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CLASS - SY.BBA SEM - III

Subject-Mercantile Law

Unit 1-Essentials of the Indian Contract Act, 1872

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INDIAN CONTRACT ACT, 1872

Introduction to the Indian Contract Act, 1872

The **Indian Contract Act, 1872** is one of the important laws governing contractual relationships in India. It lays down the general principles relating to the **formation, validity, performance and enforcement of contracts**.
The Act was enacted in **1872** and came into force on **1 September 1872**.
The main purpose of the Act is to define and regulate the legal rights and obligations arising from agreements and contracts between parties.
The Act is important because contracts are an essential part of everyday and commercial activities.
It provides a legal framework for transactions such as:

- Sale and purchase arrangements
- Business agreements
- Service agreements
- Employment-related contractual arrangements
- Insurance-related contracts
- Agency relationships
- Commercial transactions
- Online and electronic transactions, subject to applicable laws

The Act helps establish **rights, duties, responsibilities and remedies** between contracting parties.

Main Objectives:

To explain the meaning of a contract.
To lay down rules for making a contract.
To define the rights and duties of parties.
To determine which agreements are legally enforceable.

Application of the Act[Section 1]

- The Indian Contract Act, 1872 applies throughout India.
- It came into force on 1 September 1872.
- It applies to the whole of india except the state of Jammu & Kashmir.
- It provides general principles relating to different types of contracts.
- Some specific contracts are also governed by separate laws.
- Examples: Sale of Goods, Partnership, Insurance, Negotiable Instruments, etc.

Definitions – [Section 2]

1) Proposal / Offer – Section 2(a)

When one person shows his willingness to do something or not to do something, with the intention of obtaining the acceptance of another person, it is called a Proposal or Offer.
Example:
A says to B, “I will sell my bike to you for ₹50,000.”
This is an Offer/Proposal.

2) Acceptance – Section 2(b)

When the person to whom the proposal is made accepts the proposal, it is called Acceptance.

Example:

B says, "Yes, I agree to buy the bike for ₹50,000." This is Acceptance.

Remember: Offer + Acceptance = Agreement

3) Offeror / Promisor – Section 2(c)

The person who makes the Offer/Proposal is called the Offeror or Promisor.

Example: A offers to sell his bike to B. → A = Offeror/Promisor

4) Offeree / Promisee – Section 2(c)

The person to whom the Offer/Proposal is made is called the Offeree or Promisee.

Example:

A offers to sell his bike to B.

→ B = Offeree/Promisee

5) Consideration – Section 2(d)

Consideration means something given or promised in return for a promise.

Consideration means the price or benefit given in exchange for a promise.

Example:

A sells his book to B for ₹100.

A's book = Promise

B's ₹100 = Consideration

6) Agreement – Section 2(e)

Every promise and every set of promises which form consideration for each other is called an Agreement.

Offer + Acceptance = Agreement

7) Reciprocal Promises – Section 2(f)

Promises which form the consideration for each other are called Reciprocal Promises.

Example: A promises to give a laptop to B.
B promises to pay ₹50,000 to A.

Both promises are consideration for each other.

8) Void Agreement – Section 2(g)

An agreement which cannot be enforced by law is called a Void Agreement.

9) Contract – Section 2(h)

"An agreement enforceable by law is a contract."

In simple words, an agreement which can be legally enforced is called a Contract.

10) Voidable Contract – Section 2(i)

A contract which can be cancelled at the option of one party, but not at the option of the other party, is called a Voidable Contract.

11) Void Contract – Section 2(j)

A contract which was initially valid but later ceases to be enforceable by law is called a Void Contract.

A valid contract which later becomes unenforceable = Void Contract

Evolution / Background of Contract Law

1. Ancient and Medieval Period

During ancient India, there was no separate written Contract Act like we have today. Rules relating to agreements were based mainly on religious and social texts such as the Vedas, Smritis and Dharmashastras.

The main ideas were Dharma (righteousness/duty) and Artha (wealth/prosperity). People were expected to keep their promises and act fairly.

Example:

Suppose A promises to sell 10 cows to B for a fixed price. B agrees to pay the price after receiving the cows.

Even though there was no modern Contract Act, the agreement was expected to be honoured because keeping one's promise and acting fairly were considered important duties.

2. Islamic Period

During the Islamic period, contracts were governed by principles of Mohammedan Law.

Two important elements were:

1.Ijab – Offer(One person makes an offer)

2.Qubul – Acceptance(The other person accepts the offer)

Example:

A says to B:"I will sell you my horse for ₹50,000." This is Ijab (offer).

B says:"I agree to buy the horse for ₹50,000." This is Qubul (acceptance).

Therefore, the basic requirement of offer and acceptance is fulfilled.

Contractual disputes were dealt with by Qadis (judges).

3. Roman Period

Roman law made an important contribution to the development of contract law.

One important type of contract was Stipulatio.

It was a formal verbal promise in which one person made a promise and the other accepted it.

Example:

A asks B:"Do you promise to pay me ₹10,000?"

B answers:"I promise."

This type of formal verbal promise could create a legal obligation under Roman law.

Roman law also recognised remedies when contractual obligations were not fulfilled.

4. Hindu Period

During the Hindu period, contract principles were influenced by texts such as the Manusmriti and Dharmashastras.The important ideas were: i) Mutual consent

ii) Fairness

iii) Honesty

iv) Lawful purpose

v) Performance of promises

Example:

A agrees to sell his land to B for ₹5 lakh.For the agreement to be considered proper, there should be: An offer by A ,Acceptance by B ,A lawful purpose ,Genuine consent

5. British Period

During British rule, Indian contract law was heavily influenced by English Common Law.
Courts were established to resolve contractual disputes.
As trade and business increased, different types of contracts became common:
Sale contracts ,Lease contracts ,Employment contracts ,Land contracts ,Trade agreements .
Example:
A British trading company agrees to purchase 1,000 bags of cotton from an Indian merchant.
The agreement specifies:
Quantity of cotton ,Price ,Delivery date ,Payment method .
If the merchant fails to deliver the cotton, the company can approach a court for an appropriate remedy.These developments eventually contributed to the enactment of the Indian Contract Act, 1872.

Necessity of Contract Law

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1. Defines Responsibilities

A contract clearly tells each party what they are required to do. Contract law defines the rights and duties of the parties.
Example:
A owns a shop and agrees to sell 100 chairs to B.
The contract says:A must deliver 100 chairs.
B must pay ₹1,00,000.
A must deliver the chairs by 10 September.
B must make payment by the agreed date.
Therefore, both parties know their responsibilities.

2. Establishes a Time Frame

A contract specifies when an obligation must be performed.
Contract law establishes clear deadlines and prevents disputes regarding the time of performance.It can mention: Starting date , Completion date ,Delivery date,Payment date , Deadlines
Example:
A agrees to deliver goods to B on 15 September.
B knows when to expect the goods, and A knows when delivery is required.

3. Describes Payment

A contract clearly states how much money has to be paid, when it must be paid and how payment will be made. Contract law provides certainty regarding price, payment method and payment schedule.
Example:
A agrees to design a website for B.
The contract states:Total price = ₹50,000,₹20,000 advance ,₹15,000 after completion of the first stage ,₹15,000 after final delivery ,Now both parties understand the payment arrangement.

4. Provides Recourse in Case of Breach

Recourse means a legal option or remedy available to a person when the other party fails to perform the contract. Contract law gives the affected party a way to protect their rights.
When a party fails to perform its contractual obligation, it may amount to a breach of contract.

Example:

A agrees to sell his car to B for ₹5 lakh.
B pays the agreed amount, but A refuses to hand over the car without a valid reason.
A has failed to perform his contractual obligation.
B can seek an appropriate legal remedy under contract law, depending on the facts and applicable law.

5. Prevents Misunderstandings

A written contract clearly records what both parties have agreed upon. Contracts reduce misunderstanding by clearly recording the rights, duties and expectations of the parties.

Example:

A hires B to paint his house.
The contract says:3 bedrooms ,2 bathrooms ,Exterior walls ,Total price = ₹60,000 ,Work to be completed in 20 days
Later, B says:,"I thought I only had to paint the bedrooms."
A can refer to the written contract, which clearly states that the bathrooms and exterior walls were also included.
Why is it important?
The written terms provide evidence of the parties' agreement.

