

Notes by Dr Ram Lochan Mishra

Associate Professor

Head of Commerce department

J K college Biraul Darbhanga

B. Com part-2 ,Business Regulatory and framework

Unit -1 Indian contract Act 1872

WHAT IS A CONTRACT?

Ans-

The term contract is defined under section 2(h) of the Indian Contract Act, 1872 as- “an agreement enforceable by law”.

The contract consists of two essential elements:

- (i) An agreement, and**

- (ii) Its enforceability by law.**

(i) Agreement – The term ‘agreement’ given in Section 2€ of the Act is defined as- “every promise And every set of promises, forming the consideration for each other“.

To have an insight into the definition of agreement, we need to understand promise.

Section 2 (b) defines promise as-

“when the person to whom the proposal is made signifies his assent there to, the proposal is said To be accepted. Proposal when accepted, becomes a promise“.

The following points emerge from the above definition :

1. When the person to whom the proposal is made

2. Signifies his assent on that proposal which is made to him

3. The proposal becomes accepted

4. Accepted proposal becomes promise

Thus we say that an agreement is the result of the proposal made by one party to the other party And that other party gives his acceptance thereto of course for mutual consideration.

Agreement = offer /Proposal + Acceptance

(iii) Enforceability by law – An agreement to become a contract must give rise to a legal obligation which means a duly enforceable by law.

Thus from above definitions it can be concluded that –

Contract = Accepted proposal/Agreement + Enforceability by law

On elaborating the above two concepts, it is obvious that contract comprises of an agreement which is a promise or a set of reciprocal promises, that a promise is the acceptance of a proposal giving rise to a

binding contract. Further, section 2(h) requires an agreement to be worthy of being enforceable by law before it is called 'contract'. Where parties have made a binding contract, they created rights and obligations between themselves.

Example: A agrees with B to sell car for `2 lacs to B. Here A is under an obligation to give car to B and B has the right to receive the car on payment of `2 lacs and also B is under an obligation to pay `2 lacs to A and A has a right to receive `2 lacs.

So Law of Contract deals with only such legal obligations which has resulted from agreements. Such obligation must be contractual in nature. However some obligations are outside the purview of the law of contract.

Example: An obligation to maintain wife and children, an order of the court of law etc. These are status obligations and so out of the scope of the Contract Act.

- ***Proposal/offer***
- ***Acceptance***
- ***Contract***
- ***Accepted proposal/***
- ***Agreement***
- ***Legally enforceability***