

CONTRACT IN BUSINESS LAW

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What is a Contract?

The Contracts or agreements between various parties are framed and validated by the Indian Contract Act. Contract Act is one of the most central laws that regulates all the business wherever a deal or an agreement is to be reached at. The following section will tell us what a contract is.

We will see how a contract is defined by The Indian Contract Act, 1872. We will also define the terms as per the Act and see what that means. In these topics, we will decipher all the vivid aspects of the Contract Act. Let us begin by understanding the concept of a contract.

Contract Act

The Indian Contract Act, 1872 defines the term “Contract” under its section 2 (h) as “An agreement enforceable by law”.

In other words, we can say that a contract is anything that is an agreement and enforceable by the law.

This definition has two major elements in it viz “agreement” and “enforceable by law”. So in order to understand a contract in the light of The Indian Contract Act, 1872 we need to define and explain these two pivots in the definition of a contract.

Agreement

The Indian Contract Act, 1872 defines what we mean by “Agreement”. In its section 2 (e), the Act defines the term agreement as “every promise and every set of promises, forming the consideration for each other”.

Promise

Section 2(b) defines the term “promise” here as: “when the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. Proposal when accepted, becomes a promise”.

In other words, an agreement is an accepted promise, accepted by all the parties involved in the agreement or affected by it.

Sequence of steps that need to draft a contract

- The definition requires a person to whom a certain proposal is made.
 - The person (parties) in step one have to be in a position to fully understand all the aspects of a proposal.
 - “signifies his assent thereto” – means that the person in point one accepts or agrees with the proposal after having fully understood it.
 - Once the “person” accepts the proposal, the status of the proposal changes to “accepted proposal”.
- “accepted proposal” becomes a promise. Note that the proposal is not a promise. For the proposal to become a promise, it has to be accepted first.

Thus, in other words, an agreement is obtained from a proposal once the proposal, made by one or more of the participants affected by the proposal, is accepted by all the parties addressed by the agreement. To sum up, we can represent the above information below:

Agreement = Offer + Acceptance.

An agreement to change into a Contract as per the Act, it must give rise to or lead to legal obligations or in other words must be within the scope of the law.

Thus we can summarize it as

Contract = Accepted Proposal (Agreement) + Enforceable by law (defined within the law)

So What Is A Contract?

A contract is an accepted proposal (agreement) that is fully understood by the law and is legally defined or enforceable by the law.

So a contract is a legal document that bestows upon the parties special rights (defined by the contract itself) and also obligations which are introduced, defined and agreed upon by all the parties of the contract.

Difference Between Agreement And Contract

Contract	Agreement
A contract is an agreement that is enforceable by law.	A promise or a number of promises that are not contradicting and are accepted by the parties involved is an agreement.
A contract is only legally enforceable.	An agreement must be socially acceptable. It may or may not be enforceable by the law.
A contract has to create some legal obligation.	An agreement doesn't create any legal obligations.
All contracts are also agreements.	An agreement may or may not be a contract.

Thank
you

