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“EFFECTS OF CONTRACTS ON BUSINESS REGULATIONS”

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❖ ABSTRACT:

A contract is a formal document, accepted by both parties, employer and employee, and is the base for any flourishing business. Importance of contracts and Law of contract is that Contracts in business provide better visibility to meet the duties and achieve the objectives as agreed per the agreement. It serves as a great support for building a good rapport with the customer or the desired party. The impact of contract law on business is very much the impact that, law of contract leaves on a business is very important it can decide the future of that business.

Contract law governs the creation and enforcement of agreements between parties. In the business context, it underpins transactions, from purchasing supplies to selling services, hiring employees, and forming partnerships. Contracts are legally binding agreements that define the rights and obligations of the parties involved.

In the modern business landscape, contract law serves as the foundation upon which commercial transactions and relationships are built. Understanding the impact of contract law on operations is crucial. It not only influences the legal structure of deals and partnerships but also shapes strategic decision-making, risk management, and organizational governance. Thus, the purpose of this study was to review the effect of Contracts on Business Regulations, offering insights to navigate these legal waters effectively.

The works of literature were a blend of published papers and articles on Google Scholar, Research Gate, books, and other journals. Overall, numbers of papers were analyzed to bring out the effects of Contracts on Business Regulations.

❖ KEYWORDS: CONTRACTS, BUSINESS REGULATIONS.

❖ INTRODUCTION :

A contract is a deal between two parties for exchange of goods or service for a price. Every day, every one of us enters into several contracts, knowingly or unknowingly.

Morning tea/ milk purchase, going to school or office in a public transport, attending school or office, watching TV channel, Medical service, visit to a bank for any financial transaction. Similarly buying vegetables, kirana etc. in each of these transactions or price or change is paid in return for goods or services. In the course of the deal, the conditions like quality, quantity, delivery, service etc. are implied or expressed in the contract or deal.

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A separate act is passed to regulate these various kinds of acts/deals i.e. Contract Act. Indian contract act is not exhaustive i.e., it does not include every kind of business deals. Broadly it is designed in two parts.

- ✓ Indian contract act – general principles – sec. 1 to 75.
- ✓ Indian contract act – special contract act sec. 124 to 238.

This deals with deals relating to indemnity, guarantee bailment and pledge.

Sale of goods act was earlier part of Indian contract act sec. 76 to sec. 123, upto 1930. Separate act is passed to govern sales of goods.

❖ OBJECTIVE :

The primary objective of this paper is to analyze the **EFFECT OF CONTRACTS ON BUSINESS REGULATIONS**. Along with it also includes Definition, Essential Elements of a Contract, Contract and Business law prevent legal problems, **The role of contract law in business transactions, Breach of Contract: The pitfalls and legal ramifications**, Remedies for breach of contract and What to keep in our mind when writing our own business contract.

❖ METHODOLOGY :

The current study is based on secondary data, i.e. through the information collected from published journals, articles, and papers on websites, Google Scholar, and Research gate. This paper examines the Effects of Contracts on Business Regulations and Essential elements of a contract.

❖ DEFINITION :

Section 2 of Indian contract act 1872, has given a simple definition of contracts as “An agreement enforceable by law”. Basically, it has two aspects, it is an agreement between two parties and it must have legal sanction. That is to perform a legal act, not illegal.

Sir. John Salmond has defined contracts as “An agreement creating and defining obligations between two parties.”

❖ ESSENTIAL ELEMENTS OF A CONTRACT :

➤ **Offer and Acceptance:** Contract is an agreement between two parties for exchange of goods or service. One party makes an offer to sell or exchange something for a price or consideration and the party accepts that offer. This creates agreement between them to trade or exchange as per the deal. The terms and conditions of offer and acceptance are made clear or expressed and agreed between them. Like product, Price, quantity, delivery time etc., There are some conditions which are implied or understood like good quality, ownership over the product etc.


➤ **Intention to create legal relation:** Parties to the contract must have legal intentions through the deal. A social deal is not enforceable. Eg. Your friend invites you for a party, movie, if he later rejects/cancels it is not enforceable.

Similarly, the deal should be legal not illegal. Eg. The party who is selling the product must be its owner, it should not be others stolen. There cannot be an agreement to do cheating, murder or any illegal act.

➤ **Lawful Consideration :** Contract cannot be a deal of love or gift i.e., not social as already said, it must be legal. Definite consideration must be exchanged between the parties as per agreement. Consideration is exchange of benefits. It must be in the form of cash/ kind/ service.

The buyer's consideration is he receives the goods, and seller's consideration is he receives cash. The consideration must be lawful not illegal as said earlier. The seller must be owner of goods. It should not be looted/stolen commodity. Similarly there cannot be an agreement to do some illegal act like kidnap, murder etc.


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Contractual Capacity : The parties to contract must be normal, sane and solvent. He / She may be unatic person or on artificial person like a joint stock company.

Minors are debarred. On these there behalf guardians can enter into contract. A person cannot enter into contract with an enemy or people debarred by law of land.

