is under obligation to pay Rs. 2 Lacs to A and A has the right to receive Rs. 2 Lacs.



# What is an Agreement

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Section 2(e) of the Indian Contract Act, 1872 defines Agreement as every promise and every set of promises, forming the consideration for each other.

**Agreement = Offer + Acceptance**

**Example** - A agrees to sell his car to B for Rs. 5 Lacs.

All contracts are agreement but all agreements are not contracts?

**Case Law – *Balfour Vs. Balfour***



# Essential elements of a valid Contract (Section 10)

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- 1) **Offer and Acceptance**
- 2) **Consensus-ad-idem** (Meeting of minds) i.e., persons must agree to the same thing in the same sense and at the same time.
- 3) Intention to create **legal relationship** is a must.
- 4) **Free and Genuine Consent**, i.e., free from
  - Coercion
  - Undue influence
  - Fraud
  - Misrepresentation
  - Mistake



# Essential elements of a valid contract

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- 5) Parties **competent to enter into a contract** (Section 11)
  - Should not be a minor
  - Should not be of unsound mind
  - Not disqualified by any law
  
- 6) **Lawful object and lawful consideration**, i.e. *Quid Pro Quo* means something in return. Consideration or object is not lawful if:
  - Prohibited by law, or
  - Defeats the provisions of law
  - Fraudulent or involves injury to the person or property of another
  - Court regards it as immoral or opposed to public policy.



# Essential elements of a valid contract

- **Example:** A tenant takes a room on rent for doing smuggling. Such an agreement is illegal agreement because the object is unlawful. Hence, such agreements is not enforceable by the law. Hence an agreement with Unlawful objects are illegal agreements and hence void agreements.
- 7) **Possibility of Performance** – Where A agrees to discover treasure by magic, the agreement cannot be enforced as it is not possible to be performed.
- 8) **Not expressly declared to be void** – A void agreement is without any legal effect such as threat to commit murder, entering into agreements which are opposed to public policy, etc





# Essential elements of a valid contract

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## 9) Certainty of Meaning-

**Example:** Sale and purchase of 100 tonnes of oil. But which oil? Thus, agreement being uncertain – not valid.

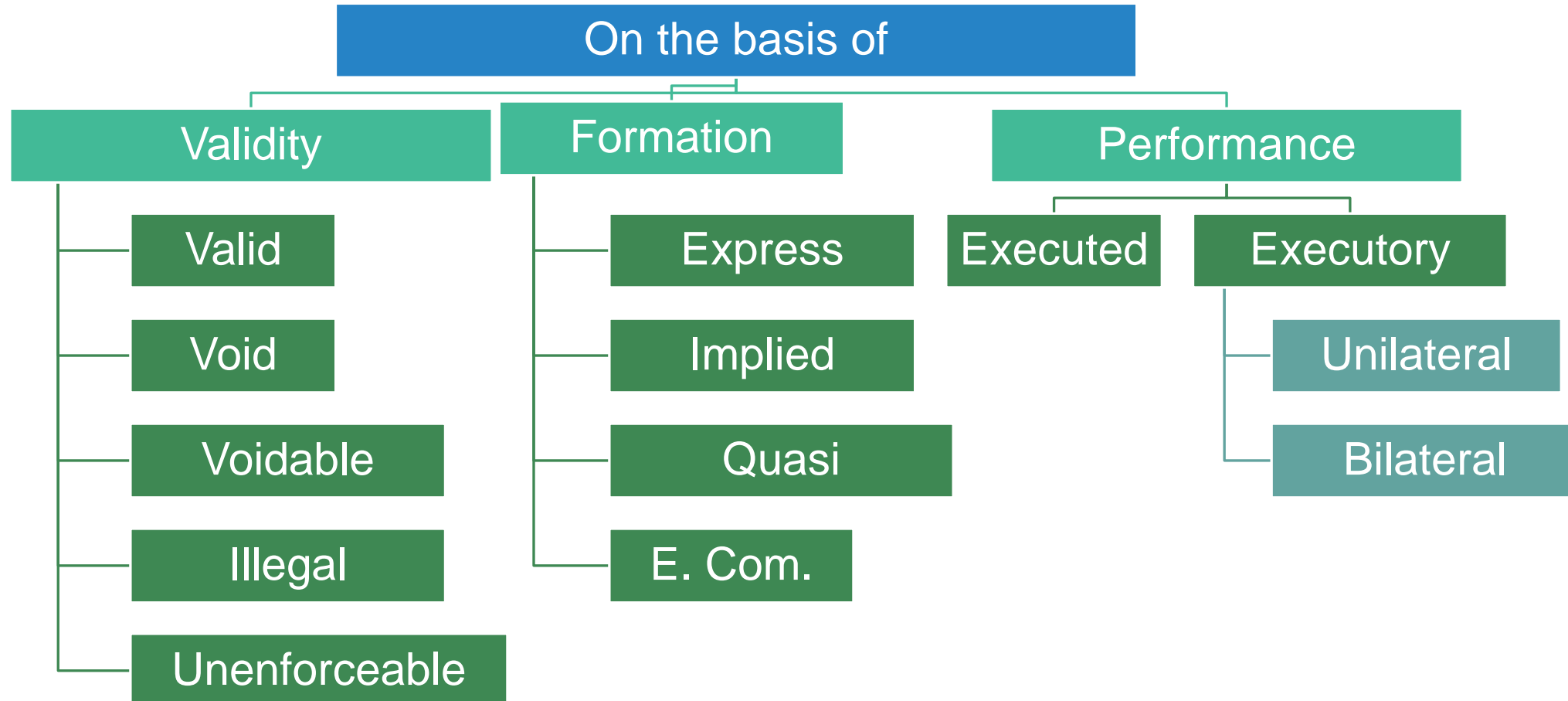
But, if the seller deals only in one kind of oil and one variety, then it shall be valid since it is capable of being made certain.

