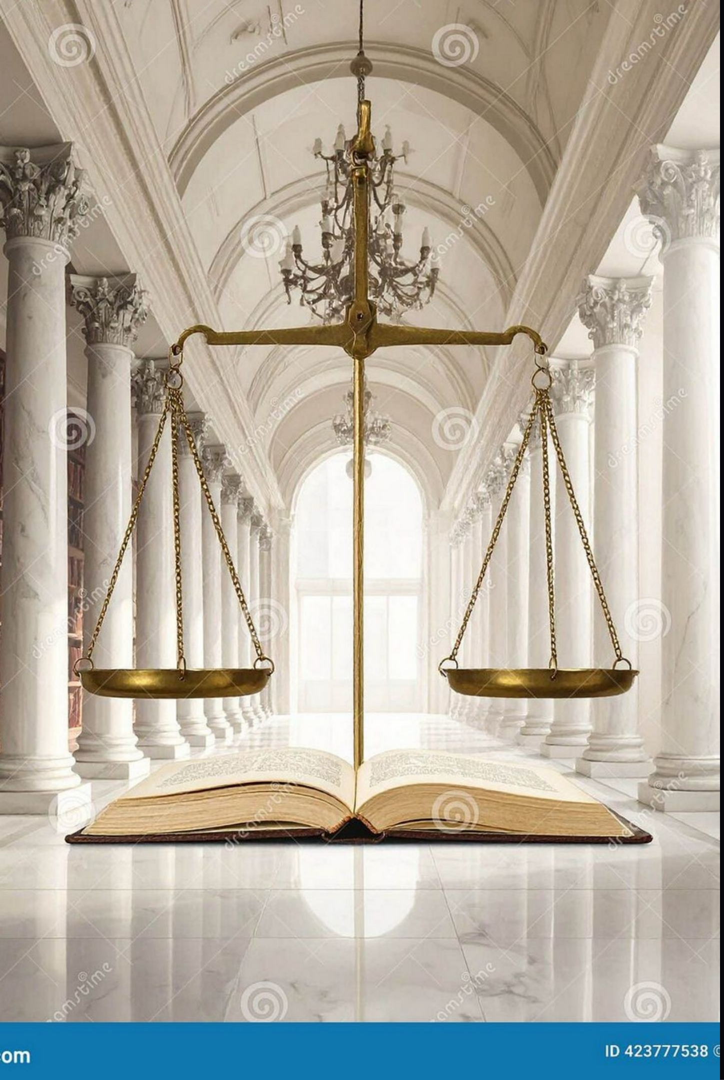


Contract Law: Formation, Elements & Case Laws

A comprehensive overview of contract formation, essential elements, classification, and landmark Indian case laws under the Indian Contract Act.

What is a Contract?

Legally Binding Agreement

A contract is a **legally binding agreement** between two or more parties, enforceable in a court of law.

Mutual Obligations

Creates **mutual obligations** — each party is bound to perform their respective duties under the agreement.

Core Requirements

Requires **offer, acceptance, consideration**, and **intention to be legally bound** by all parties.

Formation of Contract — Three Essential Steps

Offer

One party proposes terms

Acceptance

Other party agrees to exact terms

Consideration

Something of value is exchanged

Every valid contract must pass through all three stages. A failure at any step means no enforceable contract is created.

KEY CONCEPT

Offer — Definition & Key Elements

- A **definite proposal** to enter into a contract on specified terms
- Must be **communicated** to the offeree to be valid
- Offeror must intend to be **legally bound** upon acceptance

Carlill v Carbolic Smoke Ball Co. — The court held that the advertisement was an express promise to pay £100 in certain events. The deposit of £1,000 with the Alliance Bank showed the company's sincerity, making it a **binding offer**, not merely a puff.

Acceptance — Completing the Contract

1

Unconditional & Unqualified

Acceptance must be absolute — no partial or conditional agreements will create a binding contract.

2

Mirror Image Rule

Acceptance must **mirror the offer exactly**. Any variation constitutes a counter-offer, not acceptance.

3

Communication Required

Acceptance must be **communicated** to the offeror. Mere mental assent is insufficient in law.