6. Guarantees Confidentiality

Contracts can contain confidentiality or non-disclosure provisions. It protects valuable information from being misused or disclosed without permission.Contractual confidentiality provisions help protect sensitive business and personal information.These provisions require parties to protect sensitive information.

Example:

A software company hires B as an employee.
During employment, B learns about:New software ,Customer information ,Business strategies , Trade secrets .The employment contract contains a confidentiality clause.
B cannot improperly disclose confidential business information to competitors.

7. Avoids Expensive Litigation Proceedings

A clear contract can help parties resolve disagreements more easily because the agreed terms are recorded.It does not completely prevent litigation, but it can reduce unnecessary disputes and make the parties' obligations clearer. A clear written contract provides evidence of the agreement and may reduce the need for lengthy legal disputes. It can save:Time ,Money ,Effort

Example:

A hires B to repair a building for ₹2 lakh.
The contract clearly states: Work to be performed ,Price ,Completion date ,Payment schedule ,Responsibilities of both parties
Suppose, A claims that B was supposed to complete the work by 1 September.
B claims that the deadline was 15 September.

The parties can check the written contract.
If the contract clearly says 1 September, the dispute may be easier to resolve.

8. Serves as an Official Record of the Business Agreement

A contract acts as a formal record of the agreement between the parties.
It records important information such as:Names of parties ,Duties ,Payment ,Deadlines ,Conditions ,Termination provisions ,Rights and responsibilities .
Example:
A company hires B to construct an office building.
The contract records:
Contract price = ₹50 lakh
Completion period = 12 months
Payment = monthly instalments
B = responsible for construction
Company = responsible for making payments according to the agreement

NATURE OF CONTRACT

Meaning and Definition of Contract

The word "Contract" is derived from the Latin word "Contractum", which means an exchange of promises.
A contract is made between two or more persons.
It starts with an offer made by one party. When the other party accepts the offer, it becomes an agreement.
When the agreement fulfils the conditions required by Section 10 of the Indian Contract Act, it becomes a contract.

Definitions

1.According to Pollock:

"Every agreement and promise enforceable by law is a contract".

2.According to Salmond:

"A contract is an agreement creating and defining obligations between the parties".

3.According to Sir William Anson:

"A contract is a legally binding agreement between two or more persons by which rights are acquired and obligations are created".

***ALL AGREEMENTS ARE NOT CONTRACTS BUT ALL CONTRACTS ARE AGREEMENTS**

1) All Contracts are Agreements
Every contract is first an agreement.
An agreement becomes a contract only when it is legally enforceable.
Therefore: All Contracts → Agreements

2) All Agreements are not Contracts

Every agreement is not a contract.

An agreement must fulfil the essential conditions of the Indian Contract Act to become a contract.

Example:

A promises his friend that they will have dinner together tomorrow.

This is generally a social agreement.

There is no intention to create legal obligations.

Therefore, it is not a contract.

Agreement = Offer + Acceptance

Contract = Agreement + Enforceable by Law

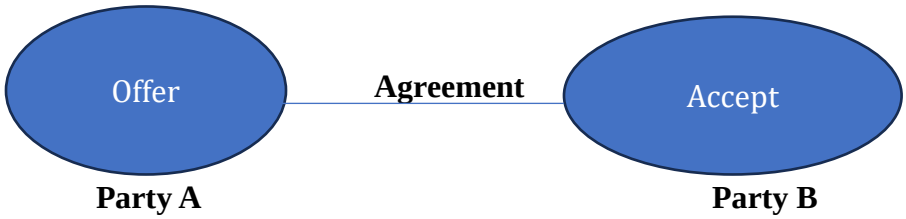
General Principles and Essential Elements of Contract

A valid contract must satisfy certain essential conditions.

1. Agreement

There must be an agreement between two or more parties. An agreement is formed when one party makes an offer and the other party accepts it.

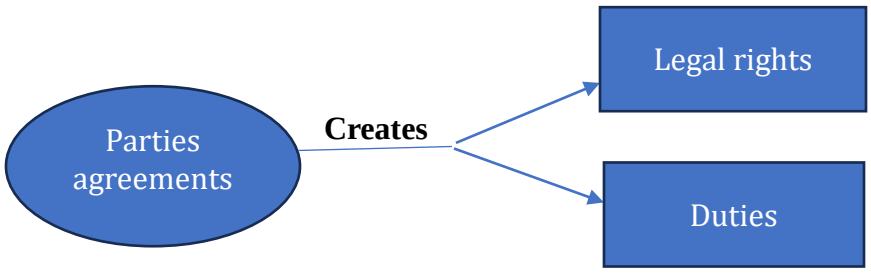
Offer + Acceptance = Agreement



2. Intention to Create Legal Relationship

The parties must intend to create a legal relationship.

The agreement should create legal rights and duties.



3. Lawful Consideration

There must be a lawful consideration for the agreement.

Consideration means something given or promised in return for a promise.

Example: A sells a book to B for ₹500. Here, ₹500 is the consideration.

4. Capacity / Competency of Parties

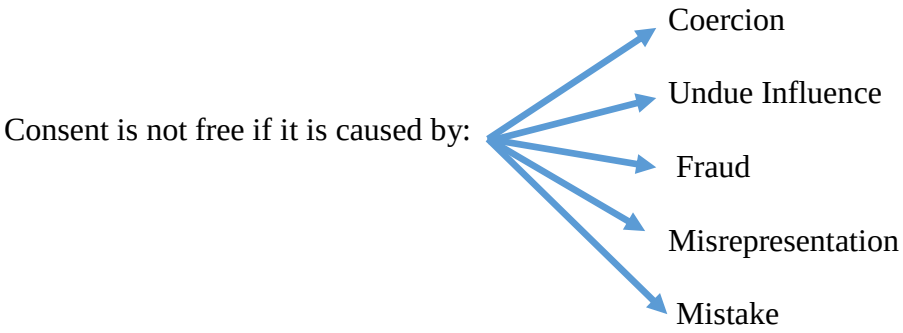
According to Section 11, a person is competent to contract if he:

i. Has attained the age of majority.

ii. Is of sound mind.
iii. Is not disqualified by law.

5. Free and Genuine Consent – Section 14

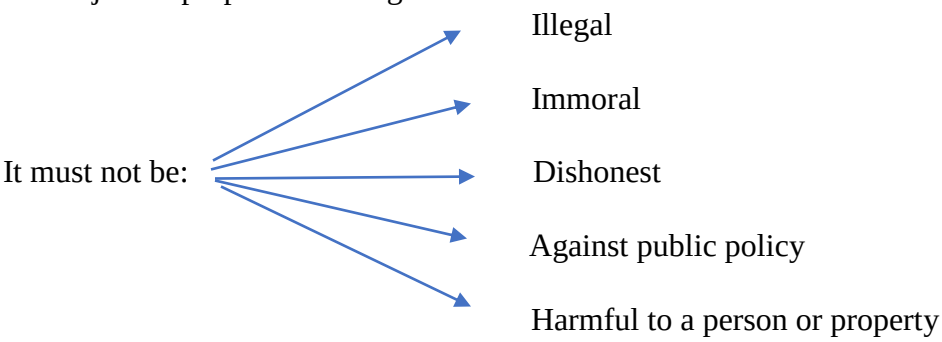
All parties must give free consent. They must agree to the same thing in the same sense.



Example: A threatens B to give him ₹2,000. B agrees because of the threat. This is coercion.

6. Lawful Object – Section 23

If the object is unlawful, the agreement is void.
The object or purpose of the agreement must be lawful.



Example: A landlord knowingly gives a house to a person for carrying on prostitution. Such an agreement is void.

7. Writing and Registration

A contract may generally be oral or written. However, in some special cases, the law requires the agreement to be in writing and/or registered.
Examples:
Arbitration agreement must be in writing.
Certain agreements relating to sale of immovable property require writing and registration.

