

## LANDMARK CASES IN CONTRACT LAW

Contributed by: CA Amit Talada\*

The Law of Contracts as is applied today has been defined by some classic decisions of English and Indian Courts. Some of the seminal cases, which may seem minor in their actual cause of action, has shaped the world of contracts and are still quoted with approval by Courts even a century later. Following are few of the landmark cases, which went on to lay down the principles underlying the law of contracts:

### 1. **Balfour vs. Balfour (King's Bench-1919)**

***Rule of Law: Where parties to the contract do not intend to create a binding agreement, the agreement cannot be enforced.***

The case of Balfour vs. Balfour is a well-known illustration of a domestic agreement. In this case, Mr Balfour was working in Ceylon. He and his wife (Mrs Balfour) went to England on furlough. When Mr Balfour was to return to Ceylon, his wife was advised to remain in England, due to ill health. Mr Balfour agreed to send a sum of £30 per month for the probable expense of maintenance. For some time, he sent the amount but afterwards differences arose between them which resulted in their separation and the allowance fell into arrears. Mrs Balfour claim for recovery was dismissed on the ground that parties did not intend that it will be attended by legal consequences.

### 2. **Carlill vs. Carbolic Smoke Ball Co (Court of Appeal-1892)**

***Rule of Law: A General offer may be accepted by any person from among the public who has the knowledge of it. The performance of conditions of an offer will amount to acceptance.***

The case of Carlill vs. Carbolic Smoke Ball Co. is an illustration of a contract arising out of a general offer and intention to create a legal relationship. As per the facts of the case, the company issued an advertisement in a newspaper about its product, "the smoke ball" a preventive medicine against influenza. In the advertisement, the company offered to pay a sum of £ 100 as compensation to anyone who contacted influenza or a cold after having used the smoke ball according to the printed directions. The advertisement also contained that a sum of £ 100 had been deposited with the Alliance bank to show the sincerity of the company. A lady, Mrs Carlill relying on the advertisement purchased and used the smoke balls as per directions but still caught influenza. She sued the company to claim the compensation of £100. The Court of Appeal held that the essential elements of a contract were all present, including offer and acceptance, consideration and an intention to create legal relations. It was a general offer and Mrs Carlill had accepted it by her act, by performing the conditions for acceptance. She was therefore entitled to get the claim.

### 3. **Lalman Shukla vs. Gauri Dutt (Allahabad High Court-1913)**

***Rule of Law: Offer must be communicated. An action without the knowledge of the proposal is no acceptance.***

In this case, Gauri Dutt sent his servant, Lalman to search his missing nephew. After Lalman had left in search of the boy, Gauri Dutt announced a reward of Rs. 150 to anyone who might find out the boy. Unaware of the announcement of the reward, Lalman located the missing nephew and brought him back. It was held that Lalman was not entitled to reward since he had no knowledge of the reward, i.e the proposal.

### 4. **Mohori Bibee vs. Dharmodas Ghose (Privy Council-1903)**

***Rule of Law: A contract with a minor is void ab initio***

In this case, Dharmodas a minor mortgaged his house for Rs. 20,000 and received Rs. 10,500 as mortgage money. Subsequently, the Dharmodas sued for setting aside the mortgage on the ground of his minority at the time of execution of mortgage deed. The Privy Council held that a minor is incompetent to contract and therefore, minor's agreement was absolutely void, not merely voidable. Hence, the mortgage was cancelled. Moreover, the mortgagee's request for refund of Rs. 10,500 was also turned down on the ground that minor's agreement was void from the beginning and therefore, the mortgagee has no right to restitution.

#### **5. Nash vs. Inman (King's Bench-1908)**

**Rule of Law:** *To hold a minor's contract for necessities as an enforceable contract, two conditions must be satisfied, viz, (1) the contract must be for goods reasonably necessary for his support in his station in life; and (2) he must not have already a sufficient supply of these necessities.*

A minor ordered 13 fancy waist coats from a tailor while he was already having sufficient clothes to wear. Held, the 13 waist coats purchased were not necessities and the purchase price was irrecoverable.

#### **6. Chinnaya vs. Ramayya (Madras High Court-1882)**

**Rule of Law:** *It does not matter who furnishes the consideration. The consideration may be moved by the promisee himself or any other person.*

A, an old lady, by a deed of gift, granted certain property to her daughter R. The terms of the deed stipulated that R will pay an annuity of Rs. 653 to A's sister C. On the same day, R entered into an agreement with C to pay her the sum directed by A. The stipulated sum was however not paid and C sued to recover it. R contended that no consideration was moved by C to her. Madras High Court held that the words "*the promisee or any other person*" in Section 2(d) of the Indian Contract Act, 1872, made it clear that consideration need not move from the promisee only and C was entitled to recover the amount. The consideration furnished by C's sister was enough to enforce the agreement between C and R.