- **Free Consent** : A legal technical term is refereed, i.e., 'ad-idem consensus'. There should be consent for the contract it should not be forced, no threat or Dhamaka. The parties cannot put pressure to sell at lesser price, or any other force.

Similarly there should be clarity of the object of exchange i.e., 'consensus-ad-idem' Eg. If Mr. A has two cars, when he is selling it must be made clear which one he is selling, like brand, colour price. There should not be ambiguity.

- **Possibility of Performance** : Any deal of business should be possible to perform. It must be legal and natural trade or service. The deal should be clear, nit vague or unclear. Eg. If there is a contact between A and B to bring stars from the sky, then the contract becomes void, because it is not possible to perform.
- **Should fulfill legal formalities** : Regular normal legal terms and conditions should be agreed between the parties. They should be legal like price, quantity, delivery date, and other terms must be agreed before. As per that, the deal place. If there is violation of any term, if it is illegal, the deal will be cancelled. Some case parties who do mistake, violate the terms may be penalized.

❖ **CONTRACT AND BUSINESS LAW PREVENT LEGAL PROBLEMS :**

The law of contract is a fundamental aspect of business law. It serves several important functions, including:

- ✓ **Establishing legally binding agreements**: The law of contract provides a framework for businesses to enter into legally enforceable agreements. This means that parties can rely on the terms of the agreement and take legal action if the other party breaches the contract.
- ✓ **Providing certainty and predictability**: The contract law helps establish certainty and predictability in business transactions. Parties can negotiate and agree on the terms of the contract, and then rely on those terms to govern their relationship.
- ✓ **Facilitating commerce**: By establishing legal rules for contracts, the law facilitates commerce by creating a level playing field for all parties involved. Businesses can enter into contracts with confidence, knowing that the law will provide a fair and reasonable framework for resolving disputes.
- ✓ **Encouraging good faith and fair dealing**: The contract law requires parties to act in good faith and deal fairly with each other. This promotes trust and confidence in business relationships, which in turn supports economic growth and development.

The law of contract plays a critical role in business law by providing a legal framework for parties to enter into agreements, establishing certainty and predictability in business transactions, facilitating commerce, and encouraging good faith and fair dealing.

❖ **THE ROLE OF CONTRACT LAW IN BUSINESS TRANSACTIONS :**

Contract law plays a critical role in shaping and enforcing business transactions. From ensuring that a supplier delivers the promised quantity and quality of goods, to guaranteeing that a freelancer will complete a project within a specified time-frame, contracts provide certainty and legal enforceability to everyday business arrangements. They serve as the blueprint for business relationships, setting out the rights, responsibilities, and expectations of all involved parties.

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BREACH OF CONTRACT: THE PITFALLS AND LEGAL RAMIFICATIONS :

The breach of a contract occurs when one party fails to fulfill its contractual obligations. This could be a failure to deliver goods or services, late delivery, delivering substandard goods, or any other violation of the agreement's terms. The implications can be severe, including legal action and damages. Therefore, having robust contracts in place, and understanding their enforcement, is crucial to protect businesses from losses and liabilities.

♦ REMEDIES FOR BREACH OF CONTRACT :

Breach of contract is violation of terms and conditions of the agreement. Such non compliance will cause damage or loss. The person who has broken the agreement has to compensate the pair suffered loss. The general law says, where there is a right, there is remedy. The injured party is given following remedies on breach of contract

These remedies are as follows :

A. Rescission of Contract.**B. Suit for Damages.**

A. Rescission of Contract : When a deal is broken by one party the other party may simply rescind or cancel the contract. The party may say 'No' to continue with the deal.

Eg: An agreement of trade between Ram and Sham. Ram agrees to sell some quantity of goods at a particular price, to be delivered after 7 days. After 7 days, if goods are not delivered, Sham may cancel contract. Mr. Ram may be willing to deliver on 8th day, but Sham may deny the deal as promise is not kept.

Ram cannot force Mr. Sham to purchase as he has broken the promise. If Mr. Ram delivers within 7 days, in that case, if Sham denies, in that case Mr. Ram has right to force the delivery of goods.

B. Suit for Damages : Aggrieved party, that is the party whose promise is broken has remedy or right to claim the compensation for damage he has suffered. The purpose of granting compensation is to compensate the loss suffered by the party. The compensation is monetary not a punitive or punishment.

Party, who has suffered loss, can claim damages. Following kinds of damages are available.

✓ Ordinary or General Damage**✓ Special Damage****✓ Exemplary / Vindictive Damages****✓ Nominal Damages**

- ✓ **Ordinary or General Damage :** Whenever a deal is broken, the party who has suffered loss, can claim it from the other promised person, the amount of damages may be loss of profit. Eg. Mr. X agrees to buy 100 bags of a product @ Rs. 100/- bags of a product from Mr. Y. No time was fixed for delivery. Mr. Y informs that, he is not interested to buy and cancelled the contract. The market price has come down to Rs. 90/- bag. Mr. X can claim compensation from Mr. Y @ Rs. 10/- bag for not taking delivery, that has resulted in loss to X.

