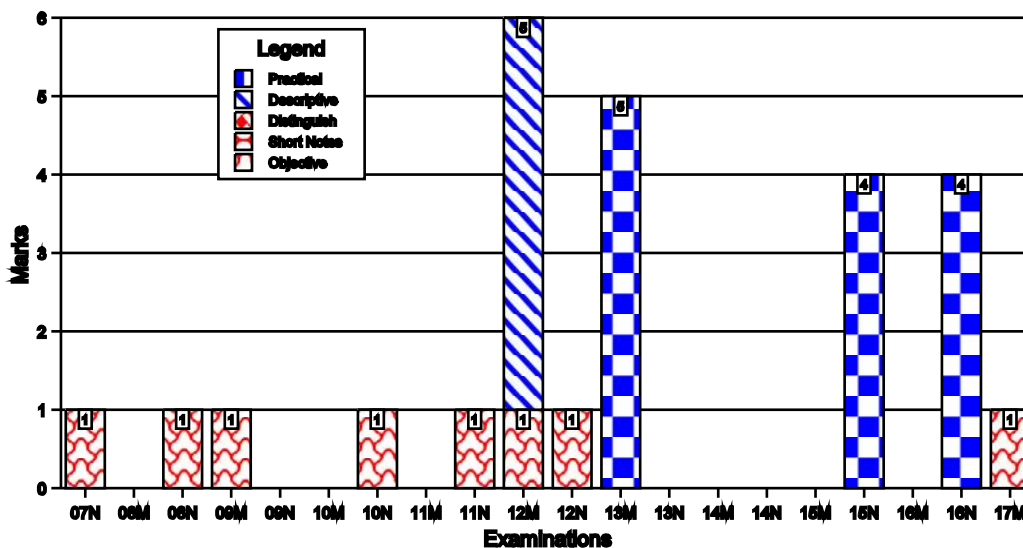


Star Rating

On the basis of Maximum marks from a chapter Nil
 On the basis of Questions included every year from a chapter Nil
 On the basis of Compulsory questions from a chapter ☆☆

CHAPTER	
1	Basics of a Contract
THIS CHAPTER COMPRISES OF	
☞ What is a Contract ☞ Essential elements of a valid contract ☞ Types of Contract ☞ Proposal and Offer ☞ Acceptance ☞ Communication of offer ☞ Acceptance and Performance ☞ Revocation of offer and Acceptance.	

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



Bloom's Taxonomy (BT) Keeps You Ahead During Learning			
Basis On Which Questions Are Asked In Your Exam. So Learn In a Proper, Systematic & Scientific Way.	<table border="1" style="width: 100%;"> <tr> <td style="text-align: center;">Low Level Thinking Skills</td> <td> Level 1: Knowledge Level 2: Comprehension </td> </tr> </table>	Low Level Thinking Skills	Level 1: Knowledge Level 2: Comprehension
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<table border="1" style="width: 100%;"> <tr> <td style="text-align: center;">High Level Thinking Skills</td> <td> Level 3: Application Level 4: Analysis Level 5: Synthesis Level 6: Evaluation </td> </tr> </table>	High Level Thinking Skills	Level 3: Application Level 4: Analysis Level 5: Synthesis Level 6: Evaluation	
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Focus:**Analysis of this chapter on the basis of Bloom's Taxonomy**

Objective and Descriptive Questions asked in your exam require Low Level Thinking Skills, Whereas Practical Questions require High Level Thinking Skills specially Synthesis and Evaluation Skill.

▶ OBJECTIVE QUESTIONS**2007 - Nov [1] {C} (b) (ii)****Based on BT's Level 2**

Pickup the correct answer from the following :

(a) In case of void agreements, collateral transactions are

- (1) Also void
- (2) Unenforceable
- (3) Not affected
- (4) Illegal

(1 mark)

Answer :

(3) Not affected

2008 - Nov [1] {C} (c)**Based on BT's Level 1&2**

Pick-up the correct answer from the following and give reasons:

- (i) When a person without expressing his final willingness proposes

certain terms on which he is willing to negotiate, he makes :

- (1) Counter Offer
- (2) Standing Offer
- (3) Offer
- (4) Invitation to an Offer.

(1 mark)

Answer :

- (4) Invitation to an Offer:** The main difference between an offer and an invitation to offer is that in the case of former there should be expression of willingness to do or to abstain from doing with a view to obtaining the assent of the other party, while in the later one, the party without expressing his final willingness, proposes certain terms on which he is willing to negotiate, he does not make an offer, he only invites the other party to make an offer on those terms.