## 10) Necessary legal formalities-

**Example:** Sale-deed of immovable property.



# Types of Contract





# On the basis of Validity

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- 1) **Valid Contract** - It is that contract which satisfies all the essentials of section 10 of Indian Contract Act, 1872.

**Example:** A asks B if he wants to buy his bike for Rs.10,000. B agrees to buy the bike. It is an agreement which is enforceable by law. Hence, it is a contract.

- 2) **Void Contract** - It is one which was a valid contract when it was made but subsequently it becomes void due to a change of circumstances.

**Example:** X agrees to sell his horse to Y for Rs. 5,000 but the horse died in an accident. It becomes impossible to perform the contract due to the destruction of the subject. Thus, a valid contract changes into a void contract because of the impossibility of performance.



# On the basis of Validity

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**3) Voidable Contract** - An agreement which is enforceable by law at the option of one or more parties thereto, but not at the option of other or others. Such a contract come into existence where of consent of one or more parties is not free.

**Example:** X promise to sell his scooter to Y for Rs. 1 Lac. However, the consent of X has been procured by Y at a gun point. X is an aggrieved party & the contract is voidable at his option.



# Void Vs. Voidable Contract

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Difference between Void  
Contract and Voidable  
Contract?



# On the basis of Validity

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4) **Void Agreement** - An agreement not enforceable by law is said to be void.

**Example:** X supplies luxury goods to Y a minor for a consideration of Rs. 10,000. Y refused to make payment. X cannot enforce the agreement in the court of law since the agreement is void because Y is minor.

5) **Illegal Agreement**- An agreement which is prohibited by law or against the policy of law is known as illegal agreement.