8. Certainty – Section 29

The terms of a contract must be clear and certain. They should not be vague, ambiguous or confusing. If the terms are uncertain and cannot be made certain, the agreement is void.

9. Possibility of Performance – Section 56

The contract must be capable of being performed. An agreement to do an act which is impossible in itself is void. The doctrine of frustration applies when a contract becomes impossible to perform because of a supervening event after the contract is made.

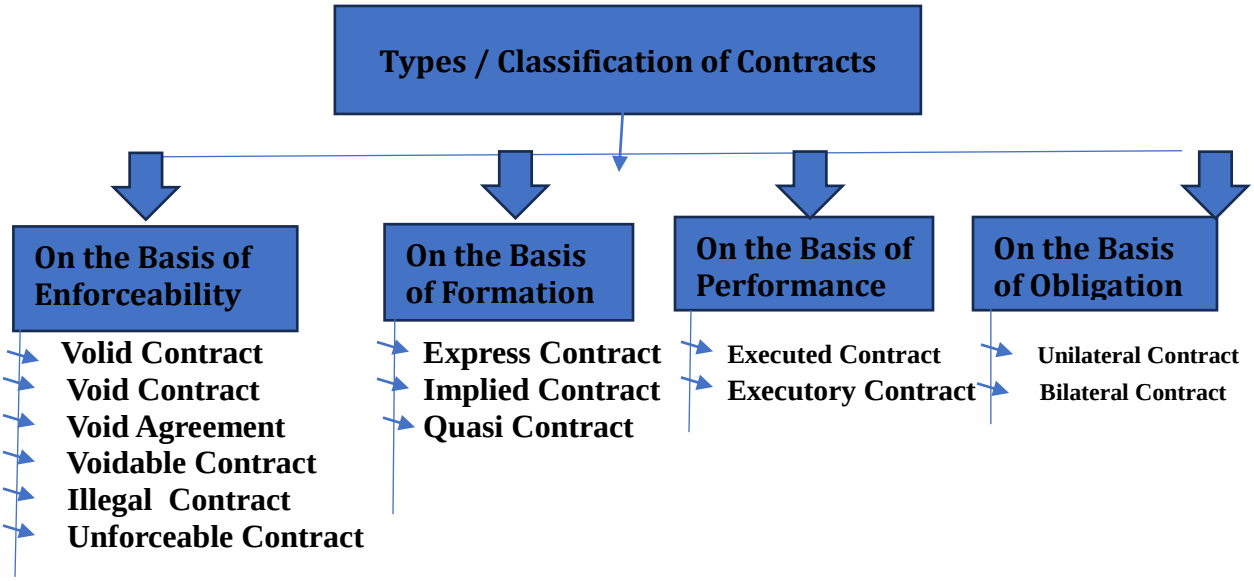
10. Agreement Must Not Be Declared Void

The agreement must not be one which the law has already declared void or illegal.

Examples:

1.Agreement in restraint of trade
2.Agreement in restraint of marriage
3.Certain agreements restricting legal proceedings
4.Agreements prohibited by law or opposed to public policy may also be illegal.

Types / Classification of Contracts



1. On the Basis of Enforceability

It means whether a contract can be legally enforced by a court or not.

i. Valid Contract

A contract which satisfies all the legal requirements.
It can be enforced by law.
Example: A agrees to sell a mobile to B for ₹10,000.

ii. Void Contract

A contract which was valid earlier but later becomes unenforceable.
It has no legal effect after it becomes void.

iii. Void Agreement

An agreement which is not enforceable by law from the beginning.
Void Agreement = Not legally enforceable

iv. Voidable Contract

A contract which can be cancelled by one of the parties.
Usually, it happens when free consent is not properly obtained.

Voidable = One party has the option to cancel

v. Illegal Contract

A contract whose purpose or consideration is against the law.
It is not recognised by law.
Example: An agreement to pay someone for committing a crime.

vi. Unenforceable Contract

A contract which cannot be enforced in court because of some technical or legal defect.
Unenforceable = Cannot be enforced due to a legal/technical defect

2. On the Basis of Formation

It means how the contract is formed.

i. Express Contract

The terms of the contract are clearly stated.
It may be written or spoken.
Example: A written agreement to sell a house.

ii. Implied Contract

The contract is created by the conduct or actions of the parties.
The terms are not directly stated.
Example: Taking a bus implies that you will pay the bus fare.

iii. Quasi-Contract

It is not a real contract.
It is an obligation created by law to prevent one person from getting an unfair benefit.
Quasi = Not a real contract, but created by law

3. On the Basis of Performance

It means whether the promises or obligations have been completed.

i. Executed Contract

Both parties have completed their obligations.
Example: A gives the mobile and B pays the price.

ii. Executory Contract

The obligations of the parties are still to be performed.
Performance is to be done in the future.
Example: A agrees to deliver goods to B next month.

4. On the Basis of Obligation

It means who has obligations to perform.

i. Unilateral Contract

The obligation is mainly on one side.
One party has already performed, while the other party's obligation remains.

ii. Bilateral Contract

Both parties have obligations to perform. Both parties make promises to each other.
👉 Bilateral = Both sides have obligations

*Difference between Void Agreement and Void Contract

Basis	Void Agreement	Void Contract
1. Meaning	A void agreement is void from the beginning (ab initio).	A void contract is valid in the beginning but later becomes void.
2. Compensation	Generally, no compensation can be claimed for anything done under the agreement.	Compensation may be available for something already given or done under the contract, depending on the situation.
3. Rights over Goods	A person who acquires goods under a void agreement does not get valid rights over those goods.	A person who acquires goods under a valid contract gets rights over them and may sell or pledge them before the contract becomes void.
4. Simple Example	An agreement with a minor is void from the beginning.	A valid contract may later become void because of an event that makes performance impossible.
Easy Note	Void Agreement = Never valid	Void Contract = Valid first → Void later

Difference Between Void Agreement and Voidable Contract

Basis	Void Agreement	Voidable Contract
1. Meaning	A void agreement cannot be enforced by law by any party.	A voidable contract is enforceable by law at the option of one party.
2. Validity	It is void ab initio, i.e., void from the beginning.	It is valid in the beginning but can later become void if the aggrieved party chooses to cancel it.
3. Compensation	Generally, there is no question of compensation for non-performance because the agreement is unenforceable from the beginning.	The aggrieved party may be entitled to compensation for loss or damage caused by non-performance.
4. Collateral Agreements	A void agreement generally does not affect collateral agreements. However, if it is void because the consideration or object is illegal, related agreements may also become void.	A voidable contract generally does not affect collateral agreements.
5. Rights of Third Party	A third party does not acquire valid rights under a void agreement.	A third party who purchases goods in good faith before repudiation may acquire valid title to those goods.
6. Can it become valid?	A void agreement can never become a valid contract.	A voidable contract becomes fully valid if the aggrieved party does not repudiate it.

Difference Between Void Contract and Voidable Contract

Basis	Void Contract	Voidable Contract
1. Meaning	As per Section 2(j), a contract which ceases to be enforceable by law becomes a void contract.	A contract which is enforceable by law at the option of one or more parties, but not at the option of the other party, is called a voidable contract.
2. When it becomes void	It becomes void when it ceases to be enforceable by law.	It becomes void when the aggrieved party chooses to cancel (repudiate) it.
3. Cause	It may become void due to impossibility of performance or other circumstances that make it unenforceable.	It generally arises due to coercion, undue influence, fraud, or misrepresentation.
4. Can it become valid?	A void contract cannot be made valid by the parties.	A voidable contract can be confirmed and continued as valid by the aggrieved party.
5. Legal Remedy	A void contract generally does not provide a remedy for enforcing the contract.	The aggrieved party has the right to repudiate/cancel the contract and may claim appropriate relief.

