

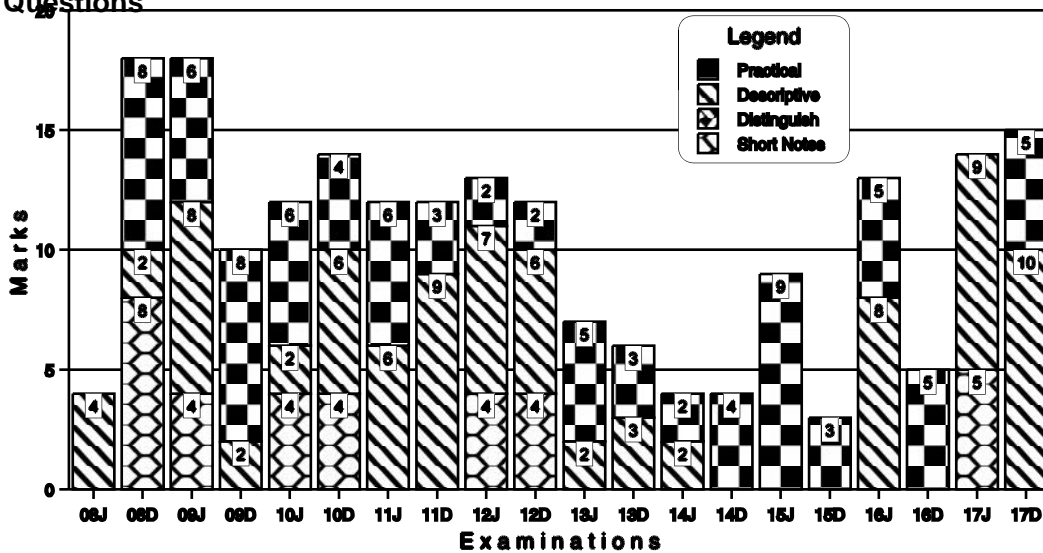
# 1

## CONTRACT - BASIC CONCEPTS

### THIS CHAPTER INCLUDES

- |                                                                                                                                                                                                  |                                                                                                                                                                                                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Definitions</li> <li>• Acceptance &amp; Revocation of offer</li> <li>• Capacity to Contract</li> <li>• Free Consent</li> <li>• Consideration</li> </ul> | <ul style="list-style-type: none"> <li>• Void and Voidable Agreements</li> <li>• Discharge of Contract</li> <li>• E-Contracts</li> <li>• Fraud</li> <li>• Undue Influence</li> <li>• Coercion</li> </ul> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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



## CHAPTER AT A GLANCE

Topic	Important Highlights
1. <b>Meaning of Contract</b>	<p>⇒ <b>Sec. 2(h)</b> of Indian Contract Act defines contract as: “An agreement enforceable by law.” Contract = Agreement + enforceability by law</p> <p>⇒ Contract is made by acceptance of one party of an offer made to him by the other party, to do or abstain from doing some act. Contract = Agreement + Obligation</p>
2. <b>Meaning of Agreement &amp; Promise</b>	<p>⇒ <b>Sec. 2(e)</b> of Indian Contract Act defines it as, “Every’ promise or every act of promises forming consideration for each other.”</p> <p>⇒ <b>It has two characteristics:</b></p> <ul style="list-style-type: none"> <li>(i) Two or more persons are required to make an agreement.</li> <li>(ii) Both parties must agree to same thing in same sense.(Consensus - ad- idem).</li> </ul> <p>⇒ <b>Sec. 2(b)</b> of Indian Contract defines promise as, “A proposal when accepted becomes a promise”.</p> <p style="margin-left: 40px;">Agreement                      = Promise                                                  = Accepted Proposal                                                  = Offer + Acceptance</p>
3. <b>Essential elements of a valid contract</b>	<p>⇒ <b>Sec. 10</b> of Indian Contract Act says, “All, agreements are contracts, if they are made-</p> <ul style="list-style-type: none"> <li>(i) by free consent of parties , competent to contract,</li> </ul>

		<ul style="list-style-type: none"> <li>(ii) for a lawful consideration,</li> <li>(iii) with a lawful object, and</li> <li>(iv) not hereby expressly declared to be void.</li> </ul> <p><b>It includes:</b></p> <ul style="list-style-type: none"> <li>(i) Offer and Acceptance</li> <li>(ii) Intention to create legal relationship</li> <li>(iii) Lawful consideration</li> <li>(iv) Capacity to contract</li> <li>(v) Free consent</li> <li>(vi) Lawful object</li> <li>(vii) Agreement not expressly declared void.</li> <li>(viii) Consensus -ad- idem i.e. meeting of minds</li> <li>(ix) Certainty of meaning</li> <li>(x) Possibility of performance</li> <li>(xi) Legal formalities</li> </ul>
<p><b>4. Offer or Proposal</b></p>	<p>⇒</p>	<p>It refers to a proposal by one party to another to enter into a legally binding agreement with him.</p> <p>⇒ <b>Sec. 2(a)</b> of the Act defines it as-          “When one person signifies to another his willingness to do or abstain from doing anything, with a view to obtain the assent of that other to such act or abstinence, he is said to make a proposal.”</p> <p>⇒ <b>Offeror or Promisor:</b> The party making an offer.</p> <p>⇒ <b>Offeree or Promisee:</b> The party to whom offer is made.</p>
<p><b>5. Rules relating to offer</b></p>	<p>⇒</p> <p>⇒</p>	<p>It must be capable of creating legal relations</p> <p>It must be certain, definite and not vague</p>

		<ul style="list-style-type: none"> <li>⇒ It may be expressed or implied</li> <li>⇒ It must be distinguished from an invitation to offer</li> <li>⇒ It may be specific or general</li> <li>⇒ It must be communicated</li> <li>⇒ It must be made with a view to obtain the consent of the offeree</li> <li>⇒ It may be conditional</li> <li>⇒ It should not contain a term non compliance of which would amount to acceptance</li> </ul>
6.	<b>Types of offer</b>	<p>General; Specific, Cross, Counter, Open etc.</p> <p><b>General &amp; Specific offer:</b></p> <ul style="list-style-type: none"> <li>⇒ Offer made to public at large with or without any time limit is general offer.</li> <li>⇒ Offer made to a particular and specified person/ persons and that can be accepted by that specific person/ persons only is specific offer.</li> </ul> <p><b>Cross offer:</b></p> <ul style="list-style-type: none"> <li>⇒ It occurs when two persons make identical offers to each other, in ignorance of each other's offer.</li> <li>⇒ It leads to termination of the original offer.</li> </ul> <p><b>Counter offer:</b></p> <ul style="list-style-type: none"> <li>⇒ Upon receipt of an offer from an offeror, if the offeree instead of accepting it straightaway, modifies or varies the offer, he is said to make a counter offer.</li> <li>⇒ It leads to rejection of original offer.</li> </ul> <p><b>Standing/ Continuing / Open Offer:</b></p> <ul style="list-style-type: none"> <li>⇒ Offer which is made to public at large and kept open for public acceptance for a certain time period.</li> </ul>

		<ul style="list-style-type: none"> <li>⇒ It refers to a tender to supply goods as and when required.</li> <li>⇒ Each successive order given creates a separate contract.</li> <li>⇒ It does not binds either party unless and until such orders are given.</li> </ul> <p><b>Offer and Invitation to offer:</b></p> <ul style="list-style-type: none"> <li>⇒ Offer is made to get the consent of other party.</li> <li>⇒ Invitation to offer is made to initiate the offer according to the invitation.</li> <li>⇒ Offer is made with an object to make a contract.</li> <li>⇒ Invitation to offer does not results in any contract formation.</li> </ul>
7.	<b>Acceptance</b>	<ul style="list-style-type: none"> <li>⇒ It means giving consent to the offer.</li> <li>⇒ <b>Sec. 2(b)</b> of the Contract Act , defines it as- “A proposal is said to be accepted, when the person to whom the proposal is made signifies his assent thereto.”</li> </ul>
8.	<b>Essentials of a valid acceptance</b>	<ul style="list-style-type: none"> <li>⇒ It must be absolute and unqualified.</li> <li>⇒ It must be communicated to offeror.</li> <li>⇒ It must be in the mode prescribed.</li> <li>⇒ It must be given within reasonable time.</li> <li>⇒ Mere silence is not acceptance offeror can prescribe the mode of acceptance but not the mode of rejection.</li> <li>⇒ It must be given before the offer lapses or is revoked.</li> <li>⇒ It must emanate from offer.</li> </ul>