**Example:** X agrees to kill Y if Z pays him Rs.10,000. it is an unlawful as well as void agreement.



# On the basis of Validity

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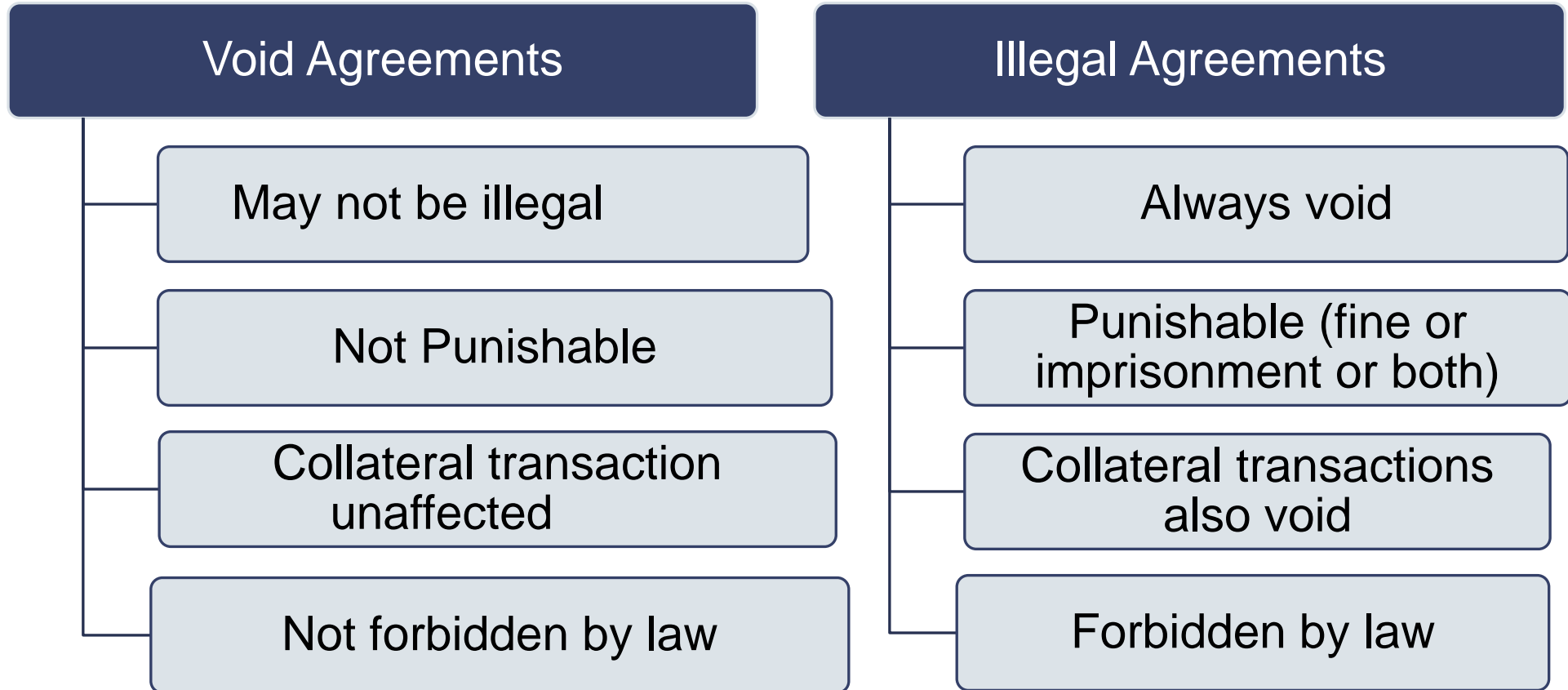
**6) Agreement discovered to be void-** an agreement whose void nature becomes known to parties only subsequent to its formation.

**Example:** X agrees to sell his car to Y, both not knowing that the car has been badly damaged in accident the previous night.

**7) Unenforceable Contract-** A contract which is valid in all respects but because of non – fulfilment of some technical formality, it cannot be treated as enforceable which means one or both the parties cannot sue upon it.



# Void and Illegal Agreements







# On the basis of Formation

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1. **Express Contract-** The contract is said to be an express contract when terms of contract have been agreed upon between the parties expressly i.e. oral or written, at the time of formation.
2. **Implied Contract** - is one which come into existence by the acts, the conduct of the parties.

**Example:** Order placed for a cup of coffee in a restaurant.



# On the basis of Formation

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3. **Quasi Contract** - In quasi contract, there is no intention of the parties to form a contract but created by law.

**Example:** X, a trader, leaves certain goods at house of Y by mistake. This imposes an obligation on “Y” either to return the goods to X or to make the payment if he treats the goods as his own.

4. **E.com Contract-** Contract created on the internet.

**Example:-** any business deal done on internet.



# On the basis of Performance

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- 1) **Executed Contract:-** A contract is said to be executed contract where both the parties or at least one party to a contract have performed their respective obligations.

**Example:** All the transactions of cash sales are executed contract.

- 2) **Executory Contract:-** an executory contract is one where both the parties are yet to perform their respective obligations.

Executory contracts are further divided into Unilateral and bilateral contracts on the basis of obligation.



# On the basis of Obligation

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**Bilateral Contract:-** A bilateral contract is one in which both the parties are required to perform their obligations at the time of formation of contract.

**Example:-** X promises Y to pay Rs.1200 for his cycle. Neither of them has performed his obligation.

**Unilateral Contract:-** A contract is said to be unilateral where one party has performed his obligation and the performance of obligation is outstanding on the part of other party.

**Example:-** X buys a railway ticket for journey from Amritsar to Delhi. X has performed his obligation under the contract by paying the fare. But, the railways are yet to perform their duty i.e. carrying 'X' from Amritsar to Delhi.



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**THANK YOU**