Difference Between Agreement and Contract

Basis	Agreement	Contract
1. Meaning	An agreement is a promise or set of promises between parties.	A contract is an agreement enforceable by law.
2. Obligation	An agreement may or may not create a legal obligation.	A contract creates a legal obligation on the parties.
3. Binding Nature	An agreement is not necessarily binding on the parties.	A contract is binding on the concerned parties.
4. Enforceability	All agreements are not enforceable by law.	Contracts are enforceable by law.
5. Relationship	All agreements are not contracts.	All contracts are agreements.
6. Scope	The scope of an agreement is wider than that of a contract.	The scope of a contract is limited, because only legally enforceable agreements become contracts.
7. Nature	An agreement can be lawful or unlawful.	A contract must be lawful and enforceable by law.
8. Example	A promises to take B to dinner. This is generally an agreement but not a contract.	A agrees to sell a bike to B for ₹50,000. If all legal requirements are fulfilled, it becomes a contract.

OFFER (PROPOSAL) AND ACCEPTANCE

OFFER (PROPOSAL)

An offer (proposal) is a proposal made by one person to another person with the intention of entering into a legally binding agreement.
The words “offer” and “proposal” can be used interchangeably.

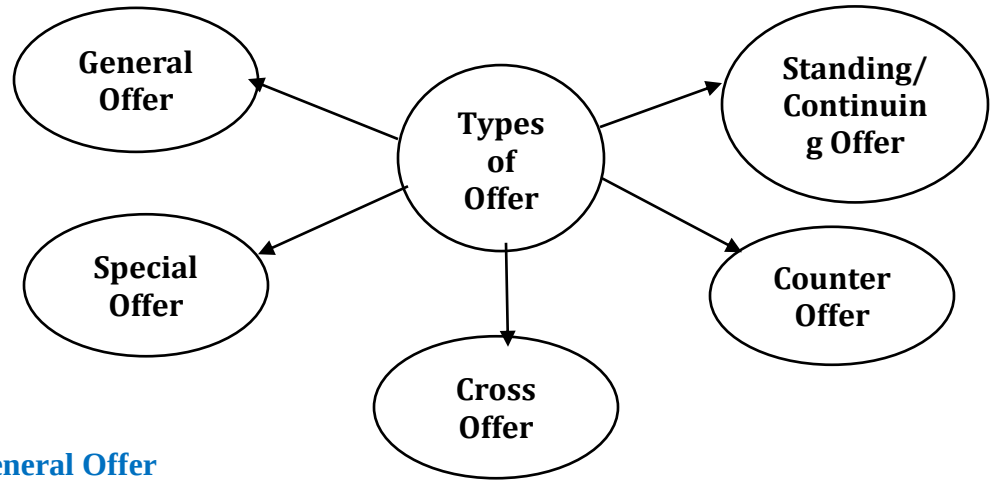
Important Terms

Term	Meaning
Offeror / Proposer	The person who makes the offer.
Offeree / Proposee	The person to whom the offer is made.

Example
X says to Y: “I am willing to sell my machine for ₹8,000. Are you ready to buy?”

- X = Offeror
- Y = Offeree
- ₹8,000 = Offer price
- X's statement = Offer

Classification/Types of Offer



1.General Offer

An offer made to the public. Anyone can accept it by fulfilling the conditions.
Example: ₹10,000 reward for finding a lost dog.

2.Special Offer

An offer made to a specific person. Only that person can accept it.
Example: A offers to sell his bike to B.

3.Cross Offer

When both parties make the same offer to each other without knowing about each other's offer. No contract is formed.

4.Counter Offer

When the original offer is changed or modified and a new offer is made. The original offer is rejected.
Example: Bike offered for ₹50,000, but B offers ₹45,000.

5. Standing / Continuing Offer

An offer that remains open for a certain period of time.
Example: Supply of goods every month for one year.

Acceptance[Section 2(b)]

Meaning of Acceptance

- Acceptance means giving consent to an offer.
- When the person to whom the offer is made agrees to the offer, it becomes a promise.
- Offer + Acceptance =Contract
- An agreement becomes a contract when it is legally enforceable.

Example:
A offers to sell his car to B for ₹1,00,000.
B agrees to buy the car for ₹1,00,000.
➡ B's agreement is called acceptance.

Difference Between Offer and Acceptance

Basis	Offer	Acceptance
1. Stage	Offer is the first stage of contract formation.	Acceptance is the second stage of contract formation.
2. Made by	Offer is made by the Offeror.	Acceptance is made by the Offeree.
3. Made to	Offer is made to the Offeree.	Acceptance is communicated to the Offeror.
4. Meaning	Offer shows the willingness to enter into a contract.	Acceptance shows agreement to the offer.
5. Effect	An offer creates the opportunity to accept.	Acceptance converts the offer into a promise.
6. Communication	Offer must be communicated to the offeree.	Acceptance must be communicated to the offeror.

Communication, Acceptance & Revocation of Offer

Communication of Offer and Acceptance-

- When both parties are face-to-face, offer and acceptance happen immediately.
- When parties are at different places, communication happens through post, courier, etc.
- Therefore, it is important to know when the offer and acceptance are communicated**.**

Modes of Revocation of Offer (Section 6)

An offer can be cancelled/revoked in the following ways:

1. **By Notice of Revocation**
   - Offeror can cancel the offer by informing the offeree before acceptance.
2. **By Lapse of Time**
   - Offer ends when the specified time expires.
   - If no time is specified, it ends after a reasonable time.
3. **By Non-Fulfilment of Condition**
   - If the offeree does not fulfil a condition of the offer, the offer ends.
   - Example: Advance payment must be made before a certain date but is not paid.
4. **By Death or Insanity**
   - If the offeror dies or becomes insane before acceptance, and the offeree knows about it, the offer ends.
5. **By Counter Offer**
   - If the offeree makes a counter offer, the original offer ends.
   - Example: A offers ₹50,000, B offers ₹45,000 → original offer ends.
6. **By Not Accepting in Proper Mode**
   - If the offeror specifies a particular method of acceptance, it should be followed.
   - If no method is given, a usual/reasonable method should be used.
7. **By Illegality**
   - If the offer becomes illegal before acceptance, it automatically comes to an end.
   - Example: A offers to sell goods, but a new law prohibits their sale before acceptance.

Consideration

Meaning and Definition

Consideration means “something in return.”
When one person promises to do something, the other person must give something in return.
That “something” is called consideration.

Section 2(d) defines consideration as follows-

1. Something in return is consideration.
2. It must be done at the desire of the promisor.
3. It can come from the promisee or any other person.
4. It can be past, present or future.
5. It should be real and lawful.
6. It need not be equal in value.

Definitions of Consideration

1. **According to Blackstone:**
   "Consideration is the recompense given by the party contracting to the other."
2. **According to Cheshire and Fifoot:**
   "Consideration is the price paid by the plaintiff for the defendant's promise."
3. **According to Pollock:**
   "Consideration is the price for which the promise of the other is bought."
4. **According to Sir Frederick Pollock:**
   "An act or forbearance of one party, or the promise thereof, is the price for which the promise of the other is bought."

Example:

- A sells a mobile to B for ₹10,000.
- A gives the mobile.
- B gives ₹10,000.

So,

- A's consideration = ₹10,000
- B's consideration = Mobile

Capacity of Parties to Contract

Introduction

- **Capacity to contract** means the **legal ability of a person to enter into a contract**.
- A valid contract must be made by **competent parties**.
- According to **Section 10 of the Indian Contract Act, 1872**, agreements made by competent parties can become valid contracts.
- A person must have the **legal capacity** to make a contract that is binding on them.

Capacity to Contract – Section 11

Capacity to contract means a person must be legally capable of making a valid contract. According to Section 11 of the Indian Contract Act, 1872, a person is competent to contract if they:

- ❖ Have reached the age of majority
- ❖ Are of sound mind
- ❖ Are not disqualified by law
- ❖ Persons who cannot enter into a contract:
- ❖ Minor – A person who has not reached the legal age of majority.
- ❖ Person of unsound mind – A person who is mentally incapable of understanding the contract and its effects.
- ❖ Disqualified by law – A person whom a law specifically prevents from entering into contracts.

Minor

- According to **Section 3 of the Indian Majority Act, 1875**, a person **below 18 years of age** is a minor.
- A person becomes a **major on completing 18 years**.

- However, in certain cases, a minor attains majority at **21 years**, namely when:
  - a guardian of the person or property is appointed by a **Court**, or
  - the person's property is under the **superintendence of a Court of Wards**.