#### **7. Rose & Frank Co vs. J R Compton & Bros Ltd (Court of Appeal-1924)**

**Rule of Law:** *To convert an agreement into a contract there should be an "intention to create legal relations".*

It is a glaring example of a business deal in which the parties did not intend to create legal relations. As per the facts of the case, an agreement was drawn between the American and English firms. The agreement mentioned that "this agreement is not entered into as a formal legal agreement and shall not be subject to the legal jurisdiction of law courts." The agreement was terminated by one of the parties and other party brought an action for breach of contract. Held, the agreement was not a binding contract as there was no intention to create legal relations.

#### **8. Kedar Nath vs. Gorie Mohammad (Calcutta High Court-1886)**

**Rule of Law:** *An agreement without consideration will be perfectly valid and binding if, on the faith of the promise, the promisee takes definite steps in furtherance of the object.*

In order to construct a town hall at Howrah, the commissioner of Howrah Municipality started to obtain necessary fund by public subscription. 'A' also promised to subscribe Rs. 100 to fund by signing his name in the subscription book for the purpose. On the faith of the promised subscriptions, the secretary of the town hall construction committee engaged a contractor for construction of town hall and thus, incurred liability. 'A' refused to pay his subscription. Held, engaging a contractor and starting the construction work

on the faith of the promise to subscribe was sufficient consideration. Hence, 'A' was liable to pay the amount to the extent of the liability incurred by the promise.

### **9. Damodar Murlidhar vs. Secretary of State of India (Madras High Court-1895)**

***Rule of Law: No one should be benefited at another's expense.***

The government repaired a village tank, which had irrigated lands belonging to other villages and zamindars. The government did not undertake the repairs gratuitously for the zamindars. Zamindars enjoyed the benefit of the repaired tank. Held, zamindars were liable to contribute to the cost of repairs.

### **10. Dunlop Pneumatic Tyre Co Ltd vs. Selfridge & Co (House of Lords-1915)**

***Principle: Doctrine of privity of contract***

The doctrine of Privity of contract can be best illustrated by this English case. Dunlop & Co sold some tyre to Dew & Co with an agreement that these tyres will not be sold below the list price. Dew & Co, in turn, sold some of the tyres to Selfridge & Co with an agreement that they will observe conditions as to the price and they also promised that they will pay to the Dunlop & Co a sum of £ 5 damages, for every tyre sold below the list price. Selfridge sold some tyres below the list price and Dunlop & Co brought an action to recover the damages for the same. It was held that Dunlop & Co cannot enforce an action against Selfridge because there was no contract between them.

### **11. Hadley v Baxendale (Court of Exchequer-1854)**

***Rule of Law: A party breaching the contract is liable for all losses that the contracting parties should have foreseen, but is not liable for any losses that the breaching party could not have foreseen on the information available to him.***

Perhaps the most famous contracts case of all is Hadley v. Baxendale. A crankshaft of a steam engine at the mill had broken and Hadley arranged to have a new one made by W. Joyce & Co. The manufacturer, W. Joyce & Co required that the broken crankshaft be sent to them in order to ensure that the new crankshaft would fit together properly with the other parts of the steam engine. Hadley contracted with Baxendale, who were operating as common carriers under the name Pickford & Co., to deliver the crankshaft to engineers for repair by a certain date at a cost of £2.40. Baxendale failed to deliver on the date in question, causing Hadley to lose business. Hadley sued for the profits he lost due to Baxendale's late delivery, and the jury awarded Hadley damages of £25. Baxendale appealed, contending that he did not know that Hadley would suffer any particular damage by reason of the late delivery. The question raised by the appeal, in this case, was whether a defendant in a breach of contract case could be held liable for damages that the defendant was not aware would be incurred from a breach of the contract.

The Court of Exchequer declined to allow Hadley to recover lost profits, in this case, holding that Baxendale could only be held liable for losses that were generally foreseeable, or if Hadley had mentioned his special circumstances in advance. The mere fact that a party is sending something to be repaired does not indicate that the party would lose profits if it is not delivered on time. The court suggested various other circumstances under which Hadley could have entered into this contract that would have presented such dire circumstances, and noted that where special circumstances exist, provisions can be made in the contract voluntarily entered into by the parties to impose extra damages for a breach.

---

*\*About the author: CA Amit Talda is a Chartered Accountant having cleared his CA in first attempt at the Age of 21 with All India Rank of 48 in CA IPC. Currently, he is a faculty at Talda Learning Centre, Amravati and has teaching experience of 3 years. He can be contacted at amittalada@gmail.com*