9.	<b>Rules of a valid consideration</b>	<ul style="list-style-type: none"> <li>⇒ It must move at the desire of the promisor.</li> <li>⇒ It may be done by promisee himself or by any other person.</li> <li>⇒ It may be past, present or future.</li> <li>⇒ It must be real and not vague.</li> <li>⇒ It must be legal.</li> <li>⇒ It need not be adequate. (But if not adequate then consent must be free)</li> <li>⇒ It must be something more than the promisee is already bound to do for the promisor.</li> </ul>
10.	<b>Kinds of Consideration</b>	<ul style="list-style-type: none"> <li>⇒ <b>Past Consideration</b> - It refers to something wholly done, forgone or suffered before making of agreement.</li> <li>⇒ Under English law, "Past consideration is no consideration."</li> <li>⇒ The consideration which is completed or performed at the time of contract is called present consideration.</li> <li>⇒ But past consideration is a consideration as per the Indian Law.</li> <li>⇒ <b>Present or Executed Consideration</b> - It moves simultaneously with promise. The consideration which is completed or performed at the time of contract is called present consideration.</li> <li>⇒ <b>Future or Executory Consideration</b> - It is to be moved at a future date i.e promise is to be performed in future.</li> </ul>
11.	<b>Exceptions to the rules, "No consideration, no contract"</b>	<ul style="list-style-type: none"> <li>⇒ An agreement made is valid if- <ul style="list-style-type: none"> <li>– expressed in writing and registered under law,</li> <li>– made on account of natural love and affection,</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>- between parties standing in near relation to each other.</li> <li>⇒ A promise is valid if-             <ul style="list-style-type: none"> <li>- It is a promise to compensate wholly or in part, a person who has already voluntarily done something for the promisor.</li> <li>- Something which the promisor was legally compellable to do.</li> </ul> </li> <li>⇒ A promise to pay, wholly or in part, a debt, which is barred by law of limitation can be enforced if—             <ul style="list-style-type: none"> <li>- it is in writing,</li> <li>- it is signed by the debtor or his authorised agent.</li> </ul> </li> <li>⇒ It does not applies to completed gifts i.e. gift given and accepted.</li> <li>⇒ Consideration is not required to effect a valid bailment of goods i.e. <b>gratuitous bailment</b> .</li> <li>⇒ Not required to create an agency.</li> <li>⇒ If a person promised to contribute anything to a charity and on his faith, the promisee undertakes a liability to that extent, the contract shall be valid.</li> </ul>
<p><b>12. Doctrine of Privity of Contract</b></p>		<ul style="list-style-type: none"> <li>⇒ It means that only those persons, who are parties to a contract , can sue and be sued upon the contract.</li> <li>⇒ It refers to the relationship between parties who have entered into the contracts.</li> <li>⇒ The third party cannot sue upon it, even though the contact may be for his benefit.</li> <li>⇒ Thus, “a stranger to the contract” cannot bring a valid suit under the contract.</li> <li>⇒ It is different from “stranger to consideration”.</li> </ul>

13.	<b>Legal Agreement</b>	<p>⇒ An agreement which can be enforced legally.</p> <p>⇒ <b>Illegal Agreements:</b></p> <p>(i) It goes beyond the basic public policy, thus are not enforceable by law.</p> <p>(ii) It is not only void as between immediate parties but the collateral transactions also become illegal.</p> <p>⇒ <b>Its consequences:</b></p> <p>(i) Entirely void</p> <p>(ii) No action can be brought by or against any party.</p> <p>(iii) Money paid or property transferred under it cannot be recovered</p> <p>(iv) If its two parts legal and illegal are separable, only legal part can be enforced by the courts</p> <p>(v) Agreement collateral to it are also illegal.</p>
14.	<b>Void Agreement</b>	<p>⇒ Agreements not enforceable by law are void.</p> <p>⇒ They are not always illegal and its collateral transactions are legal.</p> <p>⇒ It cannot give rise to any legal consequence</p> <p>⇒ It is void -ab- initio (i.e- void from very beginning)</p> <p>⇒ Eg minor's contract</p>
15.	<b>Void Contracts</b>	<p>➤ It is not a contract at all as it is without any legal effect.</p> <p>➤ <b>Section 2(j) of Indian Contract Act, 1872, defines it as-</b></p> <p>“A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable.”</p>



16.	<b>Voidable Contracts</b>	<ul style="list-style-type: none"> <li>➤ It is an agreement which is binding and enforceable but due to lack of one or more of the essentials of a valid contract, it may be repudiated.</li> <li>➤ <b>Section 2(i) of the Indian Contract Act, 1872 defines it as-</b> “All agreements which are enforceable at the option of any one of the parties, and other party has no such option, are known as voidable contracts.”</li> </ul>
17.	<b>Competency/Capacity of Parties to Contract</b>	<ul style="list-style-type: none"> <li>⇒ It means that parties to the agreement must have capacity to enter into a valid contract.</li> <li>⇒ Person's may be either natural or artificial.</li> <li>⇒ Natural persons means human beings.</li> <li>⇒ Artificial persons means corporations.</li> </ul>
18.	<b>Position of minor's agreement</b>	<ul style="list-style-type: none"> <li>(i) An agreement entered into by a minor is altogether void i.e. void ab initio</li> <li>(ii) Minor can be a promisee or a beneficiary</li> <li>(iii) Minor can always plead minority</li> <li>(iv) Minor's agreement cannot be ratified by him</li> <li>(v) Contract by guardian, is enforceable if- <ul style="list-style-type: none"> <li>(a) It is within his competence and authority,</li> <li>(b) For the benefit of the minor.</li> </ul> </li> <li>(vi) Minor's property is liable for necessaries.</li> <li>(vii) Court can never direct specific performance of the contract</li> <li>(viii) Minor cannot be a partner in partnership firm. He can however be admitted to benefits of partnership firm.</li> <li>(ix) Minor can act as an agent and bind his principal without incurring any personal liability.</li> <li>(x) Minor can never be adjudicated as an insolvent.</li> </ul>

19.	<b>Lunatics Agreement</b>	<ul style="list-style-type: none"> <li>➤ As per <b>Section 12</b> of the Indian Contract Act, "A person is said to be of sound mind for the purpose of making a contract, if at the time when he makes it, he is capable of undertaking it and of forming a rational judgement as to its effects upon his interests."</li> <li>➤ A person of unsound mind includes: (i) Lunatics (ii) idiots, (iii) drunkards</li> <li>➤ Such agreement is void.</li> <li>➤ Lunatics estate will be liable for any necessaries supplied to him or his family.</li> <li>➤ A person who is usually of unsound mind, but occasionally of sound mind, may make a contract when he is of sound mind and he will be bound by it.</li> <li>➤ A person who is usually of sound mind, but occasionally of unsound mind, may not make a contract when he is of unsound mind.</li> </ul>
20.	<b>Persons disqualified by law from entering into contract</b>	<ul style="list-style-type: none"> <li>(i) <b>Alien Enemy-</b> <ul style="list-style-type: none"> <li>⇒ Alien is a person who is not an Indian citizen.</li> <li>⇒ He becomes alien enemy on declaration of war between India and his country.</li> <li>⇒ He cannot enter into a contract with an Indian subject.</li> </ul> </li> <li>(ii) <b>Foreign Sovereigns and Ambassadors-</b> <ul style="list-style-type: none"> <li>⇒ They enjoy certain special privileges due to which they cannot be legally proceeded against in Indian Courts.</li> <li>⇒ If contracts are entered into through agents, then agents becomes personally responsible for the performance.</li> </ul> </li> </ul>

		<p>(iii) <b>Convicts:</b>          ⇒ Cannot enter into a valid contract while undergoing sentence, nor he can sue.</p>
21.	<b>Free Consent</b>	<p>⇒ As per the Indian Contract Act, “Two or more persons are said to consent when they agree upon the same thing in the same sense.” (<b>Consensus-ad-idem</b>)</p> <p>⇒ Free consent means consent given by parties out of their free will on their own without any fear, without any force, without any compulsion or threat from the other party.</p> <p>⇒ As per <b>Section 14</b>, consent is said to be free when it is not caused by</p> <ul style="list-style-type: none"> <li>(i) Coercion</li> <li>(ii) Undue influence</li> <li>(iii) Fraud</li> <li>(iv) Misrepresentation</li> <li>(v) Mistake</li> </ul> <p>⇒ In the absence of free consent, contract is usually voidable at the option of the party whose consent is not free.</p>
22.	<b>Coercion</b>	<p>⇒ “It is the committing, or threatening to commit, any act forbidden by the Indian Penal code (IPC), or the unlawful detaining, or threatening to detain any property, to the prejudice of any person, whatever, with the intention of causing any person to enter into an agreement.”</p> <p>⇒ <b>Exceptions of coercion:</b>          The following threats are not coercion-</p> <ol style="list-style-type: none"> <li>1. Threat to file a suit,</li> <li>2. Consent given on the basis of legal obligations,</li> </ol>