Example: An 18-year-old Indian citizen endorsed a negotiable instrument in **Ceylon (SriLanka)**. He was not held liable as an endorser because he was a **minor under Ceylon's law**.

Free Consent

Consent is one of the essential elements of a valid contract under the Indian Contract Act, 1872. According to **Section 13**, consent exists when two or more parties agree upon the **same thing in the same sense**. This principle is known as ***Consensus ad idem***, which means "meeting of minds" or "agreement upon the same thing."

Definition of Free Consent

According to **Section 14 of the Indian Contract Act, 1872**, consent is said to be **free** when it is not caused by:

1. **Coercion** – Section 15
2. **Undue Influence** – Section 16
3. **Fraud** – Section 17
4. **Misrepresentation** – Section 18
5. **Mistake** – Sections 20, 21 and 22

Thus, **free consent means that the parties enter into a contract voluntarily, without pressure, deception, undue influence, or relevant mistake.**

Legality of Object

Meaning of Object

Object means the **purpose or purpose behind an agreement**.
According to **Section 23 of the Indian Contract Act, 1872**, the **object and consideration of an agreement must be lawful**. If the object or consideration is unlawful, the agreement is **void**.
Example:
A assigns a contract to B for ₹100 with the intention of defrauding his creditors. The consideration of ₹100 is lawful, but the **object of defrauding creditors is unlawful**. Therefore, the agreement is void.

Performance of Contracts

Meaning of Performance of Contract

Performance of contract means **fulfilling the promises and legal obligations made by the parties under a contract**.According to **Section 37 of the Indian Contract Act, 1872**, the parties to a contract must **perform or offer to perform their respective**

promises, unless their performance is excused under the provisions of the Act or any other law.

Example:

A agrees to sell a mobile phone to B for ₹20,000. A delivers the mobile phone and B pays ₹20,000. Both parties have performed their promises, so the contract is discharged by performance.

Types of Performance

There are **two types of performance of a contract**:

1. Actual Performance

Actual performance means that a party has **completely fulfilled all the promises and obligations** agreed upon in the contract.When a party does everything that he/she promised to do, and **nothing remains to be done**, it is called actual performance.

Example:

A agrees to deliver 100 bags of rice to B, and B agrees to pay ₹50,000. A delivers all 100 bags and B makes the full payment. Both parties have actually performed their promises.

2. Offer to Perform or Tender

Tender means an **offer by the promisor to perform his/her contractual obligation**, which the promisee refuses to accept.

If the promisor properly offers to perform but the promisee refuses to accept it, the promisor is generally **not responsible for non-performance**.

Example:

A owes ₹10,000 to B. A offers to pay the amount on the due date, but B refuses to accept it. A has made a **tender of payment**. A is generally not liable for non-performance merely because B refused to accept the payment. A valid tender may also stop further interest from running, subject to the legal requirements.

Essentials of Offer to Performance or Tender of performance

For a **tender (offer to perform)** to be valid under the Indian Contract Act, 1872, the following essentials should be satisfied:

1. **Proper Time** – The tender must be made at the time fixed in the contract.
2. **Proper Place** – It must be made at the place agreed upon in the contract. If no place is fixed, it should be made at a proper place according to the circumstances.
3. **Reasonable Opportunity to Verify** – The promisee must be given a reasonable opportunity to verify that the performance offered is correct.
4. **For the Whole Obligation** – The tender must be for the **entire performance** promised, not just a part of it.**Example:** If A agrees to deliver 100 tonnes of wheat, offering only 90 tonnes is not a valid tender.
5. **Made to the Proper Person** – The tender must be made to the **promisee or his/her authorised representative**.
6. **Exact Amount and Legal Tender** – In case of payment, the promisor must offer the **exact amount due** in legally accepted currency.

Who May Perform a Contract?

Under the **Indian Contract Act, 1872**, a contract may be performed by the following persons:

1. Promisor Himself

The **promisor** can personally perform the contract when the contract requires his/her personal skill, ability, or qualification.

Example: A agrees to paint a picture for B. A must personally perform the work because it depends on his artistic skill.

2. Agent

If personal performance is **not required**, the promisor may appoint an **agent** to perform the contract on his/her behalf.

Example: A agrees to deliver goods to B. A may send his agent to deliver the goods.

3. Legal Representatives

If the promisor dies, his/her **legal representatives** may be required to perform the contract, unless the contract involves personal skill or personal qualifications.

Example: A agrees to deliver 100 bags of rice to B. If A dies before delivery, his legal representatives may have to complete the contract from A's estate.

4. Third Person

The promisee may accept performance from a **third person**. Once the promisee accepts such performance, he generally cannot later demand the same performance from the original promisor.

5. Joint Promisors

When there are **two or more joint promisors**, all of them are responsible for performing the promise according to the provisions of the Act.

Who May Demand Performance?

Under the **Indian Contract Act, 1872**, the following persons may demand performance of a contract:

1. Promisee

The **promisee** is the person who has the right to demand performance from the promisor.

Example: A promises to deliver 100 bags of rice to B. Here, B can demand performance from A.

2. Legal Representative of the Promisee

If the promisee dies, his/her **legal representative** can demand performance, unless the contract is of a personal nature.

3. Joint Promisees

When there are **two or more joint promisees**, they can jointly demand performance of the promise.

Example: A promises to pay ₹1,00,000 to B and C jointly. B and C can demand performance from A.

4. Assignee

A person to whom the rights under a contract have been **legally assigned** may demand performance, subject to the nature and terms of the contract.

5.Agent

An **agent** may demand performance or take necessary legal action **on behalf of the promisee**, if authorised to do so.

6.Third Person / Beneficiary

Generally, a **stranger to a contract cannot sue** for its performance. However, in certain recognised exceptions, a **third person who is a beneficiary** may enforce the contract.

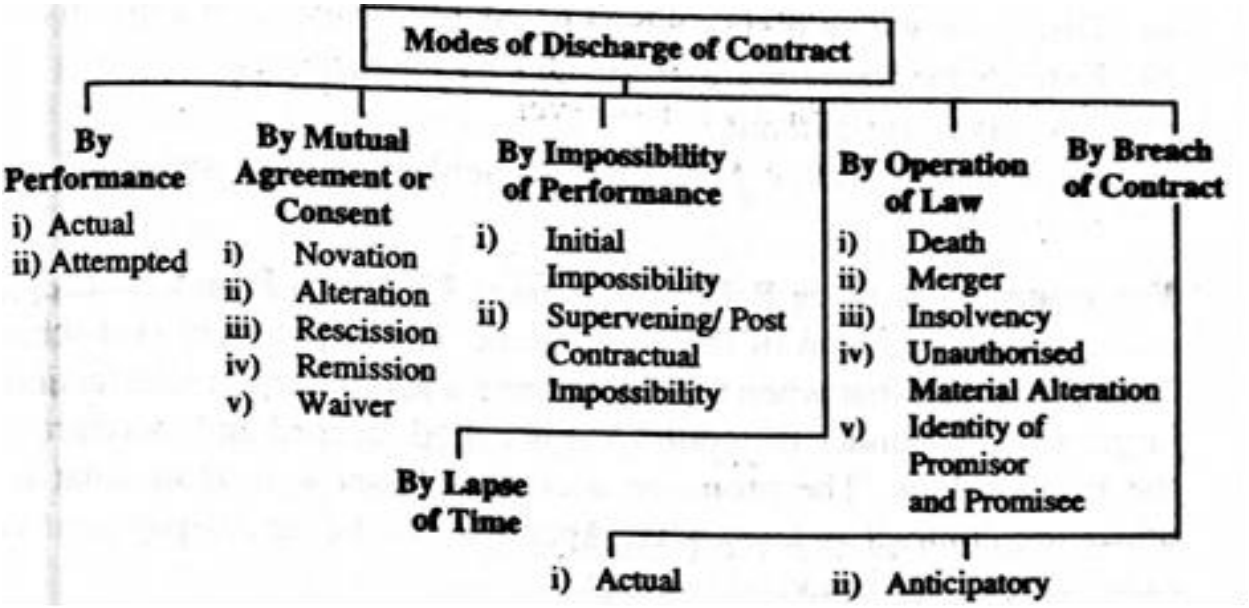
Discharge of Contract

Meaning-

Discharge of contract means **the termination or ending of a contract**.
When a contract ceases to operate and the rights and obligations of the parties come to an end, the contract is said to be discharged.
It means that the **parties are no longer required to perform their contractual obligations.**

Example:
A agrees to sell goods to B. A delivers the goods and B makes the payment. After both parties fulfil their promises, the contract comes to an end. This is called discharge of contract by performance.