In a famous decided case *Fazal Ilahi Vs. East India Rail Company* Mr. 'F' booked with railways for transport of fire crackers for a festive season. As the item is dangerous, railway authorities did not transport it through regular passenger train. Instead they were taken through a cargo goods train. This has caused delay in transport. The fire crackers were delivered after the festival. Mr. 'F' claimed compensation from railway for delay in transport. No damage were awarded, as Mr. 'F' did not insist on transport through passenger train,

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railway had no notice of it. In usual manner they transported through cargo train that caused delay. It was held no compensation available, as there is no wrong on Railway authority.

- ✓ **Special Damage :** The aggrieved party, who has suffered damage can claim special compensation. Special damages are awarded along with general damage. It means party has suffered loss can claim both types of damages.

To award special compensation both the parties must be aware of special nature of contract. The special circumstance, condition of specialty of deal should be known to both the parties. They must have knowledge that, if the deal is not done as per the agreement, it causes special damage. Eg. A trade agreement between A and B to deliver goods within same day to market price was Rs. 100. There was delay in delivery of goods by A to B. It was delivered after 7th day. The market price fallen to Rs. 80/-. Held Mr. B can claim special damages of Rs. 20 - for fall in price, also after receiving the goods by delay.

- ✓ **Exemplary / Vindictive Damages :** In this case heavy damages are awarded to punish the party who has committed the mistake. The purpose of awarding exemplary or heavy damages is to deter/stop a person from breaking the agreement. The threats/warning of heavy damages will make the parties to be responsible in implementing the agreement. Vindictive damages make parties not be ignorant, careless in dealing with the agreement.

Eg: Dishonor of a cheque is a case of negligent act. A person should issue the cheque when there is sufficient balance in his account. Cheque issued without funds, results in nonpayment or dishonor. This will cause trouble to the party to who cheque is issued. In such circumstance heavy damages are awarded to party who has suffered loss. In fact, smaller the amount of cheque dishonored larger is amount of compensation. The dates control a person from committing such mistakes.

Similarly in a breach of contract of marry, the party which has failed to marry as per his earlier promise, will be punished with heavy damages. This is once again done to stop a person from making false promise.

- ✓ **Nominal Damages :** When an agreement is broken, but such act if has not resulted in any loss/damage, only nominal damages are awarded. A token compensation is awarded to just recognize breakage of contract.

In a case of Charter Vs. Sullivan Mr. 'S' was to buy a car from Mr. 'Charter', Mr. 'Sullivan' did not buy as per promise. But there was no damage to Mr. 'Charter', as all his cars were sold. There was demand for the cars. Still Mr. 'Charter' was awarded nominal damages.

❖ **WHAT TO KEEP IN MIND WHEN WRITING YOUR OWN BUSINESS CONTRACT:**

When drawing up a business contract, there are several things that you should keep in mind to ensure that the contract is clear, legally enforceable, and protects your interests. Here are some of the key considerations:

- ✓ **Identify the parties involved:** The contract should clearly identify the parties involved in the agreement, including their names and contact details.
- ✓ **Define the purpose of the agreement:** The contract should clearly define the purpose of the agreement and what each party is expected to do.
- ✓ **Be specific about the terms:** The contract should clearly state the terms of the agreement, including payment terms, delivery or performance timelines, and any other important details.
- ✓ **Consider legal requirements:** Make sure that the contract complies with all relevant legal requirements, including consumer protection laws and regulations.
- ✓ **Define consequences for non-compliance:** The contract should clearly define the consequences for non-compliance, such as penalties or termination of the agreement.

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- ✓ Be clear about dispute resolution: The contract should outline the process for resolving disputes, including mediation or arbitration.
- ✓ Consider intellectual property: If the contract involves intellectual property, make sure that ownership and usage rights are clearly defined.
- ✓ Consult a lawyer: It's always a good idea to consult a lawyer when drafting a business contract to ensure that it's legally binding and protects your interests.

By keeping these considerations in mind when drawing up a business contract, you can help to ensure that the agreement is clear, legally enforceable, and protects your interests.

❖ CONCLUSION:

In conclusion, In this era, the importance of contracts in business needs to be understood. However, drafting a contract agreement, taking into account all these factors is a challenging and time-consuming process. So, it is advised to seek the help of an expert law attorney to help you through the process. Strict legal action to be taken against people who breach the contract agreement. This, in turn, will reduce the future chances of people failing to follow the rules stated in the contract. Most contracts are written based on the governing law section, which depends on the state in which the contract was enforced and the law acts over the contract's viability.

So the business law has the utmost impact on the industrial sector. Its usefulness in different subject matters relating to various sectors of commercial law, growing every day, helps in the evolution of business law. Businesses being one of the widest platforms available for the public at large, need to be updated from time to time. As the different provisions provided in all the parts involved in business law work simultaneously with different benefits. Its effectiveness can be easily seen while administration of various business activities, and eventually it results in the betterment of the business. Hence, it provides and saves the rights of many persons in the whole business world with its vital role.

This paper has contributed in understanding the effect of contracts on business regulations along with essentials elements of contract.

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