		<p>3. Threat by workers, 4. Threat to detain property by mortgager.</p> <p><b>Relevant Case Law:</b> * <b><i>Ram Chandra Vs. Bank of Kolhapur</i></b> ⇒ It may proceed from any person and may be directed against any person or goods.</p>
23.	<b>Undue Influence</b>	<p>⇒ A contract is said to be induced by 'undue influence' where the relations subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and uses that position to obtain an unfair advantage of the other.</p> <p>⇒ It has following two elements:</p> <p>(i) a dominant position, (ii) the use of it to obtain an unfair advantage.</p> <p>⇒ A person is deemed to be dominate the will of another if-</p> <p>(i) he holds a real or apparent authority over the other ,or (ii) he stands in a fiduciary relation to the other; or (iii) he makes a contract with a person whose mental capacity is temporarily or permanently affected by reason of age, illness or mental or bodily distress.</p> <p>⇒ Relationships that are presumed to have undue influence includes:</p> <p>(i) Parent and Child (ii) Guardian and Ward (iii) Religious/ Spiritual Guru and Discipline (iv) Doctor and Patient (v) Solicitor and Client (vi) Trustee and Beneficiary (vii) Fiancé and Fiancee</p>

		<p>⇒ Relationship where dominant position is not presumed but has to be proved by the aggrieved party:</p> <ul style="list-style-type: none"><li>(i) Creditor and Debtor</li><li>(ii) Landlord and Tenant</li><li>(iii) Husband and Wife.</li></ul>
<b>24. Fraud</b>		<p>⇒ Also known as wilful misrepresentation.</p> <p>⇒ Fraud means and includes any of the following acts committed by a party to a contract, or with his connivance or by his agent with intent to deceive another party thereto or his party, or to induce him to enter into the contract-</p> <ol style="list-style-type: none"><li>1. The suggestion, as to fact, of that which is not true by one who does not believe it be true,</li><li>2. The active concealment of a fact by one having knowledge or belief of the fact,</li><li>3. A promise made without any intention of performing it,</li><li>4. Any other act fitted to deceive,</li><li>5. Any such act or omission as to law specially declared to be fraudulent.</li></ol>
<b>25. Misrepresentation</b>		<p>⇒ Where a person asserts something which is not true, though he believes it to be true, his assertion amounts to misrepresentation.</p> <p>⇒ Misrepresentation made by a person may be either-</p> <ol style="list-style-type: none"><li>1. innocent, or</li><li>2. without any reasonable ground.</li></ol> <p>⇒ The aggrieved party can avoid the contract, but cannot sue for damages in normal circumstances.</p>

		<p>⇒ Its damages can be obtained in following cases:</p> <ul style="list-style-type: none"> <li>(i) from a director or promoter making innocent misrepresentation in company's prospectus.</li> <li>(ii) from an agent committing breach of warranty of authority</li> <li>(iii) from a person who has made a certain statement in the Court, relying upon which a party has suffered damages, is stopped by the Court from denying it.</li> <li>(iv) negligent representation made by one person to another between whom there exists a confidential relationship.</li> </ul>
26.	<b>Mistake</b>	<p>⇒ It refers to miscalculation or judgmental error by both or either of the parties.</p> <p>⇒ It must be a "vital operative mistake."</p> <p>⇒ When both the parties to an agreement are under a mistake to a matter of fact essential to the agreement, the agreement is altogether void.</p> <p>⇒ Unilateral mistake means mistake on part of only one party.</p> <p>⇒ Unilateral Mistake is not void.</p>
27.	<b>Mistake as to identity of person operates if</b>	<ul style="list-style-type: none"> <li>(i) Identity is for material importance to the contracts, and</li> <li>(ii) Mistake is known to the other person.</li> </ul> <p><b>** Following conditions need to be fulfilled, for mistake to be void:</b></p> <ul style="list-style-type: none"> <li>(i) The fact is material to the agreement.</li> <li>(ii) There is mistake of fact.</li> <li>(iii) Both the parties are at mistake.</li> </ul>

28.	<b>Transaction with pardanashin women</b>	<ul style="list-style-type: none"> <li>⇒ It means complete seclusion.</li> <li>⇒ Women fixing and collecting rents from tenants and communicating business matters with men other than own family members is not a pardanashin women.</li> <li>⇒ It is founded on equity and good conscience.</li> <li>⇒ Person entering into a contract with pardanashin women has to prove that: <ul style="list-style-type: none"> <li>(i) no undue influence was used</li> <li>(ii) she had free and independent advice</li> <li>(iii) she fully understood the contents of the contract</li> <li>(iv) she exercised her free will</li> </ul> </li> <li>⇒ She has been given a special cloak of protection by law</li> </ul>
29.	<b>Agreement Expressly Declared Void</b>	<ul style="list-style-type: none"> <li>⇒ Certain agreements have been expressly declared as void by Contract Act.</li> <li>⇒ They are void ab initio.</li> <li>⇒ It includes: <ul style="list-style-type: none"> <li>(i) <b>Consideration unlawful in part (sec 24)</b> <ul style="list-style-type: none"> <li>⇒ “If any part of a single consideration for one or more objects, or any one or any part of any one of several considerations for a single object, is unlawful, the agreement is void.”</li> <li>⇒ Where the legal part of an contract can be severed from the illegal part, the bad part may be rejected and the good one can be retained”</li> <li>⇒ Where the illegal part cannot be severed, the contract is altogether void.</li> </ul> </li> </ul> </li> </ul>

		<p>(ii) <b>Agreement the meaning of which is uncertain (sec 29)</b> An agreement, the meaning of which is not certain, is void but where the meaning thereof is capable of being made certain, the agreement is valid.</p> <p>(iii) <b>Wagering Agreement (sec 30)</b></p> <ul style="list-style-type: none"> <li>⇒ Wager means 'bet'.</li> <li>⇒ They are ordinary betting agreements.</li> <li>⇒ It refers to an agreement between two parties by which one promises to pay money or money's worth on the happening of some uncertain event in consideration of the other party's promise to pay if the event does not happen.</li> <li>⇒ Such an agreement is void.</li> <li>⇒ If one of the parties has control over the event, agreement is not a wager.</li> <li>⇒ Though wagering contracts are void, transactions incidental to wagering transactions are not void.</li> </ul>
--	--	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

### SHORT NOTES

**2008 - Dec [4]** (a) Write explanatory notes on :

- (i) Time is the essence of contract; **(4 marks)**  
 (iv) Misrepresentation. **(4 marks)**

**Answer :**

- (i) The time is an essence of contract according to **Section 55 of the Indian Contract Act, 1872** which provides that :



**When time is of essence** : If the promisor fails to perform his obligation within the time limit set in the contract, the contract becomes voidable at the option of the promisee. The promisee can decide whether to continue with the contract or to discontinue it. If he decides to continue with the contract in spite of delay, he will not have any claim on compensation for the delay. But if he decides to continue with claims for damages for delay in performance, he should give a notice in this regard to the promisor at the time of giving his acceptance for continuance of the contract.

**(iv) Misrepresentation : (Section 18 of Indian Contract Act, 1872)**

Where a person asserts something which is not true, though he believes it to be true, his assertion amounts to misrepresentation. Misrepresentation may be either innocent or without reasonable ground.

**Misrepresentation means and includes:**

1. The positive assertion, in a manner not warranted by the information of the person making it, of that which is not true, though he believes it to be true;
2. Any breach of duty which, without an intent to deceive, gains an advantage to the person committing it, or any one claiming under him, by misleading another to his prejudice or to the prejudice of anyone claiming under him;
3. Causing, however innocently, a party to an agreement to make a mistake as to the substance of the thing which is the subject of the agreement.

**2009 - June [4]** (a) Write explanatory note on :

- (i) Effects of 'coercion' on a contract.

**(4 marks)**

**Answer :**

**Effects of Coercion**

<b>Coercion (compulsion, force)</b>	Coercion is the committing or threatening to commit any act forbidden by the Indian Penal Code with the intention of causing any person to enter into an agreement.
-------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------

6.18

■ **Solved Scanner CMA Inter Gr. I Paper 6A (New**

	It is immaterial whether the Indian Penal Code is or is not in force in the place where the coercion is employed.
<b>Following are the effects of coercion</b>	<ul style="list-style-type: none"><li>(i) The aggrieved party whose consent was obtained by coercion may cancel the contract or may continue with the contract at its option. Worded differently Contract induced (to induce means to make, to bring, to persuade, to convince) by coercion is voidable at the option of aggrieved party whose consent was obtained by coercion. <b>(Section 19)</b></li><li>(ii) The aggrieved party can change or cancel the consent given by it under coercion and may continue with the contract.</li><li>(iii) If the aggrieved party decides to cancel the contract, it can claim for compensation for any damage or loss suffered because the contract was not fulfilled.</li><li>(iv) If the aggrieved party decides to rescind (means to cancel) the contract, it will have to return all the benefits received by it from such contract. <b>(Section 64)</b></li><li>(v) The aggrieved party can insist that contract be performed.</li></ul>

**2010 - June [3]** (a) Write short note on :

- (i) Undue influence

**(4 marks)**

**Answer :**

**Undue Influence :**

- When two parties enter into contract with each other and one of the parties is in a position to dominate the will of the other and uses that position to obtain an unfair advantage over the other party, such contract is said to be induced by 'undue influence'.
- If a person having a dominant position over another person and he enters into contract with such person then the burden of proof that the contract was not done under undue influence, is on the person holding the dominant position.