Modes of Discharge of Contract



A contract can come to an end, or be **discharged**, in several ways.
The chart shows **6 main modes**:

1. Discharge by Performance

The contract is discharged when the parties fulfil their promises.

i) Actual Performance

- The parties actually complete their contractual obligations.
- Nothing remains to be performed.
- **Example:** A delivers goods to B and B pays the agreed price.

ii) Attempted Performance (Tender)

- A party offers to perform the promise, but the other party refuses to accept it.
- If the tender is valid, the promisor is generally not liable for non-performance.

- **Example:** A offers to pay B the amount due, but B refuses to accept the payment.

2. Discharge by Mutual Agreement or Consent

The parties themselves agree to end or modify the contract.

i) Novation

- The old contract is replaced by a **new contract**.
- The old contract comes to an end.
- **Example:** A owes B ₹10,000. C agrees to pay B on A's behalf, with B's consent. The old obligation may be replaced by a new one.

ii) Alteration

- The parties change one or more **terms of the existing contract**.
- The parties remain the same.
- **Example:** A agrees to deliver goods to B on 1 June. Both agree to change the delivery date to 15 June.

iii) Rescission

- The parties agree to **cancel the contract**.
- The contractual obligations come to an end.

iv) Remission

- The promisee accepts **lesser performance** than what was originally promised.
- **Example:** A owes B ₹10,000. B agrees to accept ₹7,000 in full settlement.

v) Waiver

- A party **voluntarily gives up or abandons a contractual right**.
- **Example:** B is entitled to receive ₹10,000 but voluntarily gives up the right to claim it.

3. Discharge by Impossibility of Performance

When the contract **cannot be performed**, it may be discharged.

i) Initial Impossibility

- Performance is impossible **from the very beginning**.
- Such an agreement is generally void.

Example: A agrees to discover a treasure by magic. The performance is impossible from the beginning.

ii) Supervening / Post-Contractual Impossibility

- The contract was possible when it was made, but later becomes **impossible or unlawful** because of an event beyond the parties' control.

Example: A agrees to perform at a particular event, but the event venue is destroyed by fire before the performance.

4. Discharge by Lapse of Time

A contract may be discharged when the **legal time limit for enforcing the contractual right expires**.

Example: If a person fails to take legal action within the limitation period prescribed by law, the remedy may become barred.

5. Discharge by Operation of Law

The contract may come to an end because of the **operation of law**, without the parties specifically agreeing to end it.
The chart mentions:

i) Death

- If the contract depends on the **personal skill or ability** of a person, his/her death may discharge the contract.

ii) Merger

- A lower contractual right may merge into a higher right when both rights become vested in the same person.

iii) Insolvency

- Insolvency may affect or discharge contractual obligations according to applicable insolvency law.

iv) Unauthorised Material Alteration

- If one party makes a **material change in the terms of a contract without the consent of the other party**, it may discharge the other party from the contract.

v) Identity of Promisor and Promisee

- When the same person becomes both the **promisor and promisee**, the contractual obligation may come to an end through merger of rights and obligations.

6. Discharge by Breach of Contract

A contract is discharged by **breach** when one party fails or refuses to perform the promise.
There are two types:

i) Actual Breach

- Breach occurs **on the date when performance is due** or during the performance of the contract.
- **Example:** A agrees to deliver goods on 10 June but refuses to deliver them on that date.

ii) Anticipatory Breach

- One party **refuses to perform the contract before the due date**.
- The other party can take appropriate legal action according to law.

Example: A agrees to deliver goods to B on 30 June but informs B on 20 June that he will not deliver them. This is anticipatory breach.

Breach of Contract

Meaning of Breach of Contract

Breach of contract means the **failure of a party to perform the promise or obligation** made under a valid contract.
A party is said to commit a breach when:

- He/she **fails to perform** the contractual promise.
- He/she **refuses to perform** the promise.
- He/she informs the other party that he/she **will not perform the contract**.

- His/her **actions or conduct** make it clear that he/she does not intend to perform the contract.

Example:
A agrees to deliver 100 bags of rice to B on 10 June. A refuses to deliver the rice on the due date.
A has committed a breach of contract.

Types of Breach of Contract

Breach of contract is mainly of **two types**:

1. Anticipatory Breach – Section 39

An **anticipatory breach** occurs when a party **refuses to perform the contract before the date fixed for performance**.
Under **Section 39 of the Indian Contract Act, 1872**, when a party refuses to perform or makes himself/herself unable to perform the promise in its entirety, the promisee may put an end to the contract, unless the promisee has accepted its continuation.

Two ways of Anticipatory Breach

i) By Words – Express Repudiation

The party **clearly states**, either orally or in writing, that he/she will not perform the contract.
Example:
X agrees to sell 10 tonnes of wheat to Y, to be delivered on 20 October. On 10 October, X tells Y that he will not supply the wheat.
➡ This is **anticipatory breach by express refusal**.

ii) By Conduct – Implied Repudiation

The party's **actions make performance impossible**, even though he/she may not directly say that the contract will not be performed.
Example:
X agrees to sell his entire wheat crop to Y. Before the delivery date, X sells the entire crop to Z.
➡ X has committed **anticipatory breach by conduct** because he has made it impossible to perform the contract with Y.

2. Actual Breach

An **actual breach** occurs when a party fails to perform the contract **when performance is due or while the contract is being performed**.
There are two ways in which actual breach can occur:

i) Breach on the Due Date

When a party **fails or refuses to perform the promise on the date fixed for performance**, it is an actual breach.
Example:
X agrees to deliver 10 tonnes of wheat to Y in two equal instalments. On the date fixed for delivery, X refuses to deliver the goods.
➡ This is **actual breach on the due date**.

ii) Breach During the Course of Performance

When a party has **started performing the contract but later refuses or fails to complete the remaining obligation**, it is an actual breach during performance.
Example:
X agrees to deliver 10 tonnes of wheat to Y in two instalments. X delivers the first 5 tonnes but later refuses to deliver the remaining

Remedies for Breach of Contract

Remedies for breach of contract are the **legal remedies available to an aggrieved (injured) party when the other party fails to perform the contract**.
The main remedies are:

1. Rescission of Contract

Rescission means **cancellation or termination of the contract**.
When one party breaches the contract, the aggrieved party may treat the contract as terminated and is **discharged from further contractual obligations**.
Example:
A promises to supply 100 bags of rice to B. A fails to deliver the rice on the agreed date. B does not have to pay the price.

2. Suit for Quantum Meruit

Quantum meruit means **"as much as is earned"** or **payment in proportion to the work done**.
If a contract is partly performed and the other party prevents or refuses further performance, the party who has already performed may claim **reasonable payment for the work or services already provided**, where the law permits such a claim.
Example:
A completes part of a job for B, but B wrongfully stops the contract. A may claim reasonable payment for the work already completed.

3. Suit for Specific Performance

Specific performance means an order of the court requiring the party in breach to **actually perform the promise made in the contract**.
The court may grant this remedy where **monetary compensation is not an adequate remedy**, subject to the provisions of the **Specific Relief Act, 1963**.
Example:
A agrees to sell a particular piece of land to B but later refuses to complete the sale. In appropriate circumstances, B may seek specific performance.

4. Suit for Injunction

An **injunction** is a **court order preventing a person from doing something** that he/she has agreed not to do.
It is particularly relevant to the **negative terms** of a contract.
Example:
A agrees not to work for a competing business during a specified contractual period. If A breaches a legally enforceable negative obligation, the court may, where appropriate, restrain A from doing the prohibited act.

