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UNDERSTANDING THE INDIAN CONTRACT ACT

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ABSTRACT

The Indian Contract Act 1872 provides the framework in India that facilitate agreements. This research paper examines its basic ideas, that ranges from offers until accepted. It also states the importance of the Act in facilitating businesses and safeguarding the rights of parties while addressing challenges of the modern commercial practices. This research paper also deals with the landmark court rulings that have influenced how contract law is interpreted and implemented. Thus, it delves into examining the Act's evolution in India's legal system by both traditional contract concepts and emerging issues like electronic contracts and contractual duties in digital commerce. With the comprehensive understanding of contractual relationships, it will enable students and scholars to comprehend and implement the Indian Contact Act in a variety of legal and business scenarios.

KEYWORDS: Contract, Indian Contract Act, Offer, Acceptance, Consideration, Free Consent, Capacity, Void, Voidable, Breach, Remedy.

INTRODUCTION

An updated version of the original common law, the Act aims to transcend the former's complexities and restrictions.[1] The basis for creating legally binding agreements between parties is mainly governed by the Indian contract laws that come under Indian Contract Act, 1872.[2] Contract law principles and particular clauses like bailment, pledge, indemnity, guarantee, and agency are laid out in the Act.[3] The idea of remedies is extremely important

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[1] Shivangi Gangwar, *Minors' Contracts in the Digital Age,* 43 Liverpool Law Review (2022).

[2] Aman Kakkar & Ms. Shilpa Mehrotra, *The Role of Contract Laws in Corporate Transactions,* 6 IJFMR (2024).

[3] Ruchita Ramisetty & Teena Anil Sundarbanshi, *A Critical Analysis of Void Agreement Under Indian Contract Act and Navigating Its Implications,* 6 IJFMR (2024).

under the Act as it provides important reciprocals for parties who have been injured through violations of their contractual duties and parties can confidently make and enforce agreements by abiding by its terms and principles, which fosters efficiency and trust in business dealings.[4]

Thus, it becomes important to examine the foundation of contract law, that is the Indian Contract Act of 1872.[5]

RESEARCH METHODOLOGY

This research is based on a comparative method to analyse different notions of Contract Laws and its implementation over the globe. It also contains a multifaceted methodology with secondary sources that uses various websites and several journal articles for the research. His thorough paragraphs about free consent and capacity to contract emphasize the essentials to legally binding agreements.

REVIEW OF LITERATURE

R.K. Bangia's textbook on the Indian Contract Act is a foundational resource that thoroughly covers fundamental concepts like offer, acceptance, consideration, and breach of contract. He does this by articulating the statutory provisions alongside important case law, creating a complex legal landscape.[6] However, legal commentaries by Avtar Singh add to this by thoroughly examining contingent contracts and quasi-contracts, expanding the purview beyond standard agreements to cover equitable remedies under the Act.[7] In keeping with developments in international contract law, recent scholarly discussions also examine how the Act might be modified to apply to digital and electronic contracts and how this evolution shows how the Act is being applied dynamically in India's contemporary legal system.

HISTORICAL OVERVIEW

In 1861, Sir John Romily, through pre-independent India’s law commission, showed his results on the contract law.[8] A draft was prepared and with the draft, came number of amendments. Finally, the draft turned into an Act in 1872, and the Indian Contract Act 1872 came into force

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[4] Kakkar & Mehrotra, *supra* note 2.
[5] *Id.*
[6] 7 R.K BANGIA, CONTRACT-I (Allahabad Law Agency 2017).
[7] 13 RAJESH KAPOOR, AVTAR SINGH'S LAW OF CONTRACT & SPECIFIC RELIEF, (Eastern Book Company 2022).
[8] UMES CHANDRA COLLEGE, https://shorturl.at/7CcOw (last visited Sept. 20, 2025).

on September 1, 1872.[9] This Act is one of the oldest Acts in India, which was made and certified by the pre-independent rule.[10]

WHAT IS A CONTRACT AND AN AGREEMENT?

A contract is a deal between parties that has legal backing to it.[11] In general, a contract is an agreement between two or more individuals to carry out or not carry out a specific act. By granting one party specific rights and requiring the other to fulfill obligations, contracts create legal responsibilities between parties.[12] Contracts are significant because they provide the foundation for transactions while protecting the interests of companies. By establishing the responsibilities and rights of parties, encouraging trust, and facilitating transactions, they provide stability and transparency. On the other hand, an agreement is any promise that forms return, also called consideration, between two parties. Therefore, in an agreement, both parties make promises. Thus, "Therefore, "all contracts form agreements". The parties to an agreement must agree on the topic matter, which is another crucial component of an agreement. In the same way, they must agree. Another name for this is consensus-ad-idem.