A person is said to be having a dominant position if.

- (i) He makes contract with a person who is not of sound mind because of age, illness, mental instability or bodily distress etc.
- (ii) He holds some control over the other person
- (iii) He holds some monetary obligation over the other person.

**2010 - Dec [3]** (a) Write short note on :

- (i) Effects of 'coercion' on a contract.

**(4 marks)**

**Answer :**

***Please refer 2009 - June [4] (a) (i) on page no. 31***

**2012 - June [4]** (a) Write short note on:

- (ii) Counter Offer;

**(4 marks)**

**Answer :**

Counter offer is a new offer which is made in response to offer made earlier. Suppose A offers to sell his house to B for INR 10.0 lacs and B offers to buy it in say 9.0 lacs, the offer of B would be called Counter offer. In general the terms and conditions of Offer are same for Counter Offer as well.

**2012 - Dec [4]** (a) Write short notes.

- (iv) Lawful consideration

**(4 marks)**

**Answer :**

<b>Lawful consideration</b>	<p>The consideration or object of an agreement is lawful unless:</p> <p>(a) It is forbidden by law; or</p> <p>(b) Is of such a nature that if permitted, it would defeat the provisions of any Law or any rule for the time being in force in India ; or</p> <p>(c) Is Fraudulent; or</p> <p>(d) It involves or implies injury to the person or property of another; or</p> <p>(e) The Court regards it as immoral or opposed to public policy.</p> <p>In each of these cases, the consideration or object of an agreement is said to be unlawful. Every agreement of which the object or consideration is unlawful is void.</p>
-----------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

**2017 - June [8]** Write short note on the following:

(a) E-Contracts

**(5 marks)**

**Answer:**

**E-Contracts**

Electronic contracts are paperless contract. It is in electronic form. It is the change of technology and legal requirements lead the contract to be in electronic form. E-contract is a contract modeled, specified, executed and deployed by a software system. They are conceptually very similar to traditional commercial contracts. E-contract also requires the basic elements of a contract. The following are ingredients of the e-contracts:

- An offer is to be made;
- Offer is to be accepted;
- There shall be a lawful consideration;
- There shall an intention to create legal relations;
- The parties must be competent to contract;
- There must be free and genuine consent;
- The object of the contract must be lawful;
- There must be certainty and possibility of performance.

**DESCRIPTIVE QUESTIONS**

**2008 - June [5]** (a) Certain agreements are expressly declared to be void/unlawful. Answer with Rule position. **(4 marks)**

**Answer :**

Any agreement which is not enforceable by law is void as per the Indian Contract Act. The illustrations follow :

- (a) An agreement made by a minor;
- (b) Agreement without consideration (with certain exceptions);
- (c) Agreement against public policy are examples of agreement void ab initio i.e. from the beginning;
- (d) A legal agreement may become void because of impossibility of performance;
- (e) Change in law etc;

The following agreements have been expressly declared as void as per Indian Contract Act;

- (i) Agreement to restraint of marriage;
- (ii) Agreement restraining any one from exercising a lawful profession or business;
- (iii) Agreements with unlawful consideration;
- (iv) Agreements with uncertain meaning;
- (v) Agreements affecting personal law of individuals; and
- (vi) Agreements for impossible performance.

**2008 - Dec [1] {C}** Comment on the following statements based on legal provisions :

- (a) An agreement with insufficiency of consideration is void ab initio;

**(2 marks)**

**Answer :**

**False :** It is neither void nor voidable agreement. The consideration should be of some value in the eyes of law. Even the smallest consideration is sufficient provided it has some value. The law simply provides that a contract should be supported with consideration subject to certain exceptions.

**2009 - June [1] {C}** Comment on the following statements based on legal provisions:

- (d) Every person is competent to contract. **(2 marks)**
- (g) 'A' saved life of 'B', who was drowning. Later 'A' demanded remuneration from 'B' for saving him since saving of life was valid consideration, 'A' would succeed. **(2 marks)**

**Answer :**

- (d) **Section 11 of the Contract Act** reads "Every person is competent to contract who attains age of majority according to the law to which he is subject and who is of sound mind and is not disqualified from contracting by any Law to which he is subject."
- (g) Consideration should be at the desire of promisor. 'A' cannot demand payment for his service to save 'B's life because (1) it was voluntary gratuitous act and (2) not at the desire of 'B'.  
Where, however, a 'Person' lawfully does anything for "another person" not intending to do so gratuitously and such other person enjoys the benefit thereof, the "another person" is bound to make compensation to the "person" in respect of the thing so done.

**2009 - June [3]** (i) What is fraud under Indian Contract Act. 1872?

**(2 marks)**

**Answer :**

As per **Section 17 of Indian Contract Act**, Fraud means and includes any of the following acts committed by a party to contract or with his connivance (means support or responsibility), or by his agent with intent to deceive another party there to or his agent or to induce him to enter into a contract.

1. The suggestion as a fact, or that which is not true by one who does not believe it to be true.
2. Active concealment of a fact by one having knowledge or belief of the fact.
3. A promise made without any intention of performing it.
4. Any other act fitted to deceive.
5. Any such act or omission as the law specially declares to be fraudulent.

**2009 - June [3]** (b) A minor can be appointed as agent. —Comment.

**(2 marks)**

**Answer :**

**False :** Any person may become an agent between the principal and third party. An agent is supposed to be responsible to the principal hence no person who is not major and of sound mind can become an agent.

**2009 - Dec [4]** (f) In a contract with employer an employee agrees not to institute any legal proceeding against his employer. Can the agreement be enforced by the employer?

**(2 marks)**

**Answer :**

The employer will not be in position to enforce the contract because an agreement restricting the right of legal proceedings is null and void ab-initio as per **Section 28** of Indian Contract Act.

**2010 - June [2]** (b) A contract without adequate consideration is not a contract-offer your views.

**(2 marks)**

**Answer :**

- It is nowhere laid down that consideration should be adequate to the promise.
- Adequacy is for the parties to decide at the time of making the agreement.
- Inadequacy of consideration is no ground for refusing the performance of the promise, unless it is evidence of fraud.
- The consideration should be of some value in the eyes of law.
- Even the smallest consideration is sufficient provided it has some value.
- If a person gets what was promised to him at the time of making contract, the Court will not inquire whether it was equivalent to the promise which he gave in return.
- Where one party alleges that his consent was not free while determining consideration, the Court will take the inadequacy of consideration as evidence in support of allegation.

**2010 - Dec [1] {C}** Comment on the following based on legal provisions (No marks for wrong reasons/justification)

(e) A counter offer constitutes an acceptance of an offer. **(2 marks)**

(f) Death or insanity of the proposer automatically revokes the proposal.

**(2 marks)**

**Answer :**

- (e) **Wrong.** A counter offer is distinct and different from the original offer. Original offer must be accepted unconditionally and without any modification. Hence, a counter offer is not deemed as acceptance of original offer.
- (f) **No.** The revocation of offer takes place only when the acceptor comes to know about the death of person making the offer. If the acceptor accepts the offer and then he comes to know that person making the offer is dead, his acceptance would be valid acceptance in the eyes of law.

**2010 - Dec [2]** (d) Performance of a contract may be made only by the parties to the contract – Comment. **(2 marks)**

**Answer :**

The statement is partly true. The contract can be performed by the promisor or any of his representative or agent. When some expertise is necessary and that expertise is with the contractor, the contract must be performed by him only.

**2011 - June [2]** (f) What is 'fraud'? **(4 marks)**

**Answer :**

***Please refer 2009 - June [3] (i) on page no. 36***

**2011 - June [3]** (e) All consideration or objects of an agreement are not lawful-justify. **(2 marks)**

**Answer :**

The consideration of an agreement is treated as lawful, unless :

1. It is forbidden by law;
2. It is of such nature that if permitted it would defeat the provisions of any law;
3. It is fraudulent;
4. It involves injuries to the person or property of another;
5. It is regarded as immoral, or opposed to public policy.



**2011 - Dec [1] {C}** Comment on the following based on legal Provisions:

- (f) A minor can neither undertake liabilities nor receive benefit under the contract.– Comment. **(2 marks)**

**Answer :**

Although a minor cannot be a party to a contract, but he can receive all the benefits from any contract. He can be beneficiary of any contract.

