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FOUNDATION LEVEL PAPER 2A: BUSINESS LAWS

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Consideration

Meaning
and
Definition

Legal Rules
regarding
Valid
Consideration

Rule of 'No
Consideration
No Contract'

Doctrine of
Privity of
Contract with
exceptions



Both give something and get something

What one gets is **Consideration**

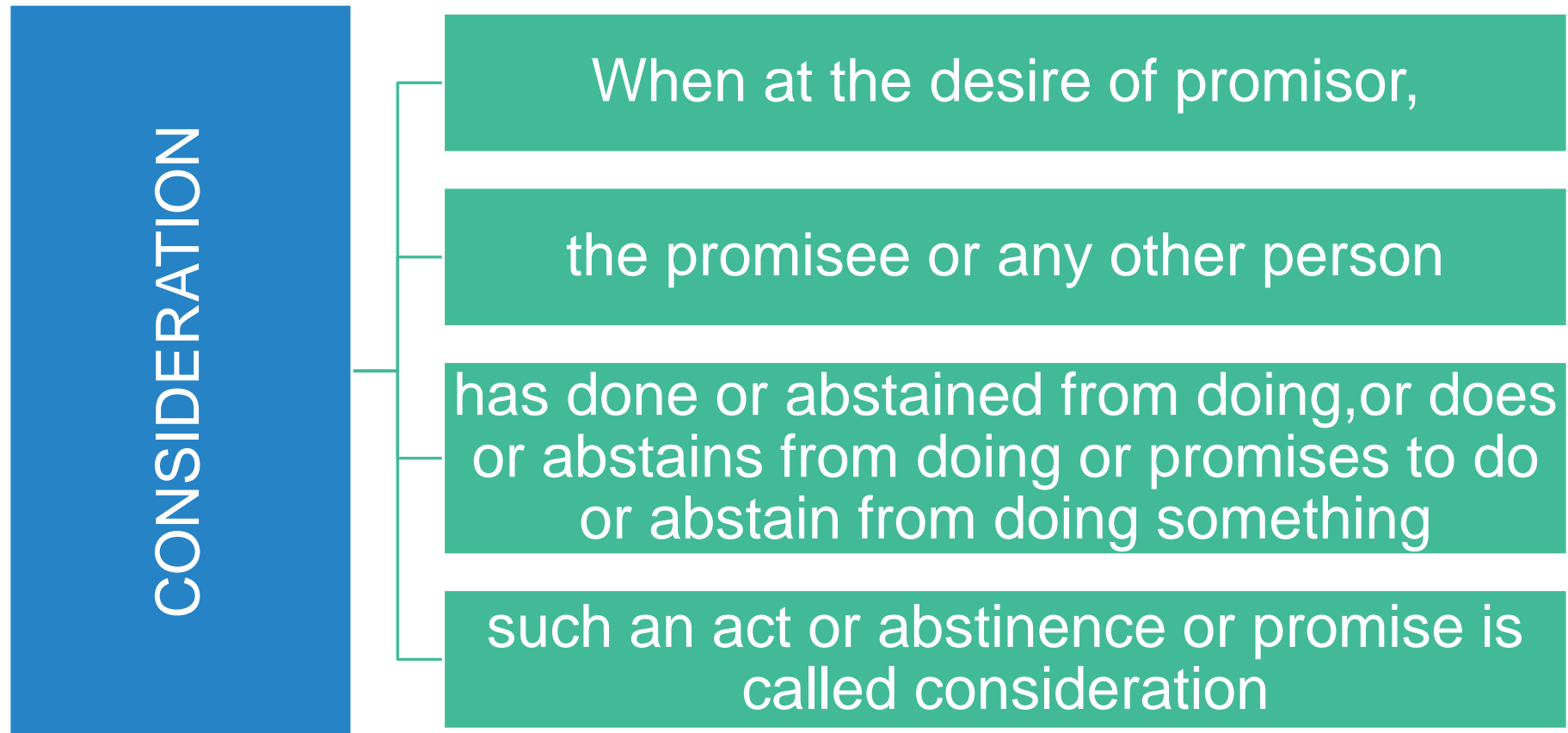
Consideration for Shopkeeper is **Money**

Consideration for Customer is **Grocery**





Definition – Section 2(d)





Consideration May be

- 1. An Act** - means doing of something. Eg. A promises B to guarantee the payment for the goods that B will sell to C. Here consideration for A's promise is B selling goods to C.
- 2. An Abstinance** – promising not to do something. Eg. A promises B not to file a suit against him if B would pay A Rs. 10,000. Here abstinence on the part of A would constitute consideration against B's payment of Rs.10,000 to A.
- 3. A Promise** – the promise of each party is the consideration for each other.



