

DISCHARGE OF CONTRACT UNDER THE INDIAN CONTRACT ACT, 1872

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ABSTRACT

It may be apt to say that man being a social animal is intimately linked with contracts that is bound together knowingly or unknowingly and moreover the superstructure of every business is founded on contractual terms and conditions to avoid possible friction and breach in discharging the contract. Contracts are those which are legally enforceable in case of a breach of the contractual words. The research article deeply analysis the minds of the Indian legislation in applying. The article specifically ponders over the contractual laws applicable in breach and contract in the context of Indian contract act 1872. It also enumerates with adequate case laws to have a better grasp of breach and remedy in Indian Contract Act, 1872. It is a doctrinal research article which has the objective to impart the legislative concept of breach and remedy to every reader who are part and parcel of actual contract or implied contract.

Key Words: Indian Contract Act, Breach and Remedy, Contract, Discharge of contract, Law of contract, Compensation in Contract

1. INTRODUCTION

The superstructure of contemporary business is based on the law of contracts. It is a well-known fact that promises are frequently made during commercial transactions, with performance following afterwards. If either party in such a circumstance were free to breach their commitment without consequence, there would be countless issues and it would be impossible to conduct business. Due to this, the law of contracts was established, which establishes the legal guidelines governing the creation, fulfilment, and enforceability of promises. According to Sir William Anson, who explains the goal of contract law: "The law of contract is intended to ensure that what a man has been led to expect shall come to pass; that what has been promised to him shall be performed." (Rai University, n.d.)

The law of contracts is applicable to everyone, not just members of the business world. Almost every day, every one of us enters several contracts, often without even realizing what we are doing from a legal standpoint. Few people are aware that when they give their scooter to a mechanic for repairs, they are making a contract of bailment. Similarly, when they purchase a pack of cigarettes, they are making a contract for the sale of goods. Finally, when they go to the movies, they are making yet another contract. Additionally, the other divisions of Commercial Law are built on the principles of Contract Law. The broad idea of contract law serves as the foundation for the laws governing sales of products, negotiable instruments, insurance, partnerships, and insolvency. Because of this, the study of contract law comes before the study of all other areas of commercial law (Mary Charman, 2007).

The Indian Contract Act contains the rules governing contracts in India.

The Indian Contract Act, 1872 came into effect on the first day of September 1872 and covers the entirety of India. There are some areas of contract law that are not covered thus the act cannot be called as inclusive act. Contracts including negotiable instruments, property transfers, the sale of products, partnerships, insurance, etc. are covered by distinct Acts. Again, the Act has no effect on any trade practice or custom and it is clearly specified in section 1 of the act. The Indian Contract Act, 1872, is a skeleton of the contractual laws, regulations and enforcement of contracts which regulates the law of contracts in India. Contract is a legally enforceable agreement between two or more parties, known as a contractual party establishes duties to carry out during the contractual period with specific actions of obligations or refrain from doing so. However, it is to be noted that all contracts are perpetual in nature and thus there are option to terminate a contractual relationship in several ways as provided in the Act. The research article examines various ways and implications supplemented with case laws to enumerate the idea of discharge of contract under the Indian Contract Act, 1872 (Dr. Mujahid J. Siddiqui, 2018).

Kinds of Discharges in Indian Contract Act

The term "discharge of a contract" refers to the parties' legal termination of their respective contractual responsibilities. It is important to realize that once a contract is completed, the parties are released from their respective obligations and liabilities under the Indian Contract Act, 1872 (Indian Contract Act, 1872, n.d.). According to the legal provisions of the act there are number of ways a contract may be discharged, each with its own requirements and repercussions.

The terms discharge, rescission and termination of a contract carries different meaning in the Indian Contract act. If the parties of a contract have duly completed and accomplished the responsibilities set forth and negotiated in the contract, the parties have discharged the contract. Given that the parties to the contract have fulfilled their commitments and carried out the predetermined tasks, it is the best course of action in a contractual relationship which is expected of both parties (Mary Charman, 2007).

If a contract was made fraudulently, the party that was duped will not be held accountable for upholding the terms of the agreement and the party has every option to invalidate the contract since it is voidable. A major omission, a misrepresentation of facts or circumstances, or overt, purposeful fraud are examples of fraudulent practices in contractual relationship. Regardless of the form of fraud, either party may terminate the agreement without repercussions. Rescission is the legal term that is used to express this type of cancellation of a contract. (Krauss et al., 2019). The following are the major forms of discharge of duties in a contractual relationship as per Indian Contract Act, 1872.

1. Performance: The most common and simple way to end a contract is through performance. The contract is discharged by performance when both parties carry out their responsibilities in accordance with the terms and conditions set forth in the agreement. As a result, the contract will inevitably cease because the parties have fulfilled their obligations. A contract is discharged by performance, for instance, if A and B agree to sell each other an automobile for a certain price and both parties abide by the terms by having exchanged the consideration that A deliver the car and B pay the money (Prabhat Kumar, n.d.).

2. Mutual Agreement: Mutual consent or agreement is another means to terminate a contract. A contract can be discharged by consent of the parties if both parties agree to end the contract with mutual consensus. When the parties mutually decide to change or alter the terms of the initial contract, such an agreement may take the form of a new contract and if so, the earlier contract would become dormant and the new contract would start to operate. It is important to remember that a mutual agreement or accord can only occur if both parties sincerely accept to the discharge, free from force or undue influence (Prabhat Kumar, n.d.).