**2011 - Dec [2]** (b) An illegal agreement is void but void agreement is not necessarily illegal. - Explain. **(3 marks)**

**Answer :**

Illegal agreements are those agreements which are against the law. All illegal agreements are against the law and hence they all are invalid and void.

A void agreement may not be against the law hence it may be valid. An agreement with uncertain parameters is void but is not illegal.

When an agreement is illegal, all agreements made on the basis of illegal agreement, are also illegal and void. If the basic agreement is void but not illegal, further agreements made on the basis of this agreement, may be valid.

**2011 - Dec [3]** (a) "Void Agreement" and "Void Contract" are same. Offer your views based on Rule Provision. **(4 marks)**

**Answer :**

Void agreement and void contract are not the same. The points of difference are as follows:

Void Agreement	Void Contract
1. It is void in the beginning.	1. It is valid in the beginning.
2. It remains void throughout its life.	2. It becomes void due to circumstances.
3. It is not enforceable by law from the very beginning.	3. It is enforceable by law at the beginning but becomes unenforceable due to certain reasons.

6.26

■ **Solved Scanner CMA Inter Gr. I Paper 6A (New**

A contract becomes void due to (i) impossibility of performance (ii) change of law or (iii) due to any other reason. A promised B to marry. Later B died. A valid contract becomes void due to death of B.

**2012 - June [1] {C}** Comment on the following based on legal provisions:  
(b) Remaining silent with respect to the known defects is fraudulent.

**(2 marks)**

**Answer :**

The statement is false. Silence is not fraud. Silence may be treated as fraud if it leads to breach of trust between the two parties.

**2012 - June [3]** (e) State the essentials of a valid contract.

**(5 marks)**

**Answer :**

Legal relationship is imperative (means important, basic, essential) component of agreement. There are certain conditions and ingredients which make an agreement enforceable by law and make this a valid contract as per the Law of Contract. These elements are described below:

<b>1. Offer and acceptance</b>	Parties entering into agreement must have lawful offer and lawful acceptance. Mere mental acceptance is no acceptance.
<b>2. Intention to create legal relationships</b>	There must be intention of the parties concerned towards making agreement and the agreement should result in legal relationship. An agreement to play cards or to go to picnic does not create legal relationship among the parties and hence not enforceable in law.
<b>3. Lawful consideration</b>	Subject to certain exceptions, there must be lawful considerations by one party to the other party in a contract. An agreement to do something for nothing is not enforceable in law. The something given or obtained is termed as consideration which must be lawful i.e. it should not be fraudulent, forbidden by law, or against the public interest.

4.	<b>Capacity of the parties</b>	The parties entering into agreement must be capable of doing so. For example, a minor, lunatic, drunk, or idiot is not supposed to have the capacity to constitute a contract.
5.	<b>Free consent</b>	The consent of both the parties must be free. An agreement executed by coercion, undue influence, mistake, threat, misunderstanding, misrepresentation, or fraud is invalid.
6.	<b>Legality of object</b>	Illegal object makes the contract illegal as well. The purpose or objective of the agreement must be lawful i.e. it should not be fraudulent, forbidden by law, or against the public interest.
7.	<b>Certainty</b>	The agreement must be certain and not vague or ambiguous.
8.	<b>Possibility of performance</b>	Performance promised must be possible and feasible. Promise to do the impossible is not enforceable by law.
9.	<b>Void agreements</b>	<p>Agreements</p> <ul style="list-style-type: none"> <li>(i) in restraint of marriage of any person other than a minor,</li> <li>(ii) in restraint of trade</li> <li>(iii) in restraint of legal proceedings</li> <li>(iv) having uncertain meanings,</li> <li>(v) wagering, gambling, betting, are void and not enforceable in law.</li> </ul>
10.	<b>Writing, registration and legal formalities</b>	In certain cases such as gift, lease, sale or mortgage of immovable property, a written contract is essential.

**2012 - Dec [2]** (e) A deceit which does not deceive is not fraud. Comment.  
(2 marks)

**Answer :**

Fraud should actually exist for taking action against it. If no one is deceived, there is no case of fraud. An attempt to fraud is not a fraud unless the party is actually deceived.

**2012 - Dec [3]** (b) While discussing, Rajib told his friends that Contracts need not be performed under certain circumstances. Deepak objected to it. State the correct position.  
(4 marks)

**Answer :**

Yes, it is possible. **Section 62 to 67 of the Contract Act** are listed under the heading "Contracts which need not be performed". The relevant provisions are as follows:

- (i) If by mutual agreement there is Novation, Rescission or Alteration, the original contract need not be performed (Sec. 62).
- (ii) Where the promisee waives or remits the performance of promise made to him, wholly or in part or extends the time of performance or accepts any other satisfaction for it (Sec. 63).
- (iii) When a voidable contract is rescinded, the other party need not to perform his promise (Sec. 64).
- (iv) If the promisee neglects or refuses to afford the promisor reasonable facilities of the performance of his promise, the promisor is excused by such neglect or refusal as to any non-performance caused thereby (Sec. 67).

Under the Law of Contract, the following agreements need not be performed.

- (i) Unlawful consideration and object – Sec. 23.
- (ii) Where the performance is unlawful or illegal – Sec. 56.
- (iii) When performance become impossible.

**2013 - June [2]** (a) A patient in a lunatic asylum can also enter into a valid contract. State the position based on legal provision.  
(2 marks)

**Answer :**

A person having a sound mind can enter into a valid contract. If a person is usually of unsound mind, who is at intervals of sound mind, may contract during those intervals when he is of sound mind.

**2013 - Dec [2]** (a) (i) Does silence amount to fraud?

**(3 marks)**

**Answer :**

- When a party to contract maintains silence over some of the facts relating to contract, such silence may or may not amount to fraud depending upon the circumstances and facts of each case.
- **Explanation to Section 17 of the Indian Contract Act, 1872**, provides that mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud unless the circumstances of case are such that having regard to them it is the duty of the person keeping silence to speak or unless silence itself is equivalent to speech.
- When the circumstances of contract are such that a person should speak and he does not speak but keeps silence then such silence will be treated as fraud.

**Exceptions to the General Rule:**

The general rule that silence does not amount to fraud has the following exceptions:

(In the following cases silence will amount to fraud)

- (i) When the parties stand in fiduciary relationship (i.e., relationship of faith and trust, parent and child, etc.)
- (ii) Where silence is equivalent to speech.
- (iii) Half Truth – It is worse than a blatant lie. Partial truthful disclosures may easily deceive the other party.

**2014 - June [3]** (a) (ii) X buys from Y a painting which both believe to be work of an old masterpiece and for which X pays a high price. The painting turns out to be only a modern copy. Discuss the validity of the contract.

**(2 marks)**

6.30

■ **Solved Scanner CMA Inter Gr. I Paper 6A (New**

**Answer:**

The Contract is absolutely void as there is a mutual mistake of both the parties as to the substance or quality of the subject-matter going to be the very root of the contract. In case of bilateral mistake of essential fact, the agreement is void ab-initio, as per **Section 20 of the Indian Contract Act,1872.**

**2016 - June [2]** Answer the question:

(a) (i) What are essential elements of a valid acceptance? **(8 marks)**

**Answer :**

<p>(a)</p>	<p><b>Acceptance must be absolute and unqualified; it must conform to the offer</b></p>	<p>As per <b>Section 7</b> in order to convert a proposal into a promise, the acceptance must:</p> <ol style="list-style-type: none"><li>1. <b>Be absolute and unqualified:</b> If the parties are not ad idem on all matters concerning the offer and acceptance, there is no contract. An invitation with variation is no acceptance, it is simply a counter proposal, which must be accepted by the original proposer before any contract is made.</li><li>2. <b>Be expressed in some usual and reasonable manner,</b> unless the proposal prescribes the manner in which it is to be accepted. If the proposal prescribes a manner in which it is to be accepted, and the acceptance is not made in such a manner, the proposer may, within a reasonable time after the acceptance is communicated to him, insist that his proposal shall be accepted in the prescribed manner, and not otherwise; but if he fails to do so, he accepts the acceptance.</li></ol> <p><b><i>In Surender Nath Vs Kedar Nath AIR 1936 Cal 87</i></b> the Calcutta High Court held that where an offeror requires that the</p>
------------	-----------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

		acceptance should be sent to a particular person in writing, <b>Section 7</b> was not violated when the offeree instead of writing to the particular person, sent his agent in person to communicate the acceptance.
(b)	<b>Specific offer can be accepted by the person to whom it is made</b>	Whereas general offer can be accepted by anyone competent to contract and meeting the conditions of offer. It was held in <b><i>Boulton Vs Jones (1857)27 LJ ex 117</i></b> case that a specific offer can be accepted only by the person to whom it is made. A general offer can be accepted by any one as held in case of <i>Carlill Vs Carbolic Smoke ball Co, Harbans Lal Vs Harbanslal</i> , already discussed earlier in this study note.
(c)	<b>Acceptance may be express or implied</b>	As per <b>Section 9</b> in so far as the proposal or acceptance of any promise is made in words, the promise is said to be express. In so far as such proposal or acceptance is made otherwise than in words, the promise is said to be implied. It can be inferred from the conduct of the parties. When a person boards in Metro Rail it is an implied acceptance.
(d)	<b>Acceptance should be of the whole proposal and not in part</b>	Acceptor should accept the whole proposal in total and not in parts. Part acceptance is no acceptance binding upon the proposer.
(e)	<b>Acceptance should be according to the mode prescribed or usual and reasonable mode</b>	Acceptor cannot accept the proposal in a manner different from the manner prescribed in the offer. If no such mode is prescribed it should be usual and reasonable mode. Silence cannot be a mode of acceptance.