2009 - May [1] {C} (c)

Based on BT's Level 1&2

Pick out the correct answer from the following and give reasons:

- (i) An agreement to subscribe or contribute a plate or prize of the value of ₹ 500 or above to be awarded to the winner of a horse race is
- (1) Void
 - (2) Valid
 - (3) Illegal
 - (4) Unenforceable.

(1 mark)

Answer :

- (2) Valid:** As per Sec. 30 of Indian Contract Act, 1872, an agreement to subscribe to or contribute a plate or prize of the value of ₹ 500 or above to be awarded to the winner of horse race is valid.

2010 - Nov [1] {C} (b) (II)

Based on BT's Level 1&2

Choose the correct answer from the following and give reasons.

- (iii) Cash is withdrawn by the customer of a bank from the automatic teller machine is an example of:
- (a) express contract
 - (b) void contract
 - (c) tacit contract
 - (d) illegal contract.

(1 mark)

Answer :

(c) Tacit contract

Reason : Tacit Contracts are those that are inferred through the conduct of parties. Hence, this is a tacit contract.

2011 - Nov [6] (c)

Based on BT's Level 1

State whether the following statement is correct or incorrect :

- (i) A specific offer can be accepted only by that person to whom offer has been made. (1 mark)

Answer :

- (i) Correct

2012 - May [6] (c)

Based on BT's Level 1

State whether the following statement is correct or incorrect :

- (ii) 'All contracts are agreements, but all agreements may not be contracts'. (1 mark)

Answer :

- (ii) Correct

2012 - Nov [6] (c)

Based on BT's Level 1

State whether the following statement is correct or incorrect:

- (i) A proposal may be revoked by the proposer before the posting of the letter of acceptance by the acceptor. (1 mark)

Answer:

- (i) **Correct:** According to Sec. 5 of Indian Contract Act, 1872, an offer can be revoked any time before its acceptance. We know that for an offeror, the communication of acceptance is complete when it is put in a course of transmission so as to be out of the power of the acceptor. It means that an offer may be revoked at any time before the letter of acceptance is posted by the acceptor.

2017 - May [6] (c) State whether the following statement is correct or incorrect:

- (i) An agreement with alien friend is void but an agreement with alien enemy is valid. (1 mark)

DESCRIPTIVE QUESTIONS

2012 - May [1] {C} (a)

Based on BT's Level 1&2

Explain in brief the rules relating to 'acceptance' of an offer under the provisions of the Indian Contract Act, 1872.

(5 marks)

Answer :**Rules Relating to Acceptance of an offer**

1.	Acceptance must be given by the person to whom the proposal is made	An acceptance to be valid must be given only by a person to whom offer has been given. In other words, acceptance must move from the offeree and no one else. Example : X offered to sell his house to Y. Here only Y can accept the offer. However, acceptance can also be given by an Agent on behalf of his principal.
2.	Acceptance can be given only when the acceptor has the knowledge of the offer	Acceptance cannot be given without the knowledge of offer. Leading Case : <i>Lalman Shukla Vs. Gauri Dutt.</i>
3.	Acceptance must be absolute and unconditional	It is another important essential element of a valid acceptance. A valid contract arises only if the acceptance is absolute and unconditional. It means that the acceptance should be in total (i.e. of all the terms of the offer), and without any condition. Thus, an acceptance with a variation is no acceptance. It is simply a counter offer. A counter offer puts an end to the original offer, and it cannot be revived by subsequent acceptance. Example : X offered to sell his house for ₹ 1,80,000 to Y. Y wrote a letter stating that he was prepared to buy it for ₹ 1,60,000. This is a

		<p>counter offer, and not acceptance. Now, if Y accepts the original offer to buy the house for ₹ 1,80,000, X will not be bound to sell the house, because Y's counter offer has put an end to the original offer.</p> <p>Leading Case : <i>Nihal Chand Vs. Amarnath, AIR 1926 Lah. 645</i></p> <p>If only a part of offer is accepted, then the acceptance is invalid and without any legal effect. If the offer is accepted with some condition then also the acceptance is invalid and without any legal effect.</p>
4.	<p>Acceptance must be given within the time pre-scribed or within a reasonable time</p>	<p>Sometimes, the time limit is fixed within which an acceptance is to be given. In such cases, the acceptance must be given within the fixed time limit. In case, no time is prescribed, the acceptance should be given within a reasonable time. The term 'reasonable time' depends upon the facts and circumstances of each case.</p> <p>Example : X applied for shares in a company in July. The allotment (acceptance) of shares was made in late December. X refused to take shares. It was held that the allotment of shares was not within a reasonable time, therefore X was not bound by the allotment.</p> <p>Leading Case: <i>Ramsgate Victoria Hotel Co. Vs. Monteflore (1866) LR I Ex. 109</i></p>