THE CHRONOLOGY OF AN AGREEMENT

An agreement goes through several stages before becoming a complete agreement. The different stages include proposal, offer and promise and the last stage leads to an agreement. Promise has been defined in the Act as, "There is a promise made when one side makes a proposal, and the other side accepts it." And finally it follows the path to be an promise, "When one person makes an offer and the other accepts it, a promise is created", for instance, when Ram offers to sell Shyam his computer for one lakh rupees and Shyam agrees, a promise is made between the two of them." Another important terminology that holds a pivotal role in a contract is Consideration. There must be consideration behind an agreement. Consideration means getting something in exchange. It can also mean the amount that one party pays to purchase the other's guarantee. But this cost doesn't always have to be material.

THE ESSENTIALS OF A VALID CONTRACT

An agreement needs to contain a few key components to be enforceable. The Essentials of a Contract are defined and outlined in the Indian Contract Act of 1872, either directly or through

[9] *Id*.
[10] *Id*.
[11] R.K, *supra* note 6.
[12] *supra* note 8.

interpretation by different Indian courts. The contract's Section 10 outlines several prerequisites for valid contracts, including-

1) Intention: An agreement is not a contract if it cannot result in a legal obligation; rather, it requires the parties to intend to establish a legal relationship, for example, an invitation to dinner is not a contract since there is no intent to establish a legal relationship.[13]

2) Proper offer and reciprocity: The offer needs to be clear and properly conveyed to the other party and similarly, the offeror must be informed of the acceptance in the prescribed manner, and it must be unconditional and thus it makes the agreement non-enforceable until these requirements pertaining to the offer and acceptance are met.

3) No impossibility factor: Contracts that include impractical tasks, like reviving the dead, are deemed null and void. For an agreement to be enforceable, it must be reasonably attainable, even if all other requirements are met.

4) Free consent: When the parties enter into an agreement, they should do so voluntarily.[14] Consent must be given voluntarily and without coercion, fraud, or undue influence and if assent was acquired by deception or coercion, the contract may be voidable at the discretion of the harmed party.[15]

5) Capacity to contract: A contract cannot be enforceable if any of the parties are incapable of entering into it. Therefore, both the people should be of major age before getting into an agreement.[16] This means the parties should be above 18 years of age, in good mental health, and not legally disqualified like people who are mentally ill, minors, or prohibited by specific laws are not allowed to enter contracts.[17]

6) Consideration: As already discussed above, a valid contract needs consideration, in which each party gets something of value in exchange for their commitment, that is, in a sale, the seller consents to give the buyer ownership of an item in exchange for payment.

[13] *Id.*
[14] R.K, *supra* note 6.
[15] Ramisetty & Sundarbanshi, *supra* note 3.
[16] *supra* note 8.
[17] Ramisetty & Sundarbanshi, *supra* note 3.

TYPES OF CONTRACTS

1) Express Contract: Express Contracts are those contracts in which all the requirements are expressed openly, either on a paper or by mouth.[18] Every party to these agreements is fully aware of their terms and conditions.[19] For instance, it include a signed agreement.

2) Implied Contract: The actions or behaviour of the parties may result in a contract, and it might be the consequence of the parties' ongoing behaviour.

3) Unilateral contracts: They consist of just one individual committing to something or taking on a duty when the other party is not legally required to do so. Winning money as someone has located a lost thing, makes a contract from one side, in which the finder can receive the prize by meeting the offer's conditions.

4) Bilateral contracts: They create duties and commitments that are reciprocal among number of people, like, during an agreement buying a computer, buyer pledges to pay the agreed-upon amount, and the seller agrees to transfer ownership.[20]

5) Void contract: According to the Act, a void agreement defined as void from the outset and has no legal force behind it.[21] It's important to keep in mind that a contract is not null and void at first as when it is made, it is legally binding on the parties, but for some reasons, after it is formed, it loses its enforceability and is deemed void due to a change in the law, the inability to perform, or other factors may render a contract null and void. For instance, Ram promised to get married to Rakhi but later, Rakhi dies, thus, makes the contract void.

6) Voidable contract: Although voidable contracts are initially valid, they may be declared voidable at the discretion of one of the parties, that is, if the aggrieved party decides to confirm them, they may then become enforceable.[22] A contract is usually considered voidable when one party's consent was not freely given, that is, when it was obtained by force, improper influence, deception, or deceit.[23]

[18] *supra* note 8.
[19] Ramisetty & Sundarbanshi, *supra* note 3.
[20] *Id*.
[21] *Id*.
[22] Ramisetty & Sundarbanshi, *supra* note 3.
[23] *supra* note 8.