6.32

## ■ Solved Scanner CMA Inter Gr. I Paper 6A (New)

		In <b><i>Surender Nath Vs Kedar Nath, AIR 1936 cal 87</i></b> , the <i>Calcutta High Court</i> held that where an offeror requires that the acceptance should be sent in writing to a particular person, <b>Section 7</b> of the contract act is not violated when the offeree instead of writing to particular person, sent his agent in person to communicate the acceptance.
(f)	<b>Communication of acceptance is must</b>	A mental determination to accept unaccompanied by any external indication will not be sufficient acceptance. To constitute an acceptance such acceptance must be communicated to the offeror or his authorized agent.
(g)	<b>Acceptance must be given before its lapse</b>	Acceptance must be given before the offer lapses by expiry of time fixed or by expiry of reasonable time if no time is so fixed or before it is withdrawn or revoked by the offeror. <b><i>In Ramasgate Victoria Hotel co. Vs. Montefiore (1866)LR 1 Exch 109</i></b> it was held that a person who applied for shares in a company in June was not bound by any allotment made in November.

**2017 - June [2]** (a) Does silence amount to fraud? Explain with exceptions and types of silence amount to fraud. **(9 marks)**

**Answer:**

**Fraud: [Sec. 17]**

Explanation to **Section 17 of the Indian Contract Act** provides that mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud unless the circumstances of case are such that having regard to them it is the duty of the person keeping silence to speak or unless silence itself is equivalent to speech.



Thus we can say that there is exception to the rule that mere silence does not amount to fraud. These two exceptions are provided in explanation to **Section 17** as under which we have already discussed above.

- (i) When there is a duty to speak.
- (ii) Where silence is equivalent to speech.

However, in the following two types of cases, silence amounts to fraud, as held by the courts in various cases:

- (a) Where there is change in circumstances:** A representation may be true when made but with the passage of time or changed circumstances it may become false. Accordingly this must be communicated to other party otherwise it amount to fraud.
- (b) When there is half-truth:** Thus even when a person is not bound to disclose a fact he may be held guilty of fraud if he volunteers to disclose a state of fact partly. This is so when the undisclosed part renders the disclosed part false.

**2017 - Dec [2]** (a) What are the position of Minor's agreement and effect thereof? **(10 marks)**

## PRACTICAL QUESTIONS

**2008 - Dec [1] {C}** Comment on the following statements based on legal provisions :

- (c)** Mr. X offers to sell his Maruti car to Mr. Y for an intended sum of ₹ 90,000/- but by mistake he makes an offer in writing for ₹ 70,000/- instead of ₹ 90,000. Mr. X can plead mistake as defence. **(2 marks)**
- (d)** Mr. X delivered 1000 mt. steel pipes to Mr. Y. 100 mt. were not as per specification, hence Mr. Y refused to accept and informed Mr. X to take back at his cost and risk. Mr. X rejected Mr. Y's request and demanded to return to Mr. X freight paid. State the correct position. **(2 marks)**

**Answer :**

- (c)** As the offer is accepted, he cannot plead defence. He has offered ₹ 70,000 and the offer was accepted. According to Sec. 22 of Contract Act, a contract is not voidable merely because it was caused by one of the parties under a mistake as to a fact mentioned in the agreement.

- (d) The buyer is required to inform the seller regarding inferior quality of goods within reasonable time. Unless otherwise stated in the agreement, the buyer is not bound to return goods to seller, it is duty of the seller to lift the poor quality goods at his own cost and risk.

**2008 - Dec [2]** (a) Mr. Ramesh promised to pay ₹ 10,000/- on 30.10.08 jointly to Mr. Bhabesh and Mr. Naresh for some consideration. Mr. Bhabesh died on 1.9.08. On 30.10.08 Mr. Naresh demanded payment of whole amount of ₹ 10,000/-. Whether Mr. Naresh is justified ? **(2 marks)**

(g) Mr. Ramesh direct his agent to sell his Maruti car. Agent buys the car for himself but in the name of his friend at ₹ 50,000/- against market price of ₹ 70,000/- without the consent of Mr. Ramesh. What action Mr. Ramesh can take ? **(2 marks)**

**Answer :**

- (a) No, Naresh is not justified. The nature of promise made by Ramesh to pay ₹ 10,000 jointly to Bhabesh and Naresh does not undergo any change after the expiry of Bhabesh as Bhabesh's representative or legal heir will take his place. Thus Naresh has no right to claim the whole amount and payment of ₹ 10,000 will be jointly paid to Naresh and legal heirs of Bhabesh.
- (g) The principal has all the rights to reject and repudiate the actions of agent if the agent deals on his own account without the knowledge of the principal. In this case, the action of agent has been detrimental to the interests of principal and he should repudiate the action taken by the agent.

**2009 - June [3]** (f) As per sales order, A is to supply 20 MT of sugar to B. A however supplied 22 MT and billed for accordingly. B paid cost of 20 MT which was ordered by B. Can A take any action against B? **(2 marks)**

(h) A Railway company refuses to deliver certain goods to the consignee except upon payment of ₹ 2,000 being excess/illegal charge. The consignee paid the said amount in order to obtain the goods. Is there any remedy? **(2 marks)**

**Answer :**

- (f) As B has accepted all the quantity supplied by A hence "B" is to pay in full. As per Sale of Goods Act, B may accept quantity of 2 MT or he may reject the whole lot. Since "B" has accepted 22 MT, he is liable to pay the value of 22 MT.
- (h) The consignee is entitled to recover the amount as was illegally excessive because a person to whom money has been paid or anything delivered, by mistake or under coercion must repay or return it.

**2009 - June [4]** (b) Mr. B (a broker) by the orders of Mr. A purchases 10 Drums of oil for A from Mr. C. Afterwards Mr. A refuses to receive oil. Mr. C sues Mr. B who informs Mr. A but Mr. A repudiates the contract. Although Mr. B defends but failed. Mr. B has to pay cost, damages and incurs expense. Can B recover any amount from A. **(2 marks)**

**Answer :**

In this case "A" is liable to "B" for such damages, costs and expenses because the employer of an agent is bound to indemnify him against the consequences of all lawful acts done by such agent in exercise of the authorities conferred upon him. B acted on the instruction of A which makes A liable to take responsibility of all lawful acts done by B on his behalf.

**2009 - Dec [2]** (d) 'B' offered to sell his car to 'A' for ₹ 75,000. 'A' accepts to purchase at ₹ 74,950. 'B' refuses. Subsequently 'A' agrees to purchase at ₹ 75,000 but 'B' refused. 'A' sued 'B' for specific performance of the contract. State legal position. **(2 marks)**

- (h) Mr. A approached Union Bank for loan of ₹ 1,00,000 which was not available from others due to tight money market. Bank agreed but at a high rate of interest. Mr. A accepted. Can he repudiate on the ground of undue influence? **(2 marks)**

**Answer :**

- (d) No, A cannot sue B for specific performance of contract. B's initial offer is already rejected by A and there is no offer available for acceptance subsequently.
- (h) A agreed to the terms and conditions of the loan on his own and his consent was free, and there was no pressure or undue influence from the bank. Bank has not forced its terms on A. A can not deny the terms

and conditions subsequently. Undue Influence : When two parties enter into contract with each other and one of the parties is in position to dominate the will of the other and uses that position to obtain an unfair advantage over the other party, such contract is said to be induced by 'undue influence.'

