

GOA UNIVERSITY SYLLABUS

RAJHAUNS
A TEXTBOOK OF
BUSINESS
LAWS

BCom.
SEMESTER III

Reshma Nikhil Pai Angle

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346.07 PAI/TEX



BC29125

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Publication No : 1419

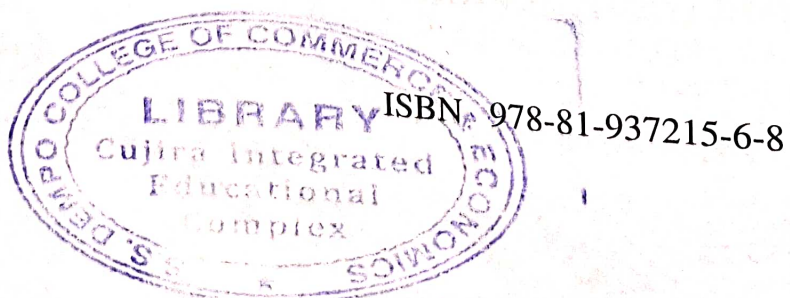
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Publisher
Rajhauns Sankalpana Pvt Ltd
1 - Meenakshi Bldg.
Dr. Wolfango da Silva Marg
Panaji 403 001
E-mail: rajhaunsgoa@gmail.com
www.rajhauns.com

Printer
Rajhauns Offset, Panaji

Cover Design & Layout
Sheetal N Bhandari

₹ 200/-





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CHAPTER 1

ESSENTIAL ELEMENTS OF A CONTRACT

Agreements and contracts are two different things. To form a contract, there must first be an agreement. It is therefore important to know what is an agreement and what is a contract, and how a contract is formed.

Definition of Agreement – Section 2(e)

“Every promise and every set of promises, forming the consideration for each other is an agreement.”

Definition of Promise – Section 2(b)

“When the person to whom the proposal is made signifies his assent thereto, the proposal is said to be accepted. A proposal when accepted becomes a promise.”

Definition of Contract – Section 2(h)

“An agreement enforceable by law is called a contract.”

ESSENTIAL ELEMENTS OF A VALID CONTRACT

1. **Proposal and acceptance** : The first step towards creating a contract is that one person shall make a proposal or offer to the other, with a view to obtaining the acceptance of that other person to whom the offer is made. A proposal when accepted becomes a promise.
2. **Consideration** : Every contract consists of two parts – (i) Promise and (ii) Consideration for the promise. A promise is usually made in return for a promise eg, a buyer agrees to pay the price in return for the goods. Goods are the consideration for the buyer and price is the consideration for the seller. Consideration is the cause of the promise. It is a promise in return for a promise. It is the most essential part of a contract and an agreement without consideration is considered void.
3. **Competent to contract** : That is, the person must be major of age, of a sound mind, and not disqualified by law from contracting.
4. **Free Consent** : Parties to a contract must give their free consent. Two or more persons are said to consent when they agree upon the same thing in the same sense. Mere consent is not enough. Consent of the parties must be free. ie., it must not have been obtained by (i)