

MBA –III Semester,
MB 302, LEGAL ASPECTS OF BUSINESS
Unit: 1
Topic: Types of Contract
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TYPES OF CONTRACTS

Contracts can be classified on the following basis:

1. On the basis of validity
2. On the basis of formation
3. On the basis of performance

On the Basis of Validity

The agreement provides the basis for a valid contract, however, an agreement will give birth to a contract only when all the essential elements of a valid contract are present. In case, one or more such elements are missing, the contract will be one of these void, voidable, illegal or unenforceable.

(a) Valid Contract

An agreement which has all the essential elements of a contract is called a valid contract. A valid contract can be enforced by law.

Example:

A homeowner (who is over the age of 18 and of sound mind signed) a contract with the appliance store to buy a refrigerator. The homeowner paid for the refrigerator

and the appliance store presented the refrigerator for the homeowner to take home.

(b) Void Contract

Avoid contract is a contract which ceases to be enforceable by law. It should be remembered that a contract becomes void when it ceases to be enforceable by law. Therefore, there is possibility that a contract when originally entered into may be valid and binding on the parties, but it may subsequently become void. If any act to be done under any contract is opposed to 'public policy' then that contract itself cannot be enforced under the law. Such contracts do not exist in the eyes of law and hence are void agreements.

Example:

There was an agreement between an illegal drug dealer and an illegal drug supplier to purchase a specified amount of drugs for a specified amount. In such a case, either one of the parties could void the contract since there was no lawful objective and hence missing one of the elements of a valid contract, rendering it to be a void agreement.

(c) Voidable Contract

An agreement which is enforceable by law at the option of one or more of the parties but not at the option of the other or others is a voidable contract. One such case may be of a contract where one of the essential elements of a valid contract that is free consent is missing. The law confers the right on the aggrieved party either to reject the contract or to accept it. However, the contract continues to be good and enforceable unless it is repudiated by the aggrieved party. Such contracts are termed as voidable contracts.

Example:

Mr Q threatened to shoot Mr S to purchase a car for rupees one lakh. Mr S gave the consent for the contract. In this case, since the contract was made by coercion, it is voidable at the option of Mr S.

(d) Illegal Contract

The contract which the law forbids to be made is called illegal contract. The court will not enforce such a contract as also other connected contracts. It must be noted here that all illegal agreements are void but all void agreements or contracts are not necessarily illegal. A contract is illegal if it is forbidden by law; or is of such nature that, if permitted, would defeat the provisions of any law or is fraudulent; or involves or implies injury to a person or property of another, or the court regards it as immoral or opposed to public policy. These agreements are punishable by law and are void *ab initio* which means 'initially incorrect'.

Example

Mr T promises to give Mr J Rs. 5,00,000 if Mr J robs a bank on Saturday. This is an illegal contract because the object of the contract is illegal.

(e) Unenforceable Contract

Where a contract is good in substance but because of some technical defect, i.e., absence in writing, barred by limitation, etc. one or both the parties cannot sue upon it. Such contracts are termed as unenforceable contracts. These contracts are neither void nor voidable and these contracts can be enforced by law when the technical defect is removed.

Example

Mr A borrowed the money from Mr B and wrote a pronote but the required stamp duty was not posted on the pronote. This contract is valid but not enforceable by law. The contract between Mr A and Mr B can be enforced after the payment of

the required stamp duty on the pronote that is after removing the technical hurdle in the enforcement of the contract.

Topic to be continued...