5. Suit for Damages

Damages are **monetary compensation** given to the aggrieved party for the loss suffered because of the breach of contract.
The main purpose is to **compensate the injured party for the loss caused by the breach**, subject to the rules governing damages.
Example:
A agrees to deliver goods to B but fails to deliver them. B suffers a financial loss as a result. B may claim damages, if legally recoverable.

Damages for Breach of Contract

Definition of Damages

Damages are the **monetary compensation awarded by the court to the aggrieved party for the loss suffered due to the breach of contract**.
The main purpose of damages is to **compensate the injured party**, not to punish the party who committed the breach.
Example:
A agrees to deliver goods to B but fails to deliver them. If B suffers a loss because of A's breach, B may claim damages according to law.

Types of Damages

Damages are a monetary compensation awarded to the injured party for the loss or injury suffered because of the breach of a contract.
The main purpose of damages in contract law is generally to **compensate the injured party for the loss suffered**, rather than to punish the party who committed the breach.
The important types of damages are as follows:

1. Ordinary / General Damages

Ordinary or General Damages are damages awarded for the **natural and direct loss** that arises from a breach of contract.
These are losses that normally and directly result from the breach and would ordinarily be expected to arise in the usual course of events.
Example-
A agrees to sell goods to B for **₹10,000**, but A fails to deliver the goods. B purchases the same goods from another seller for **₹12,000**.
The direct difference is:
₹12,000 − ₹10,000 = ₹2,000
Therefore, B may claim **₹2,000 as damages**, subject to the applicable legal rules and circumstances.

2. Special Damages

Special Damages are damages relating to a **special or unusual loss** arising because of particular circumstances connected with the contract.
Such damages may be recoverable where the special circumstances were **communicated to or known by the parties at the time of making the contract**, so that the resulting loss could reasonably be contemplated.
Example-
A knows that B requires a particular machine urgently for a specific business purpose. A agrees to deliver the machine but fails to do so.
If B suffers an additional loss because of the known special circumstances, B may seek special damages where the legal requirements for such recovery are satisfied.

3. Exemplary / Punitive Damages

Exemplary or Punitive Damages are damages intended primarily **to punish wrongful conduct**, rather than simply compensate the injured party.
In ordinary breach of contract cases, damages are generally compensatory. Therefore, exemplary damages are **exceptional** in contract law and are not normally awarded merely because a contract has been breached.
They may arise in limited situations recognized by law.
Example-
Suppose a party's conduct in relation to a contractual obligation falls within an exceptional category where punitive damages are legally available. In such a case, the court may consider an award beyond ordinary compensation.

4. Nominal Damages

Nominal Damages are awarded where a person's **legal right has been violated**, but the person is unable to establish substantial or actual financial loss.
The amount awarded is generally **small**.
Example-
A enters into a valid contract with B but breaches it. B establishes that a contractual right was violated but cannot prove any actual monetary loss.
Where the law permits, B may receive nominal damages to recognize the violation of the legal right.

5. Damages for Loss of Reputation

Damages for **loss of reputation** are generally not available as ordinary contractual damages merely because a contract has been breached.
However, there are **exceptional situations** in which loss of reputation may be relevant, particularly in certain contracts where the nature of the relationship makes reputational harm a foreseeable consequence.
A commonly discussed example involves certain **banking contracts**, where wrongful conduct by a bank may cause serious harm to a customer's reputation.
Example-
If a bank wrongfully refuses to honour a customer's cheque in circumstances where the law recognizes reputational loss as recoverable, the customer may have a claim for damages arising from the resulting harm, subject to the applicable legal requirements.

Rules for Ascertaining Damage

The important rules for determining damages are:

1. Damages are Compensatory, Not Punitive

The purpose is to **compensate the aggrieved party**, not to punish the party who breached the contract.

2. Put the Aggrieved Party in the Same Position

The injured party should, as far as money can do so, be placed in the **same financial position as if the contract had been properly performed**.

3. Loss Must Arise from the Breach

Damages are awarded only for losses that are **naturally and directly connected with the breach**.

4. Remote Loss is Not Compensated

A party cannot normally recover compensation for **remote or indirect losses** that could not reasonably have been contemplated when the contract was made.

5. Duty to Mitigate Loss

The aggrieved party must take **reasonable steps to reduce or minimise the loss** caused by the breach.

Example:

If a seller fails to deliver goods, the buyer should reasonably try to purchase substitute goods rather than allow the loss to increase unnecessarily.

6. Special Circumstances Must Be Known

Special damages can generally be claimed only when the **special circumstances were communicated or known to the other party** when the contract was made.

7. Liquidated Damages and Penalty

The parties may specify an amount payable in case of breach. The court determines the amount recoverable **according to the applicable legal rules**.

8. Cost of Suit

The expenses of legal proceedings may be awarded by the court, generally **at the court's discretion**.

E-Contracts

Meaning of E-Contract

An E-contract (Electronic Contract) is a contract that is created, negotiated, and accepted through electronic means, such as the internet, websites, e-mail, or other electronic communication systems.

In simple words, an e-contract is a contract made electronically instead of through traditional paper documents.

Example:

A customer orders a product through an online shopping website, agrees to the terms and conditions, and makes payment online. This creates an electronic contract between the buyer and seller.

Types of E-Contracts

There are mainly **three types**:

1. Click-Wrap Contract

A **click-wrap contract** requires the user to actively accept the terms and conditions, usually by clicking **“I Agree” or “Accept.”**

Example:

Before downloading software, the user must click **“I Agree”** to the licence terms.

2. Shrink-Wrap Contract

A **shrink-wrap contract** is commonly associated with software or products sold in **sealed packaging**.

The terms of the licence are provided inside or with the package. Opening the package or using the software may indicate acceptance of the terms, depending on the applicable legal circumstances.

Example:

A person purchases software in a sealed box. The licence terms state that opening the package indicates acceptance.

3. Browse-Wrap Contract

In a **browse-wrap contract**, the terms and conditions are available on a website, and the user's **use of or continued browsing of the website** is claimed to constitute acceptance.

Example:

A website displays a link to its "Terms and Conditions" at the bottom of its pages. The terms state that continued use of the website constitutes acceptance.

Nature / Features of E-Contracts

An **E-Contract (Electronic Contract)** is a legally enforceable agreement created, communicated, accepted, and/or stored through electronic means. In an e-contract, the parties may complete the contractual process using computers, mobile phones, websites, e-mail, software applications, or other electronic communication systems.

1. Electronic Form

The most important feature of an e-contract is that it is created and communicated in **electronic form** rather than through traditional paper documents.

The offer, acceptance, terms and conditions, invoices, confirmations, and other contractual records may exist in digital form. Electronic records can be stored on computers, mobile devices, servers, or cloud platforms.

Example:

When a customer purchases a product through an online shopping website and receives an electronic order confirmation, the transaction may form part of an electronic contract.

2. No Physical Meeting Required

In a traditional contract, the parties may meet personally to discuss and finalize the agreement. An e-contract generally does **not require face-to-face interaction**.

The parties can be located in different cities or even different countries and can still enter into a contract through electronic communication. This feature saves time, travel expenses, and effort and makes transactions possible across geographical boundaries.

Example:

A buyer in Maharashtra can purchase software from a company located in another country without physically visiting the company's office.

3. Fast and Convenient

E-contracts make contractual transactions **quick and convenient**. Offers, acceptances, confirmations, and related documents can be communicated almost instantly.

This reduces the time normally required for printing, signing, posting, and physically exchanging documents. Businesses can complete a large number of transactions within a short period.

Example:
A customer can accept the terms of an online service and immediately receive confirmation of the subscription.

4. Electronic Communication

E-contracts depend upon **electronic methods of communication**. Different technologies may be used to make, communicate, accept, or record contractual terms.
Common methods include:

1. E-mail
2. Websites
3. Mobile applications
4. Online platforms
5. Computer software
6. Electronic data interchange (EDI)
7. Other digital communication systems

Example:
A company may send an offer through e-mail and the other party may accept it by replying electronically.
Thus, electronic communication acts as an important medium through which contractual dealings take place.