TYPES OF OFFERS

1) Public and Particular Offer: An offer made to a particular individual or group of individuals is referred to as a specific offer since only that individual or group may accept it, on the other hand, if an offer is made to the public or globally, makes up offer that is general in nature because anyone who complies with its terms can accept it.[24]

2) Cross Offers: Cross offers are two offers that are identical in every way and made by two parties to one another without knowing the other's offer and these offers do not constitute an acceptance of one party's offer by the other, and as a result, no contract is signed, therefore, other person's offer must be accepted by at least one of them.

3) Standing Offer: An offer may occasionally be continuous in nature and in that instance, it is referred to as a standing offer, which is a type of tender.[25] Occasionally, a department, an individual, or another entity needs specific products in big quantities.[26] Every order creates a new contract because this offer may occasionally be accepted by placing specific orders for the supply of goods.

CONCEPT OF CONTINGENT CONTRACT

A contingent contract is one in which the parties agree to do or not do something if a certain collateral event occurs, for example, Ram might agree to pay Shyam Rs. 10,000 if B's house burns down, therefore, this contract is contingent. This agreement is null and void regardless of whether the parties knew at the time it was made that the event was impossible.

Features of Contingent Contracts:

1) A contingent contract makes performance contingent on the occurrence or non-occurrence of an event.

2) The event that the performance of contract is supposed to rely on is a collateral event.

3) The promisor's will alone should not be the contingent event, therefore, it might be an unforeseen agreement if the occurrence takes place within the party's might instead of solely within his will. For instance, this is a contingent contract if Ram promises to give Shyam three

[24] *Id.*
[25] *Id.*
[26] *Id.*

thousand rupees in the event that Ram departs Chennai for Kolkata., while traveling to Kolkata is within A's will, it is not exclusively his will.

CONCEPT OF QUASI CONTRACT

The foundation of quasi-contracts is the idea of justice and equity. The law establishes an obligation in the absence of an agreement when one person's actions or those of others have placed money or its equivalent in his possession under circumstances that, in justice and equity, he should not keep it and that, in justice and equity, belongs to another, thereby requiring the person to reimburse or restore the benefit. It simply states that no one may unfairly benefit themselves at the expense of another and a quasi-contract. Because they create obligations that are like those created by contracts, quasi-contracts are also known as implied contracts. There are different types of quasi contracts such as Payment of Money Due Another, Obligations to pay for Non-gratuitous acts, responsibility of a finder of goods, rights of the finder of goods and supply of necessaries.

TYPES OF CORPORATE CONTRACTS

1) Commercial Contracts: These cover a broad range of contracts that govern business dealings between corporations, including distribution, licensing, supply, and service agreements.

2) Mergers and Acquisitions (M&A) Agreements: These contracts dive into the requirements for the agreement, that compile buying price, warranties & representations and responsibilities.[27]

3) JV Agreements: Requirements for cooperation, possession structure, benefit arrangements, adjudicatory processes, and leaving strategies are stated in contracts that govern these agreements.[28]

Legal Frameworks:

1) Companies Act, 2013: The creation, administration, and dissolution of corporations are among the many facets of corporate entities that are governed by the Companies Act as it includes clauses pertaining to agreements made by businesses and, if relevant, the implementation under the company's stature.[29]

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[27] Kakkar & Mehrotra, *supra* note 2.
[28] *Id.*
[29] *Id.*

2) Competition Act, 2002: The Competition Act is important in M&A transactions because it governs mergers, acquisitions, and amalgamations that could significantly harm competition in India and such transactions must be reported to and approved by the Competition Commission of India (CCI).

DIGITAL CONTRACTS AND ELECTRONIC SIGNATURES

As technology is evolving, electronic signatures and digital contracts are becoming increasingly common in business dealings nowadays.[30] Electronic contracts and signatures are legally recognized by the Information Technology Act of 2000 and its amendments, which improves the effectiveness.[31] To guarantee the legality, enforceability, and compliance of their contractual agreements, parties involved in business transactions must comprehend and abide by this legal framework.[32]

CASE LAWS

1) Minors' Contracts are *Void ab Initio*: The Privy Council made a final ruling on the legality of contracts involving minors in 1903 to put an end to this dispute.[33] In Mohori Bibee v. Dharmodas Ghose (1903)[34], as a minor, Dharmodas Ghose had given Brahmo Dutta his property as a pledge.[35] However, when Ghose sought to have the contract revoked, the court agreed, declaring it void ab initio because of his status as a minor but given that the person who was the authority of Dutta, knew of his minority age, and thus, the court rejected the estoppel application. In the end, the court's decision emphasized that agreements made by minors are null and void from the outset, protecting them from obligations that exceed their contractual capacity.[36]