3. Lapse of Time: According to the terms of the contract or the law, contracts may also be terminated because of the passage of time that is specified in a contract. A contract is presumed to be discharged due to the passing of time if it has a deadline for performance and that deadline passes without being met is known as discharge by lapse of time. However, the law imposes a "reasonable time" requirement if the contract is silent regarding a deadline of performance. The concept of reasonable time refers to the fair time required in carrying out the business and it would vary depending on the terms of the contract and the surrounding circumstances (Prabhat Kumar, n.d.).

4. Impossibility of Performance: It can occasionally become impossible for one or both parties to fulfil their end of the bargain. Due to the difficulty of fulfilment, the contract is discharged under the circumstances. Impossibility of performance may be categorized into two as follows (Igarashi et al., 1967):

i. Physical Impossibility: This happens when the contract's subject matter is destroyed or rendered impossible to perform owing to circumstances beyond the parties' control. A contract is cancelled for physical impossibility, for instance, if it calls for the sale of a certain painting and the painting is destroyed in a fire (Van Boom, 2020).

ii. Legal Impossibility: This occurs when the contract cannot be carried out because of the change of law or change of the policy of the government. A contract is voidable due to legal impossibility, for instance, if it compels one party to execute an action that is prohibited by the laws in effect or if a country is declared to be alien enemy at the time of war (Van Boom, 2020).

5. Breach of Contract: The opposing party can choose the option to terminate the contract if the defaulting party does not comply with their contractual obligations or violates the conditions specified in the contractual agreement. Breach can take place in two forms as follows (REMEDIES FOR BREACH OF CONTRACT Suit for Rescission Suit for Damages Suit for Specific Performance Suit for Injunction Suit for Quantum Meruit, 2018):

i. Anticipatory Breach: It is the breach occurs when one party makes it clear they won't carry out their share of the bargain before the performance is required, either verbally or physically. The uninjured party may view this as a breach and terminate the agreement.

ii. Actual Breach: When one party doesn't meet their contractual responsibilities by the deadline, the other party can consider the agreement terminated and can claim compensation for the actual violation of the contractual terms and conditions.

6. Operation of Law: A contract may be automatically discharged under certain conditions that are outlined by law (Jovičić, 2018). These consist of:

Merger: A contract is said to have merged with a judgment when it is signed and the terms become a part of the judgment. The original contract is then discharged.

Death or Legal Insanity: Depending on the nature of the deal, the contract may be discharged if one of the parties dies or becomes legally mad.

Changes to the Contract: A contract may be discharged if it is materially changed or altered without the mutual approval of both parties.

Unauthorized Material Change: A party has the option to terminate a contract if it is materially altered without their agreement. When a contract is discharged, the parties are released from their obligations, and the contract is ended. This discharge has several legal implications:

Rights and obligations Termination: Upon the discharge of a contract, the rights and duties of the parties thereto are terminated.

Restitution: The term restitution means reinstating what is lost. If one party has only partially fulfilled their obligations that are to be done, the party may be entitled seek restitution or payment for the labour accomplished or costs incurred in the contractual deed. The innocent party have every right to claim damages to make up for losses suffered because of the breach if a contract is discharged because of a breach(Chen-Wishart, 1998).

Release from Liability: When a contract is discharged, the parties are no longer responsible for any non-performance that occurs after that date.

A contract may be cancelled by rescission or discharge, but under specific conditions specified in the contract, the parties may also be entitled to do so even if all their responsibilities and obligations have not been completed. Additionally, a contract may occasionally be cancelled owing to a change in circumstances, making it impossible to fulfil.

To better understand the concept of contract discharge under the Indian Contract Act, let's examine some real-world case law examples:

1. Satyabrata Ghose v. Mugneeram Bangur; In this significant judgment, the Supreme Court of India ruled that Indian contract law recognizes the notion of frustration as a method of contract discharge. When an unexpected circumstance makes the contract impossible to carry through, frustration results. According to the court's decision, a contract may be discharged if an unanticipated circumstance makes it impossible for either party to fulfil their obligations under it(B Mukherjea, 1953).

2. Krell v. Henry (1903) 2 KB 740: Even though this case originated in England, it had a big influence on Indian contract law. The case involved the idea of a "implied condition." The court ruled that a contract may be terminated if it is based on a specific event and the event does not materialize. Indian contract law has embraced this approach(Krell v Henry, 1903).

3. Surinder Kumar v. Satnam Singh (AIR 1961 SC 908): The Supreme Court of India stressed the significance of mutual consent in this decision while determining how to fulfil a contract. According to the ruling of the court, a contract can be cancelled if both parties agree to do so. The agreement to terminate the contract must not have been influenced or coerced in any way(S. Satnam Singh & Ors vs Surnder Kaur & Anr, 2008).

2. CONCLUSION

The Indian Contract Act, 1872, outlines numerous ways in which contracts may be terminated and it offers a clearly defined framework for discharge of contract. It is essential for people and enterprises involved in contractual agreements to comprehend these modes and their ramifications to have a successful end to any contractual relationship. Termination of a contract has legal repercussions that affect the rights and responsibilities of the parties concerned, whether by performance, mutual agreement, passage of time, impossibility of performance, breach of contract or operation of law. The principles governing discharge of contract in Indian contract law are flavoured well and shaped adequately through various judicial interpretations and number of precedents. Parties should seek adequate legal guidance while drafting and interpreting contracts, particularly in situations where uncertainty or possible disputes may occur, to navigate properly the complicated environments of discharge of contract.

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