**2009 - Dec [4]** (c) On 30.11.09 Mr. Sham agrees to sell a painting to Mr. Ram for ₹ 5,000/- but Mr. Sham died on 8.12.09. Mr. Sham's son claimed ₹ 10,000/-. Can Mr. Ram obtain the painting at ₹ 5,000/- which was agreed to by Mr. Sham? **(2 marks)**

**(d)** Mr. Sham informs Mr. Ram that Mr. Sham's estate is free from encumbrances. Mr. Ram buys the property fully relying on Mr. Sham. Subsequently it revealed that the estate was mortgaged. What will be the position of Mr. Ram? **(2 marks)**

**Answer :**

**(c)** The validity period of contract is not mentioned in the question. If Sham dies after the validity of contract period, no question of painting to Mr. Ram because the contract was already over during Sham's life time. Assuming that the contract was alive at the time of death of Sham, Mr. Ram can force the legal heirs of Sham to respect the contract and sell the painting at ₹ 5,000 as agreed to by Mr. Sham.

**(d)** Mr. Ram can file suit against Mr. Sham for misinformation, fraud and cheating. He can obtain mortgage free estate from Mr. Sham. It is also questionable how could original registry be available with Mr. Sham because the authority keeps the original registry with him at the time of mortgage. Mr. Ram should have taken due care and diligence before relying on Sham's statement.

**2010 - June [1] {C}** Comment on the following statements based on legal provisions: (c) Mr. Roy sells by auction, to Mr. Paul a cow which Mr. Roy knows to be unsound. Mr. Roy says nothing to Mr. Paul about the cow's unsoundness. This is a clear case of fraud by Mr. Roy. **(2 marks)**

**Answer :**

Mere silence over a fact does not amount to fraud as per the Indian Contract Act. Mr. Paul has all the opportunities to examine the cow. Mr. Roy is not supposed to bring to light the unsoundness of cow.

**2010 - June [2]** (a) Mr. 'A' agrees that Mr. A shall sell Mr. B a house for ₹ 1,00,000 but if Mr. B uses the house for 'Gambling House' then Mr. B shall pay ₹ 1,50,000 for the same. Explain the legality. **(2 marks)**

**Answer :**

The contract is valid if the purpose is lawful and is void if the purpose is unlawful. First part is a valid contract while the second part is void as using the house as 'gambling house' is unlawful. Consideration does not matter in deciding the lawfulness of the purpose.

**2010 - June [4]** (b) A saved life of 'B', when 'B' was drowning. Later 'A' sued 'B' for remuneration/reward because saving life was the consideration received by 'B'. State based on Rules whether 'A' would succeed?

**(2 marks)**

**Answer :**

There was no contract or agreement between A and B in this respect. As there was no contract at the first place, the question of any consideration does not arise whatsoever. It was a voluntary act on part of A, hence, A will not succeed.

**2010 - Dec [2]** (c) Mr. X buys a ring from Mr. Y at a low price employing 'undue influence' and sells the ring to Mr. Z who purchased against consideration and without knowing of Mr. X's 'undue influence'. Can Mr. Y recover the ring from Z? **(2 marks)**

**Answer :**

No, Y cannot get the ring from Z. Mr. Z paid the amount to Mr. X in good faith. However, Mr. Y can file a suit against Mr. X regarding the 'undue influence' placed by X on Y but He (Y) can not claim the ring from Z as Z is not concerned about Y.

**2010 - Dec [4]** (a) (ii) A. Das entered into contract to sing for B. Roy at a concert for ₹10,000/- which was received in advance. A. Das being too ill could not sing. B. Roy demanded compensation for loss of profit which he would have made if A. Das had been able to sing. State B. Roy's right.

**(2 marks)**

**Answer :**

This is doctrine of frustration also known as doctrine of supervening impossibility. At the time of contract, Das was able to sing but later it became impossible for him to sing because of illness. Hence, Das is not bound to pay any damages to B, however, Das should refund the amount of advance to B.

**2011 - June [1] {C}** Comment on the following based on legal provisions:

- (b) Mr. Sadhu offers to sell his house to Mr. Sarkar at ₹ 221 lakh but by mistake makes the offer in writing for ₹ 212 lakh which was accepted by Mr. Sarkar. Can Mr. Sadhu plead the mistake as defence ? **(2 marks)**

**Answer :**

The offer was made in writing for ₹ 212 lacs and it was duly accepted by Sarkar. Sadhu cannot deny the offer of ₹ 212 as it was made by him in writing. He can not take any defense regarding this amount.

**2011 - June [2]** (d) Mr. Adarsh was due to perform on 20<sup>th</sup> February but on 17<sup>th</sup> February 2011 repudiated his obligation. On 25<sup>th</sup> February the Contract become illegal through a change in Law. Mr. Vasant the other Party requested you to give advice on action against Mr. Adarsh. **(2 marks)**

- (e) Mr. Bose directs Mr. Roy to sell wheat for which Mr. Bose agreed to pay 10% commission on the price fetched by the Goods. Mr. Bose afterwards by a letter revokes Mr. Roy's Authority. But before receiving that revocation letter Mr. Roy sold wheat for ₹ 10,000/-. Mr. Bose refused to pay commission to Mr. Roy. Offer your views. **(2 marks)**

**Answer :**

- (d) Adarsh was due to perform on 20<sup>th</sup> Feb but he failed to fulfil his promise. This is a breach of contract. The repudiation on 17<sup>th</sup> February, 2011 amounts to breach of contract and Vasant is entitled to claim damages. But Vasant is not entitled to claim 'specific performance' as the contract has become illegal.
- (e) Roy sold the goods before receiving the revocation (cancellation) letter, hence sale is binding on Bose and Roy is entitled to claim commission of ₹ 1,000/-. The agency is supposed to be terminated when the termination comes to the knowledge of the agent.

**2011 - Dec [2]** (a) Mr. Ardhendu and Mr. Barun entered into a contract to build a house for a specified consideration. Clause 14 of contract provides that in case of disputes, neither party may move to Court of Law but must accept the decision of an Arbitrator named in the contract. Does this clause violate the provisions of law ? **(3 marks)**

**Answer :**

No this does not violate any provision of law. When both the parties agree to settle their dispute on the decision of an arbitrator, such provision is in consistency with the law.

According to **Section 28** of Indian Contract Act if any party to a contract stops any party to go to Court such condition is invalid in the eyes of law. The exception is in this case when all the parties agree to settle their disputes with the guidance of an arbitrator.

**2012 - June [3]** (d) Arun seeing a watch in Barun's shop marked for sale for INR 1,000 entered the shop, places INR 1000 on the counter and asks for the watch. Barun refused. Can Barun refuse to sell the watch? Give reasons. **(2 marks)**

**Answer :**

No, Barun is not bound to sell the watch. Price label on article only amount to an invitation to offer and not an offer.

Placing of ₹ 1,000 by Arun amounts to an offer which may or may not be accepted by Barun. **[Ref. *Pharmaceutical Society of Great Britain-Vs-Boots Cash Chemists Ltd, (1953) 1 Q. B. 401*].**

**2012 - Dec [1] {C}** Comment on the following based on legal provisions:

(a) Mr. Menon offered on 1<sup>st</sup> December, 2012 to sell his house to Mr. Polson at INR Thirty Five Lakhs. Mr. Polson accepted by email on 2<sup>nd</sup> December, 2012 at 8 A.M. At 10 A.M. Mr. Polson sent a Fax revoking the acceptance. Both email (i.e. acceptance) and Fax (i.e. revocation) reached Menon at the same time. Hence this was valid. **(2 marks)**

**Answer :**

When the letter of acceptance and letter of revocation of acceptance reach the person at the same time, the effective letter will be that letter which the receiver opens first. In the given case, if Menon opens the letter of

acceptance first, the contract would be treated as accepted. If Menon opens the letter of revocation (cancellation) first the contract would be treated as revoked (cancelled).

**2013 - June [1] {C}** Comment on the following based on legal provisions:

- (a) Mr. A offers to buy Mr. B's house on certain terms. Acceptance was to be sent by 'B' within 6 (six) weeks. B within one week sent a letter accepting the offer with an alteration of one term. A then withdrew his offer. B writes again within three weeks accepting the terms originally proposed by 'A'. Hence this is a valid contract. **(2 marks)**

**Answer :**

The original proposal of A was altered by B. This amounts to death of original proposal. B's proposal is a counter offer which is to be treated as a fresh proposal. This is not a valid contract even if B agrees to accept the original terms because the original contract was dead when its terms were first altered.

- 2013 - June [4]** (a) Referring to a quarrel and disagreement between husband and wife, the husband agreed to execute and register a document in favour of his wife to transfer one of his properties to his wife. Later on husband refused. Whether wife can enforce? **(3 marks)**

**Answer :**

The wife will not succeed because the contract is without consideration. If the transfer is without consideration but there is an existence of mutual love and affection, such transfer is valid in the eyes of law. In the present case the transfer is due to quarrel and arguments and is without consideration, this does not fulfil the essentials of a valid contract.