5. Paperless Transaction

E-contracts can substantially reduce or eliminate the need for **physical paper documents**. Contractual information can be created, transmitted, signed, and stored digitally. This can reduce printing, stationery, postage, and physical storage requirements.
Paperless transactions can make business processes more efficient and reduce administrative work.
Example:
Instead of signing and exchanging a printed service agreement, parties may use an electronic document and an electronic signature.

6. Can Involve Multiple Parties

An e-contract is not necessarily limited to only two parties. **Multiple parties can participate electronically** in the same transaction.
Different parties such as buyers, sellers, service providers, intermediaries, payment providers, and other participants may be involved.
Example:
In an online marketplace transaction, the buyer and seller may be the principal parties, while the platform and payment service provider may also participate in completing the electronic transaction.
This makes e-contracts useful for complex online business transactions.

7. Secure and Recorded

Electronic transactions can create **digital records** of contractual activities. E-mails, order confirmations, electronic invoices, transaction logs, digital signatures, and other electronic records may help establish evidence of the transaction.

Security measures such as: Password protection, Encryption, Authentication, Digital signatures, Access controls can be used to protect electronic records.

Example:

After an online purchase, the customer may receive an order confirmation by e-mail. The website may also maintain a record of the order, payment, and delivery details.

Formation/Ways of Making E-Contracts

An **E-Contract (Electronic Contract)** is formed when the parties enter into an agreement using electronic means. The basic elements of a contract, such as **offer, acceptance, intention to create legal relations, consideration, and consent**, may be completed through electronic communication.

E-contracts can be formed in several ways depending upon the method used by the parties.

1. Through E-mail

The parties negotiate and communicate the terms of the contract through e-mail and accept the agreement electronically.

An e-contract may be formed through the exchange of **e-mails** between the parties.

The parties can negotiate the terms and conditions, make an offer, modify the terms, and communicate acceptance through e-mail. Once the necessary requirements of a valid contract are satisfied, the electronic exchange may constitute evidence of the agreement.

E-mail contracts are useful because:

- Communication is quick.
- Parties do not need to meet physically.
- Negotiations can be recorded.
- Documents can be attached electronically.
- Parties can communicate from different locations.

2. Through Online Forms / Websites

E-contracts can also be created through **websites and online forms**.

A user enters the required information into an online form and submits it electronically.

The website may then process the information and confirm the transaction.

Online forms make transactions faster and reduce the need for physical paperwork.

Online forms are commonly used for:

- Online purchases
- Insurance applications
- Booking services
- Registration for services
- Online subscriptions
- Applications and registrations

3. Through Click-Wrap

A Click-Wrap Agreement is an electronic agreement in which the user is presented with contractual terms and is required to click a button such as "I Agree," "Accept," or "Continue" to indicate acceptance.

The user generally cannot proceed with the relevant service or installation unless the required acceptance is given.

- It have some Features:
- Terms and conditions are presented electronically.
- The user indicates acceptance by clicking a button.
- Acceptance can be recorded electronically.
- It is widely used for software, websites and online services.

Example: Agreeing to software terms before installing an application.

4. Through Electronic Data Interchange (EDI)

Electronic Data Interchange (EDI) refers to the **electronic exchange of standardized business information between computer systems**.
Instead of exchanging business documents manually through paper, organizations can exchange structured electronic information directly between their computer systems.
EDI is particularly useful for regular and large-scale business transactions.
EDI may be used for:

- Purchase orders
- Invoices
- Shipping information
- Delivery details
- Business records
- Other commercial documents

EDI can:

- Reduce paperwork.
- Speed up business communication.
- Reduce manual data entry.
- Improve accuracy.
- Facilitate regular business transactions.
- Enable computer-to-computer exchange of information.

5. Through Electronic Agents

An **electronic agent** is a computer program or automated system that can perform certain actions electronically according to instructions, rules, or parameters established by a person or organization.
The system may automatically send an order, accept information, or carry out another transaction without a person manually performing each individual step.
Electronic agents are useful because they can:

- Automate repetitive transactions.
- Save time.
- Reduce human involvement in routine processes.
- Operate quickly.
- Handle large numbers of transactions.

Example:
A supermarket's computer detects that the stock of a product is low and automatically sends an order to the supplier's computer.

Validity and Legality and recognition of E-Contracts

An **E-Contract (Electronic Contract)** is an agreement that is created, communicated, accepted, or performed through electronic means such as **e-mail, websites, mobile applications, electronic platforms, and computer systems**.
In India, an e-contract can be **legally valid and enforceable** if it satisfies the essential requirements of a valid contract under the applicable law.
The use of electronic communication by itself does not make a contract invalid.

Legal Recognition of E-Contracts in India

The **Information Technology Act, 2000** provides important legal recognition to electronic transactions.
Section 10A – Validity of Contracts Formed Through Electronic Means
Section 10A of the Information Technology Act, 2000 provides that a contract shall not be considered unenforceable merely because the **proposal, acceptance, or revocation of the proposal and acceptance is expressed electronically**.
In simple words, a contract does not become invalid merely because the parties used electronic means to communicate and conclude it.
Example
A sends an offer to B through e-mail.
B accepts the offer by replying to the e-mail.
The contract is not invalid merely because the offer and acceptance were communicated electronically. Other requirements of a valid contract must still be satisfied.

Essential Requirements for Validity of an E-Contract

An e-contract must generally satisfy the requirements applicable to a valid contract. The important requirements are:

1. Offer and Acceptance

There must be a **valid offer** made by one party and a corresponding **valid acceptance** by the other party. There must be a clear offer and acceptance. Mere discussions or negotiations do not necessarily create a contract.The offer and acceptance may be communicated electronically.
Example:
A sends an e-mail offering to sell a laptop to B for ₹50,000.
B replies, "I accept your offer."
The electronic communication can constitute the offer and acceptance, subject to the other legal requirements.

2. Free Consent

The parties must enter into the contract with **free consent**. Electronic mode does not remove the requirement of genuine and voluntary consent.
Consent should not be obtained through:

- Coercion
- Undue influence

- Fraud
- Misrepresentation
- Mistake, where legally relevant

Example:
If a person is deceived into accepting an online agreement through fraudulent information, the validity of the agreement may be affected according to the applicable law.

3. Capacity of Parties

The parties entering into an e-contract must have the **legal capacity to contract**. The fact that a person can technically click "I Agree" does not by itself establish legal capacity to enter into a binding contract.
Generally, the parties must satisfy the legal requirements relating to:

- Age
- Soundness of mind
- Other legal qualifications prescribed by law

Example:
If an online transaction is entered into by a person who lacks contractual capacity under applicable law, questions may arise regarding the enforceability of the agreement.

4. Lawful Consideration

A valid contract generally requires **lawful consideration**, unless an exception recognized by law applies.
Consideration means something of value given, promised, or agreed to be given in return for the promise of the other party. The electronic nature of the transaction does not eliminate the requirement relating to lawful consideration.
Example:
A agrees to provide an online course to B for ₹5,000.
Here:
A's promise → Provide the course
B's promise → Pay ₹5,000
The consideration must be lawful.

5. Lawful Object

The **object or purpose of the contract must be lawful**.
An electronic agreement cannot become valid merely because it was made through a website or application if its purpose is unlawful. Electronic form does not make an unlawful transaction legal.
Example:
A and B cannot create a legally enforceable e-contract through e-mail for carrying out an illegal activity.

6. Intention to Create Legal Relations

The parties should intend their agreement to create **legal obligations**.
Commercial transactions normally indicate an intention to create legal relations, whereas ordinary social or domestic arrangements may not necessarily have such an intention.

Example:
A business places an online purchase order with a supplier and the supplier accepts it. The commercial nature of the transaction generally indicates an intention to create legal obligations.

Recognition of Electronic Records as Evidence

Electronic transactions create records such as:

- E-mails
- Electronic invoices
- Online order confirmations
- Digital documents
- Transaction records
- Computer-generated records
- Electronic communications

Such electronic records may be relevant as evidence in legal proceedings, subject to the **applicable rules of evidence and requirements for admissibility and authenticity**.

Example

If a dispute arises regarding an online purchase, the parties may rely on relevant electronic records such as the order confirmation, payment record, and e-mail communications, subject to the applicable evidentiary rules.