4

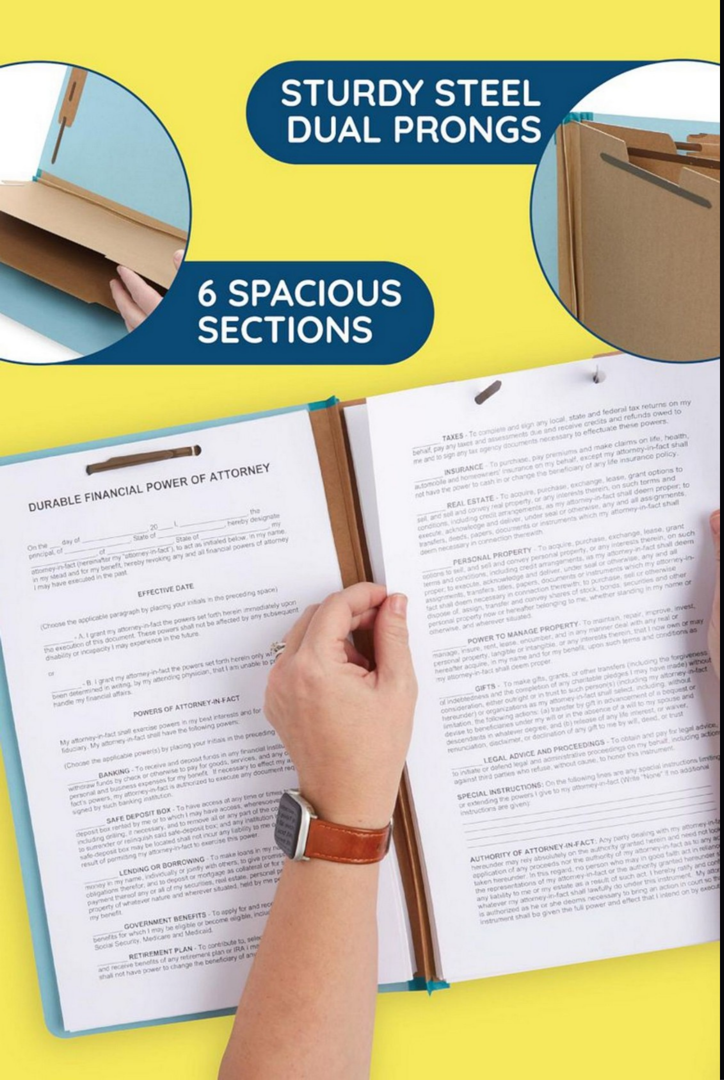
Binding Effect

Once properly accepted, the contract becomes **legally binding** on both parties immediately.

Consideration — The Price of the Promise

Consideration is the fundamental element that distinguishes a contract from a mere gift or promise. It is the **quid pro quo** — something for something.

- **Definition:** Something of value given by each party to the other
- **Forms:** Can be money, goods, services, or a promise to act or forbear
- **Must be Lawful:** Illegal or immoral consideration renders the agreement void
- **Must be Real:** Not illusory — the value exchanged must be genuine
- **Bargain-for-Exchange:** The promisor exchanges their promise for something the promisee provides in return



Classification of Contracts

Express

Terms stated explicitly in words — oral or written

Implied

Terms inferred from the conduct of the parties

Unilateral

One party makes a promise; the other performs an act

Bilateral

Both parties exchange mutual promises with each other

Essential Elements of a Valid Contract

- **Offer & Acceptance**
  The foundation — a clear proposal and an unconditional agreement to its terms.
- **Consideration**
  Value exchanged between parties — money, goods, services, or a promise.
- **Intention & Capacity**
  Both parties must intend legal consequences and be legally competent to contract.
- **Lawful Object**
  The purpose of the contract must not be forbidden by law or against public policy.

Lawful Consideration — Section 23, Indian Contract Act

Under **Section 23** of the Indian Contract Act, consideration or object is **unlawful** in the following circumstances:

Forbidden by Law

Consideration that is expressly prohibited by statute or would defeat the provisions of any law.