- 2013 - Dec [2]** (c) Arun, Varun and Tarun are partners of software business and jointly promise to pay INR 60,000 to Karun. Over a period of time, Varun becomes insolvent, but his assets are sufficient to pay one-fourth of his debts. Tarun is compelled to pay the whole. Decide whether Tarun is required to pay whole amount to Karun in discharging joint promise? **(3 marks)**



**Answer :**

According to **Section 43 of Indian Contract Act, 1872** when two or more persons make a joint promise, promisee may, in absence of express agreement to the contrary compel any one or more for such joint promisors to perform the whole of the promise. Further, if any one of two or more joint promisors makes default in such contribution, the remaining joint promisors must bear the loss arising from such default in equal shares. Therefore, in this case, Tarun is entitled to receive INR 5000 (one fourth of Varun share of debt) from Varun's assets and balance INR 27500 from Arun.

**2014 - June [2]** (a) (ii) W offered to sell his house to M for ₹ 40 lakhs. M replied purporting to accept the offer and enclosed a cheque for ₹ 20 lakhs. He also promised to pay the balance amount in twenty equal installments. Examine the validity of the contract. **(2 marks)**

**Answer:**

Conditional acceptance is no acceptance at all. Acceptance of an offer must be absolute and unqualified i.e., it must conform to the offer. An acceptance, in order to be binding, must be absolute and unqualified [**Sec. 7(1)**] in respect of all terms of the offer, whether material or immaterial, major or minor. In the case provided, the acceptance is a qualified acceptance; hence it would not result in a valid contract.

**2014 - Dec [2]** (b) (i) W, the wife of H, who is lunatic, purchases a diamond set of ₹ 10 lacs from a jeweller on credit. Referring to the provisions of the Indian Contract Act, 1872, decide whether the jeweller is entitled to claim the above amount from the property of H. **(4 marks)**

**Answer :**

- The problem relates to the provisions of quasi-contract. It is to be noted that minors, persons of unsound mind or lunatics and other disqualified persons are incompetent to contract.
- But, under the provisions of **Section 68 of Indian Contract Act, 1872** "if necessities are supplied to a person, who is incompetent to contract, the supplier is entitled to claim the reimbursement from the estate of such person".

- A supplier would also be entitled to recover the price of necessities supplied to wives or minor child of the incompetent person, as he is legally bound to support them.
- Also necessities would mean 'goods suitable to the condition in the life of such person' and not luxuries.
- Again person liability is not accrued for minors and lunatics; it is only their estate that would be liable. If there is no property nothing would be realizable.
- To establish his claim the supplier must prove not only that the goods were supplied to the person who was a minor or a lunatic, but also that they were suitable to his requirement at the time of sale and delivery.
- It is also to be noted that a person of unsound mind, who has intervals of sound mind can enter into a contract during such period.
- Thus the burden to prove that H is lunatic and he was of unsound mind when entered into the contract lies on the seller.
- In the given problem, the jeweler would not be entitled for the claim, as a diamond set worth ₹10 lakhs for the wife of H, is not a necessity and is surely a luxury.

**2015 - June [2]** Answer the questions:

- (b) (i) Abhay, UG degree student was induced by his lecturer to sell his brand new car to the later at less the purchase price to secure more marks in the University examination. Accordingly the car was sold. However, the father of Abhay persuaded him to sue his lecturer. State whether Abhay can sue against the lecturer? **(3 marks)**
- (d) (i) Anita and Binita are friends, Binita treats Anita during Anita's illness. Binita does not accept payment from Anita for treatment and Anita promises Binita's son Sunit to pay him ₹ 12,000. Anita being in poor circumstances is unable to pay. Sunit sues Anita for the money. Can Sunit recover? **(3 marks)**
- (e) (i) Arvinda took a bet of ₹ 20,000 with Bannerjee that a certain horse would win the race. Arvinda and Bannerjee both residents of Kolkata. Arvinda borrowed ₹ 20,000 from his friend Chatterjee for this purpose. Arvinda lost the bet and paid ₹ 20,000 to Bannerjee. Can Chatterjee

recover the loan amount from Arvinda? Give reasons. What would have been the difference had the transaction took place in Ahmedabad between the parties residing there? (3 marks)

**Answer:**

- (b) (i) • Yes, Abhay can sue against his lecturer on the ground of influence under the provisions of the Indian Contract Act, 1872.
- A contract brought as a result of coercion, undue influence, fraud, misrepresentation would be voidable at the option of the person whose consent was caused.
  - As per Sec. 19-A when consent to an agreement is caused by undue influence, the agreement is a contract voidable at the option of the party whose consent was so caused.
  - Any such contract may be set aside either absolutely or, if the party who was entitled to avoid it has received any benefit there-under, upon such terms and conditions as the Court may seem just.
- (d) (i) • No, Sunit cannot recover the money from Anita. The agreement between Sunit and Anita is not a contract in the absence of consideration. In this case, Sunit's mother, Binita, voluntarily treats Anita during her illness.
- Apparently it is not a valid consideration because it is voluntary whereas consideration to be valid must be given at the desire of the promisor-void **Section 2(d)**.
  - The question now is whether this case is covered by the exception given in **Section 25(2)** which *inter-alia* provides.
  - "If it is a promise to compensate a person who has already voluntarily done something for the promisor ....."
  - Thus as per the exception the promise must be to compensate a person who has himself done something for the promisor and not to a person who has done nothing for the promisor.
  - As Binita's son, Sunit to whom the promise was made, did nothing for Anita, So Anita's promise is not enforceable even under the exception.

6.44

■ **Solved Scanner CMA Inter Gr. I Paper 6A (New**

- (e) (i) • Yes, Chatterjee can recover the loan amount from Arvinda.
- The transaction between Arvinda and Chatterjee is a collateral transaction which is valid, though the main transaction between Arvinda and Bannerjee is void, being a wager.
  - Had the transaction took place in Ahmedabad, Chatterjee could not have recovered the loan as in Ahmedabad the wager transactions are illegal and a transaction collateral to it is also void on the ground of illegality.

**2015 - Dec [2]** (e) (i) The father of a minor girl, Anu, entered into an agreement for her marriage with Vishal. Afterwards, Vishal refused to marry Anu. On attaining majority, Anu filed a suit against Vishal for damages for breach of promises to marry. Vishal contended that Anu cannot enforce the contract as she was not a party to the agreement between him and Anu's father. Is Vishal's contention valid? **(3 marks)**

**Answer:**

An agreement is made in connection with marriage, partition or other family arrangements, and a provision is made for the benefit of some person.

In such cases, a person, for whose benefit the provision is made in such family arrangements, can enforce the agreement even if he is not a party to it.

It may, however, be noted that provision must be made for the benefit of the person who wants to enforce such marriage arrangements.

No, Vishal's consent is not valid.

The marriage agreement or other family arrangements where a provision is made for the benefit of some person can be enforced by the beneficiary even if he is not a party to the same.

**2016 - June [2]** Answer the question:

- (e) (i) X Father promised to pay his son Y a sum of ₹ One lakh if Y (son of X) passed CMA examination in the first attempt. Y passed the CMA examination in his first attempt, but X failed to pay the amount as promised. Y files a suit for recovery of the said amount. State along with reasons whether Y can recover the amount under the Indian Contract Act, 1872. **(5 marks)**

**Answer :**

- Problem asked in the question is based on the provisions of the Indian Contract Act, 1872 as contained in **Section 10**.
- According to the provisions there should be an intention to create legal relationship between the parties.
- Agreement of a social nature or domestic nature do not contemplate legal relationship and as such are not contracts, which can be enforced.
- This principal has been laid down in the case of ***Balfour Vs. Balfour***.
- Accordingly, applying the provisions and the ease decision, in the case Y cannot recover the amount of Rupees one lakh from X for the reasons explained above.

**2016 - Dec [2]** Answer the question:

- (c) (i) A, aged 16 years, was studying in an engineering college. On 1 June, 2015 he took a loan of ₹ 2 Lakhs from B for the payment of his college fee and agreed to pay by 31<sup>st</sup> July 2016. A possesses assets worth ₹ 20 Lakhs. On due date, A fails to pay back the loan to B. B now wants to recover the loan from A out of his assets. Whether B would succeed? Decide, referring to the provisions of the Indian Contract Act, 1872. **(5 marks)**

**Answer:**

The problem in question is covered under the exceptions. As per **Section 68 of the Indian Contract Act, 1872** though a minor is not personally liable to pay the price of necessaries supplied to him or money lent for the purpose, this supplier or lender will be entitled to claim the money/price of goods or services which are necessaries suited to his condition of life provided that the minor has a property. The liability of minor is only to the extent of the minor's property. This type of contract is called a Quasi-contract and the right of the supplier/tender is based on the principle of equity.

Hence, in the given case B will be entitled to recover the amount of loan given to A for payment of college fees from the property of A, the minor.