Legal Rules regarding Consideration

1. Must move at the desire of the promisor – X's house catches fire, and Y helps in extinguishing it without being requested to do so by X. Y cannot demand any payment for his voluntary service. (Durga Prasad Vs Baldeo)

Promisor – is the one who promises

Promisee – is the one to whom the promise is made



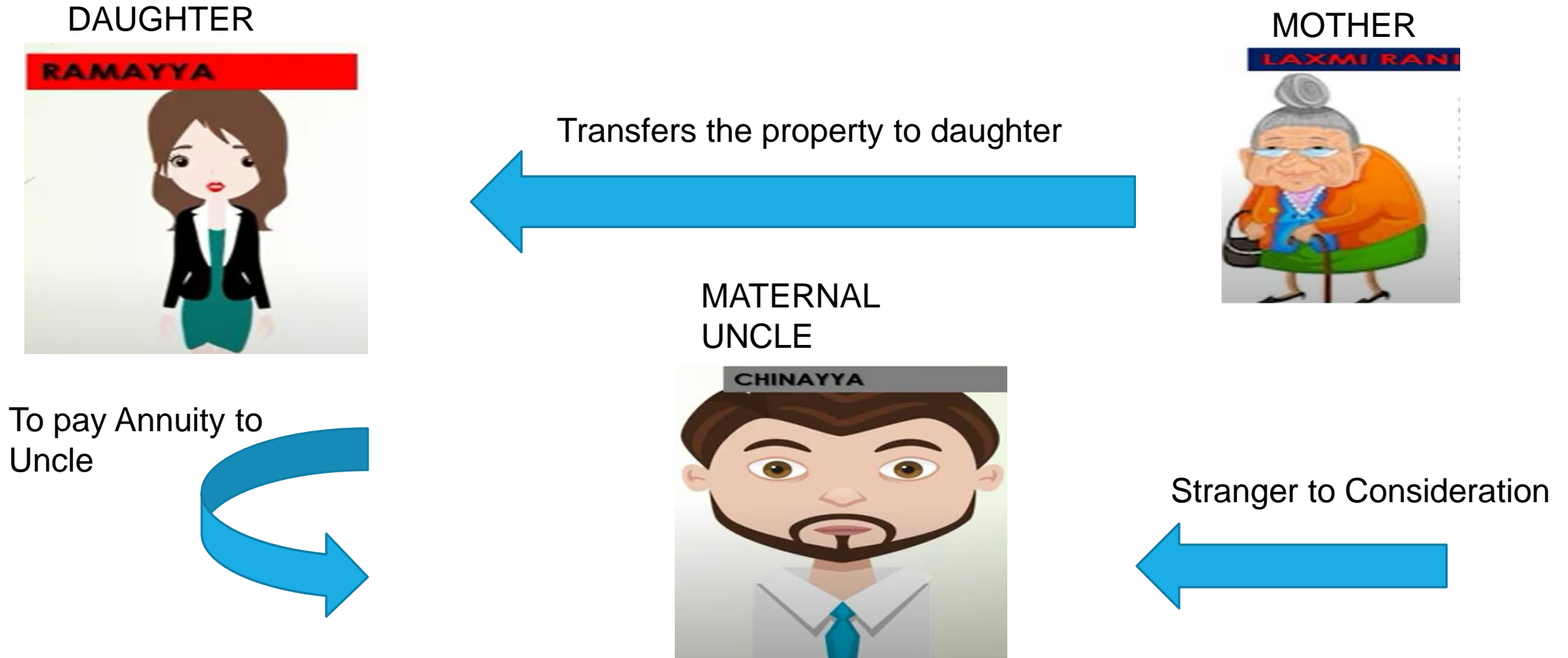
Legal Rules regarding Consideration

2. May move from the promisee or any other person – For making a valid contract consideration must be there, it is immaterial who furnishes it.

