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BLOG

THE INDIAN CONTRACT ACT: KEY PROVISIONS AND CASE LAWS

BY: CHIYA TUTEJA

Introduction

The Indian Contract Act, 1872 can be fairly seen as the core unit or the building block for anybody who is exploring the field of law and for the other fundamental subjects of the legal field. It was commenced on 25th April, 1872 and came into force on 1st September, 1872. This is act number 9 of 1872. It is applicable to the whole of India and the object of this act is mentioned in the preamble which says, “*Whereas it is expedient to define and amend certain parts of the law relating to contracts.*” In simple words, it can be explained as, at the time of enactment it was necessary to structurally organise and amend some laws which govern contracts. At present, the act has 11 chapters out of which chapter VII and XI have been repealed. The original Contract Act was enacted with a total number of 266 sections but after repeals it is left with 238 operative provisions divided as follows:

- Section 1-75: General principles
- Section 124-238: Specific contracts

Understanding a Contract

Given below is the easiest method to understand a “Contract”:

- Offer is the “proposal”.
- Assent to an offer is the “acceptance”.
- A proposal when accepted becomes a “promise”.
- The one who makes the proposal is the “promisor”.

- The one who accepts the proposal is the “promise”.
- Anything, any act performed or any abstinence of value from both parties becomes the “consideration” for the promise.
- All promises and all sets of promises along with the consideration for each other forms an “agreement”.
- An agreement which is “enforceable by law” (valid in eyes of law) is a contract.
- Therefore, Proposal + Acceptance = Contract
- Students cram it easily as: *All contracts are agreements but all agreements are not contracts*. This is in fact a crucial point to note.

All these statements are not fiction; they are the **definitions of the general terms of a contract** defined in **Section 2** of the act.

According to the **Section 10** of the act, **the essentials of a valid contract** are:

1. Free consent of parties.
2. Competency of parties.
3. Lawful consideration.
4. Lawful object.
5. Contract not expressly declared to be void.

Moreover, depending on the enforceability and soundness, there are **five types of contracts**:

1. **Valid** - A contract satisfying all the essentials.
2. **Void** - A contract which was originally valid but later became unenforceable by law.
3. **Void *ab initio*** - A contract which was invalid from the very beginning.
4. **Voidable** - A contract which is enforceable only at the option of one party but not by the other.
5. **Unenforceable** - An agreement which is originally valid but cannot be enforced due to some technical issue, lack of paperwork/documentation etc.

Key Provisions

The Indian Contract Act, 1872 deals with the following major frameworks or provisions divided in 11 chapters as:

CHAPTER NUMBER	PROVISIONS	SECTIONS
-	Preliminary	1 and 2
I	Communication, Acceptance and Revocation of Proposals	3 - 9
II	Contracts, Voidable Contracts, and Void Agreements	10 - 30
III	Contingent Contracts	31 - 36
IV	Performance of Contracts	37 - 67
V	Certain Relations resembling those created by Contract	68 - 72
VI	Consequences of Breach of Contract	73 – 75
VII	Sale of Goods	76 -124 (REPEALED)
VIII	Indemnity and Guarantee	124 - 147
IX	Bailment	148 - 181
X	Agency	182 - 238
XI	Partnership	239 - 266 (REPEALED)

Landmark Case Laws

MOHORI BIBEE V. DHARMODAS GHOSE¹

Dharmodas Ghose was a minor young boy living in Calcutta and owned an immovable property there. The Calcutta High Court appointed his mother as his legal guardian. One day, on

¹ (1903) ILR 30 Cal. 539 (PC)

requirement of money, he mortgaged the same property to Brahmo Dutt for Rs. 20,000 at an interest rate of 12% per annum. Brahmo Dutt and his agent Kedar Nath knew about Dharmodas's minority and his mother had also informed them priorly about his legal status. After some time, when Ghose realised about the invalidity of the agreement, he filed a case in the court requesting for the mortgage deed to be cancelled. Brahmo Dutt had died but his legal representatives continued the case and demanded repayment of the amount.

The main issue before the Privy Council was: Whether an agreement formed by a minor is legally valid and enforceable?

The Privy Council held that *an agreement made by a minor is void ab initio* (from the very beginning) as a minor is incompetent to enter into a contract and not liable to fulfil the mortgage deed. Therefore, neither any agreement can be enforced against him nor has any legal effect.

Laws Applied:

Section 10- Parties must be competent to contract.

Section 11- Persons should be of sound mind, major and not disqualified by law to become a party competent to contract.

LALMAN SHUKLA V. GAURI DUTT²

Gauri Dutt had a business in Kanpur. One day, his nephew went missing in whose search he sent his servant Lalman Shukla. Lalman went to Haridwar for the nephew. In his absence, Dutt announced a reward of Rs. 501 for finding his missing nephew. Shukla successfully returned with the nephew and later demanded the reward amount when he got to know about the announcement. Dutt refused to pay the amount saying that he acted before announcement. Lalman filed a case against Gauri Dutt where the court declared that a person unaware of the reward before acting cannot claim the benefits of that reward. This case established the principle, "Knowledge of the offer is important for acceptance."

Conclusion

The Indian contract act, 1872 serves as the basis of contractual matters in India. It's provisions which are also interpreted through case laws, ensure fairness enforceability and clarity in

² (1913) 11 ALJ 489

contractual cases. Regardless of the historical enactment of this act, it still remains valid in the present times because of its flexibility and adaptability to contemporary legal obstacles.