2) The law does not always forbid void agreements: Gherulal Parakh v. Mahadeodas Maiya (1959)[37] discusses wagering as a type of gambling in which assets or cash are staked on unforeseen circumstances. The dispute started with a wheat trade partnership agreement in which the respondent and appellant couldn't agree on how to share liability after suffering

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[30] *Id.*
[31] Manoj Kumar Sadual, *Electronic contracts: Legal issues and challenges*, IJRAR (2021).
[32] *Id.*
[33] Gangwar, *supra* note 1.
[34] Mohori Bibee vs Dharmodas Ghose, [1903] UKPC 12.
[35] Ramisetty & Sundarbanshi, *supra* note 3.
[36] LAW BHOOMI, https://rb.gy/5dhlth (last visited Sept. 21, 2025).
[37] Gherulal Parakh vs Mahadeodas Maiya And Others, 1959 AIR 781.

losses but in the end, the court rejected the appellant's argument and dismissed the appeal, holding that although wagers are void, they are not necessarily illegal.

3) Exceptions: In Nash v. Inman (1908)[38], a tailor filed this lawsuit against a minor University of Cambridge undergraduate student to recover the cost of the eleven waistcoats and other garments he had provided to the defendant. In this case, the court elaborated on the definition of necessities.[39] The court explained that necessities require proof of necessity and include goods or services suitable for the minor's actual needs and current situation. According to English law, an incompetent person must pay a fair price to cover necessities received.

4) Contracts against public policy: In Nair Service Society Ltd. v. K.C. Alexander (1968)[40], the Supreme Court of India made a significant exception to the Indian Contract Act, 1872, holding that contracts that violate public policy or fundamental rights may still be deemed void even if they comply with standard contractual procedures. This case serves as a reminder that contracts must be in line with societal interests and constitutional mandates, as it highlights that contracts that violate public policy or cover illegality are void and unenforceable under the Act.

5) Binding nature of Unilateral contracts: Carlill v. Carbolic Smoke Ball Co. (1893)[41] is another significant case that is relevant to the ICA. Despite being a UK case, it had a significant impact on Indian contract law principles, particularly regarding unilateral contracts. The defendant company publicly pledged to compensate anyone who used its product as directed but still got influenza. After following the usage instructions, the plaintiff fell ill and filed a claim for the promised reward. However, the court found that the ad was to the general public, and that once the plaintiff fulfilled the requirements, the offer turned into a legally binding agreement. The decision set a precedent that is frequently followed in India to interpret unilateral offers and advertisements as contracts, establishing that a promise made to the world at large can become a legally binding agreement if accepted by anyone fulfilling the conditions specified.

REFORMS

As the Act comes into line with contemporary business practices and legal standards, several recent amendments have been made to the Indian Contract Act which include changes to definitions, capacity, legality, requirements for contract formation, and other aspects of

[38] Nash v. Inman, [1908] 2 KB 1.
[39] *Id.*
[40] Nair Service Society Ltd. v. K.C. Alexander, AIR 1968 SC 116.
[41] Carlill v. Carbolic Smoke Ball Co., 1 QB 256.

contracts.[42] Additionally, changes could add new clauses or alter current ones to account for evolving business practices, technological advancements, or growing challenges and modifications, including online transactions, e-signatures, electronic contracts, and other issues pertaining to the creation and enforcement of digital contracts.[43]

CONCLUSION

The Indian Contract Act 1872 governs contractual parties in India, which sets the rules for the formation, performance, and enforcement of agreements as it guarantees that both parties to an agreement are protected under Indian law by defining the necessary components of a legitimate contract, including offer, acceptance, consideration, lawful object, and capacity to contract.[44] Its timeless values ensure that contractual obligations are fair and just even as society and business change. The Act promotes trust and dependability in legal transactions by striking a balance between the freedoms of contracts and the protections that are required, which is essential for social harmony and economic growth. The Act gives parties a framework for clearly defining their rights, responsibilities, and expectations. As the legal basis for establishing and carrying out business relationships, it also plays a crucial part in forming and regulating corporate transactions. Overall, this study advances our knowledge of the Act by examining how contract law fosters trust and encourages trade in a global economy.[45] It is also well-positioned to handle upcoming issues through continued legal interpretation and reforms, enhancing the framework that allows people and businesses to interact with confidence and equity.

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[42] Ramisetty & Sundarbanshi, *supra* note 3.
[43] *Id.*
[44] Kakkar & Mehrotra, *supra* note 2.
[45] Ramisetty & Sundarbanshi, *supra* note 3.