5.	Acceptance must be given before the lapse of offer	<p>A valid contract can arise only when the acceptance is given before the offer has elapsed or withdrawn. An acceptance which is made after the withdrawal of the offer is invalid, and does not create any legal relationship.</p> <p>Example : X offered, by a letter, to sell his horse to Y for ₹ 2500. Subsequently, X withdrew his offer by a telegram which was also received by Y. After the receipt of this telegram, Y accepted the offer by a letter, and posted the same. In this case, the acceptance is invalid as it was made after the effective withdrawal of the offer.</p>
6.	Acceptance must be communicated	<p>It is an important and essential element of a valid acceptance. The definition of acceptance as given in Sec. 2(b) emphasises this requirement. According to this Section, the consent to the offer should be signified (i.e. indicated or declared). In other words, the acceptance is completed only when it has been communicated to the offeror. It may be noted that until the acceptance is communicated, it does not create any legal relations.</p> <p>Example : X offers to buy Y's plot of land for ₹ 10 lakhs. Y discusses the proposal with Z his own lawyer, and agrees to sell the plot for ₹ 10 lakh. But Y does not communicate the acceptance to X. In this case, no contract comes into existence between X and Y.</p> <p>Thus, a mere mental determination to accept is not acceptance unless it is accompanied by an external indication. The requirement is that there should be some external manifestation of acceptance.</p>

7.	Acceptance must be communicated to the offeror himself	<p>A valid contract arises only if the acceptance is communicated to the offeror himself. If acceptance is communicated to the person, other than the offeror, it will not create any legal relationship. In fact, such communication is no communication at all.</p> <p>Example : X offered to purchase Y's horse and wrote a letter saying, "If I hear no more about the horse. I shall consider the horse mine at £35". To this letter no reply was sent, but Y instructed Z an auctioneer, not to sell the horse as it was already sold to X. By mistake, Z put up the horse for auction and sold it. X filed a suit against Z on the ground that under the contract the horse had become his property and Z is liable for conversion of his property. But his action failed. In this case X in his own mind accepted the offer. But he had not communicated his acceptance to Y.</p> <p>Leading Case: <i>Felthouse Vs. Bindley (1863) 7 LT 835</i></p> <p>However, if the offer is made by an agent on behalf of his principal, then the acceptance may be communicated, either to the principal or his agent.</p>
8.	Acceptance must be in the prescribed manner	<p>It is the legal rule of the acceptance that it must be accepted in the prescribed manner. If the offer is not accepted in the prescribed manner, then the offeror may reject the acceptance within reasonable time. It may however, be noted that, if the offeror does not reject the acceptance within a reasonable time, then he becomes bound by the acceptance. [Sec. 7(2)]</p> <p>Example : X offered through a letter, to sell his car to Y for ₹ 2,70,000. He also wrote that it</p>

		should be accepted by letter only. Y instead of writing a letter, sent his authorised agent to X conveying the message that he has accepted the offer. Y's acceptance is not in the prescribed manner. X may reject it within reasonable time. But if he does not reject within reasonable time, he shall be deemed to have accepted the acceptance, and a valid contract will arise between X and Y.
9.	Acceptance must be given in some usual and reasonable manner	It is another important legal rule of an acceptance that where no mode is prescribed, acceptance must be given in some usual and reasonable manner. In such cases, the mail course is considered, a very reasonable manner. Leading Case: <i>Dunlop Vs. Higgins</i> (1848) 1 HLC 381
10.	Acceptance must show an intention that acceptor is willing to fulfil the terms of the offer	A valid contract can arise only when the acceptance is given with the intention of fulfilling the terms of the contract. An acceptance which is made jokingly and without any intention of entering into a contract, is invalid and does not create any legal relationship.
11.	Acceptance may be express or implied	An acceptance, which is expressed by words written or spoken, is called an express acceptance. [Sec. 9] Example : X wrote to Y in a letter, "I want to sell my black horse for ₹ 12,000". Y replied by a letter "I am ready and willing to buy your black horse for ₹ 12,000". Here Y's acceptance is express acceptance as it is made in writing. Acceptance is implied when it is inferred from the conduct of the parties. Example : At an auction sale of a car, X is the