Chinnayya Vs
Ramayya



Chinnayya Vs Ramayya





Stranger to Consideration

A stranger to consideration can sue, provided he is a party to contract.

Example - X pays Rs. 50,000 to Y directing him to build a house for Z. Y agrees to do so. Hence, Z is a party to a contract but stranger to consideration & he can enforce the contract.

Case : CHINAYYA Vs. RAMAYYA



Legal Rules regarding Consideration

3. Consideration may be past, present or future

Past - Example – Award in cash for saving the house from fire .

Present – Example - Cash sales

Future – Example - X promises to deliver 100 quintals of rice to Y after a month and Y promises to make the payment a month after delivery of rice.

4. It need not be adequate – Law only requires presence of consideration & not the adequacy of it. (Selling a car for just Rs. 5000)



Legal Rules regarding Consideration

5. Must be real – It must have some value in the eyes of law. It should not be:

- (1). Physically impossible – making a dead person alive.
- (2). Legally impossible – X file a suit against Y for non payment of debt. Y approaches X's brother Z & he promises to withdraw the suit for a consideration of Rs. 500. It is legally impossible.
- (3) Uncertain consideration – X agrees to pay an adequate amount for a certain work 'adequate' & 'certain' is uncertain elements.
- (4) Illusory consideration – discovering treasure by magic.



Legal Rules regarding Consideration

6. Must be lawful – smuggling, murder.

7. Must be something which the promisor is not already bound to do – Where a person who by his official status or by operation of law is under a public duty to act, the discharging of that duty cannot be regarded as consideration.



Stranger to Contract-

Doctrine of Privity of Contract

Example : P who is indebted to Q, sells his property to R and R promises to pay off the debt amount to Q. If R fails to pay, then in such a case Q has no right to sue, as R is a stranger to contract.



Dunlop Pneumatic Tyre Co Vs Selfridge(1915)

- Dunlop sold tyres to Dew &Co who resold them to Selfridge.
- Dew &Co on the request of Dunlop, inserted a term prohibiting Selfridge from re-selling the tyres below list price.
- Selfridge broke the term.
- Dunlop sued for breach of contract
- Held: even if Dew &Co had acted as agents for Dunlop, Dunlop could not enforce the contract as they had not provided any consideration for the promise by Selfridge.



STRANGER TO CONTRACT cannot sue ... Exceptions to the rule

- 1. Where trust is created** - Beneficiary can sue. X transfers all his property to Y to be held in trust for the education of X's son Z. Here Z, though not a party to the contract can enforce the trust against Y because he is the beneficiary under the trust.
- 2. Where a charge** is created on a specific immovable property – B borrowed some money from L against a property. Before paying it back he sold that to X. So now L can sue X (coz he was having the knowledge of the previous contract)



STRANGER TO CONTRACT cannot sue ... Exceptions to the rule

3. Family settlement / marriage arrangements

4. Agency – The principal can enforce the contracts entered by his agent where the agent has acted within the scope of his authority and in the name of principal.

5. Acknowledgement – A receives money from T to be paid over to P. A admits of this receipt to P. P can recover from A who shall be regarded as agent of P.



“ NO consideration, No contract” – Exceptions to the rule

1. Natural love & affection . [Sec 25(1)] – is valid if it satisfies the following conditions :

- It is in writing
- It is registered under law
- It is made out of love & affection
- It is between parties standing in a near relation to each other.

Example - X promises his son to give Rs. 1000 in writing & get it registered.



“ NO consideration, No contract” – Exceptions to the rule

2. Compensation for voluntary services . [Sec 25(2)].

3. Time barred debt [Sec. 25(3)].

4. Completed gifts (donor and donee).[Explanation 1 to Sec. 25]

5. Contribution to charity- Kedar nath v Gorie Mohammad

6. Agency [Sec. 185]



THANK YOU