Fraudulent or Immoral

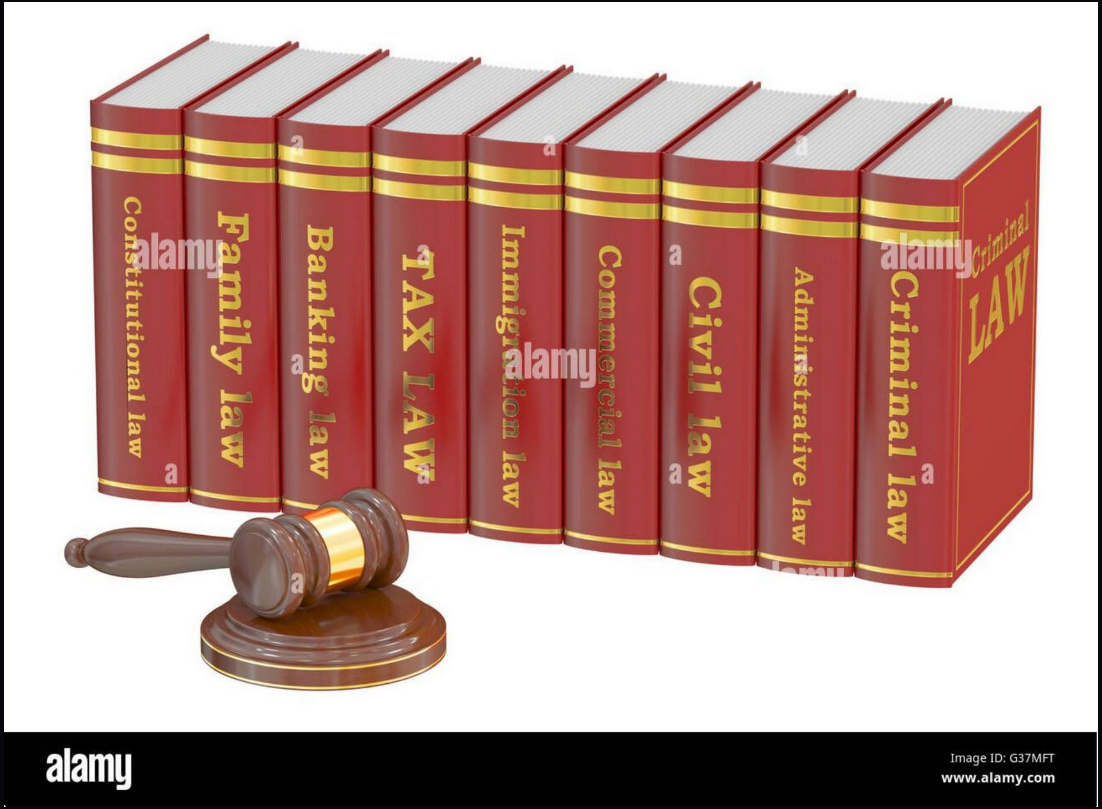
Consideration that is **fraudulent**, **immoral**, or **opposed to public policy** as understood by courts.

Causes Injury

Consideration that involves or causes **injury to the person or property** of another.

Effect: Void Agreement

Any agreement with **unlawful consideration is VOID** — it has no legal effect whatsoever.



LANDMARK CASE LAW

Unlawful Consideration in Practice

Firm of Pratapchand Nopaji v. Kotrike Venkata Setty (1974)

Forward contracts for **speculation in groundnut seeds** were entered into in direct violation of existing prohibition orders under commodity control legislation.

> "The contracts were tainted with unlawfulness of their object and were forbidden by law, hence struck by **Section 23 of the Contract Act**. An agreement cannot be enforced if it is part of a mechanism meant to defeat what the law has actually prohibited."

The court's ruling established that courts will look at the **substance and mechanism** of the transaction, not merely its form, to determine unlawfulness.

Exceptions to Unlawful Consideration

Collateral Agreements

If an agreement merely **aids another void (but not prohibited) contract**, it may still be enforceable. The key distinction is between void and illegal — collateral transactions to void contracts retain validity.

Public Policy Test

Courts apply **strict scrutiny** before striking down agreements on grounds of public policy. The harm to the public must be **"substantially incontestable"** — courts are reluctant to void contracts on vague policy grounds.

Wagering Contracts

Under **Section 30**, wagering contracts are **void but not illegal**. Collateral agreements to wagering contracts — such as lending money to fund a wager — may therefore be independently enforceable at law.

The distinction between **void** (no legal effect) and **illegal** (prohibited by law) is critical — it determines whether collateral transactions survive judicial scrutiny.