2.10

■ **Solved Scanner IPCC Gr. I Paper - 2A**

		highest bidder. The auctioneer accepts the bid (i.e. offer) by striking the hammer on the table. It is an implied acceptance. Here, auctioneer's conduct of striking the hammer on the table shows that the auctioneer has accepted the highest bid.
12.	Acceptance cannot be presumed from silence. Mere silence is not acceptance	<p>Sometimes, the acceptor does not convey his decision to the offeror/and keeps silent. In such a case, his silence does not amount to acceptance. Similarly, the offeror does not have the legal rights to say that if no answer is received within a certain time, the offer shall be deemed to have been accepted.</p> <p>He (the offeror) cannot impose a condition that offeree's silence will be regarded as equivalent to acceptance.</p> <p>Leading Case: <i>Felthouse Vs. Bindley</i> (1863) 7 LT 835.</p> <p>Example : X offered his car to Y for ₹ 95,000, and wrote that if he did not hear from him (Y) within a week, he would assume that he has accepted offer. No reply was given by Y. In this case, no valid contract is concluded between X and Y.</p>

► **PRACTICAL QUESTIONS**

2013 - May [1] {C} (a)

Based on BT's Level 6

Mr. D started "Self-Service," system in his shop. Mr. A entered the shop, took a basket and after taking article of his choice into the basket reached the cashier for payments. The cashier refused to accept the price. Can Mr. D be compelled by Mr. A to sell the said article? Decide. (5 marks)

Answer:

Invitation to Offer

Provision:

The offer should be differentiated from an invitation to offer. An offer is the last expression of willingness by the offeror to be bound by his offer when the party decided to accept it. In case the party fails to express his last willingness and proposes certain terms on which he is ready to negotiate, in the case he does not make an offer, but invites other party to make the offer on those terms. Thus this is the difference between the two.

Present Case : In the above problem, the display of articles with a price in it in a self-service shop is simply an invitation to offer. It is in no sense an offer for sale, the acceptance of which constitutes the contract. In this case, Mr. A who has selected some articles and approaches the cashier for payment, simply made an offer to buy the articles selected by him. If the cashier refuses to accept the price, the interested buyer cannot force him to sell. [*Fisher Vs Bell (1961)*]

Thus Mr. D cannot be compelled by Mr. A to sell the said article.

2015 - Nov [3] (a) (ii)

Based on BT's Level 4&5

Mr. U offered to sell his house to Mr. X for ₹ 15,00,000. Mr. X accepted the offer by post. On the very next day Mr. X sent a telegram revoking the acceptance which reached Mr. U before the letter of acceptance. Is the revocation of acceptance valid? Would it make any difference if both the letter of acceptance and the telegram of revocation of acceptance reach Mr. U at the same time? (4 marks)

Answer:

This problem is related to the communication and time of acceptance and its revocation.

Provision:

As per Sec. 4 of the Indian Contract Act, 1872, the communication of an acceptance is complete as against the acceptor when it comes to the knowledge of the proposer.

- Again as per Sec. 5 of the Indian Contract Act, 1872, an acceptance may be revoked at any time before the communication of the acceptance is complete as against the acceptor, but not afterwards.

Present Case:

- (i) Yes, the revocation of acceptance by Mr. X (the acceptor) is valid.
- (ii) If Mr. U opens the telegram first and reads it, the acceptance stands revoked. If he opens the letter first and read it, revocation of acceptance is not possible as contract has already been concluded.

2016 - Nov [3] (a) (i)**Based on BT's Level 6**

State with reasons whether the following agreements are valid or void under the provisions of the Indian Contract Act, 1872:

- (1) Vijay agrees with Saini to sell his black horse for ₹ 3,00,000. Unknown to both the parties, the horse was dead at the time of the agreement.
- (2) Sarvesh sells the goodwill of his shop to Vikas for ₹ 10,00,000 and promises not to carry on such business forever and anywhere in India.

(4 marks)

Answer:

1. The agreement is **void**.

Reason: Both the parties are under mutual mistake of fact hence agreement is void as per Sec. 20 of Indian Contract Act, 1872, which states that contracts caused by mistake of fact are void.

2. The agreement is **void**.

Reason: The promise not to carry on such business forever and anywhere in India is void as it relates to agreement in restraint of trade as per Sec. 27 of Indian Contract Act, 1872.

KZ - 1	Knowledge Zone	
Difference between Void and Illegal Agreements		
Basis	Void Agreements	Illegal Agreements
Scope	A void agreement may not be illegal; being void due to some other factor.	An illegal agreement is always void.

Effect on collateral transactions	If an agreement is merely void and not illegal, the collateral transactions to the agreement may be enforced for execution.	Collateral transaction to an illegal agreements also becomes illegal and hence cannot be enforced.
Void-ab-initio	Valid Contracts may subsequently become Void.	Illegal agreements are void from the very beginning.
Punishments	There is no punishment for the parties to a void agreement.	In illegal agreement there are punishments.

Table Showing Marks of Compulsory Questions

Year	12 N	13 M	13 N	14 M	14 N	15 M	15 N	16 M	16 N	17 M
Practical		5								
Total		5								