**16. DIFFERENT TYPE OF CONTRACTS**

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**INTRODUCTION**

A contract is a binding agreement between two or more parties or persons which is legally enforceable. The parties entering into contract have some obligations that are created due to the agreement which is legally enforceable by law.

The contracts are classified into different types on the basis of their origin and formation. They are classified into different types as listed below:-

1. **CONTRACTS CLASSIFIED ON THE BASIS OF THEIR VALIDITY**
   1. **LEGAL CONTRACTS**- A legal contract can be defined as an enforceable agreement between two or more parties. The legal contract can be verbal or written. A party signing a legal contract promises to do something for the other in exchange of benefit. A legal contract is characterized by a lawful purpose, mutual agreement, consideration, competent parties and genuine assessment to be enforceable. The legal contract document have five characteristics:-
      1. **Legal Purpose**- A legal contract has lawful purpose to be enforceable. For example if one business partner gives a contract to someone, to kill his business partner, but the contracted person took away the money without fulfilling the contract then nothing can be done. A contract of murder for hire is illegal and the contract is unenforceable.
      2. **Mutual Agreement**- All the parties involved in the contract should have reached a common agreement. This means that one party must have extended an offer and the other party must have accepted it. Suppose party ‘A’ signs a contract with party ‘B’. The contract should outline the scope of work for party ‘A’ and party ‘B’. Party ‘A’ and ‘B’ have a mutual agreement regarding the work specified in the contract document.
      3. **Consideration**- Each party signing the contract must agree to give something of value in exchange of benefit. For example if a contractor is hired to make driveway for you, then you and the contractor have entered into a contract.The contractor has agreed to do the paving work for ypu and you have agreed to pay him certain sum of money in exchange.
      4. **Competent parties**- The parties signing the contract or entering into the contract must be competent. They must be of legal age, sound mind, and unencumbered by drug or alcohol. If a contract is signed with a person who is not competent then it cannot be enforced.
      5. **Genuine assent**- All the parties signing the agreement must have entered by their free will. A contract cannot be enforced if one or more parties have made mistake in language or signed the contract under influence of the other.

* 1. **ILLEGAL CONTRACTS**- An illegal contract/agreement is one that is prohibited by law and is considered illegal. For example contract to kill or contract to sell narcotics.
  2. **VALID CONTRACTS**- A contract which is ordinarily enforceable at law (legally binding) but cannot be enforced due to the taking place of a certain event is known as valid contract.
  3. **VOID CONTRACTS**- A void contract /agreement is one that is not legally binding and cannot be enforced by either of the party.
  4. **VOIDABLE CONTRACTS**- An agreement that is enforceable at law (legally binding) at the option of one or more parties to the agreement but not at the option of the other is called a voidable contract. An agreement enforceable by law at the option of one or more parties, but not at the option of the other.”

1. **CONTRACTS CLASSIFIED ON THE BASIS OF FORMATION OF CONTRACT**
   1. **WRITTEN CONTRACTS**- A written contract is printed or handwritten conditions of agreement which is signed by both/all the parties involved in the deal. Written contracts are more reliable and structured as they detail out clearly that what was decided at the time of agreement, They include specification of materials, various time frames regarding start and completion of jobs, stages and payment schedule and procedure to be followed in case of a dispute. This written contract give more clarity and reduce the risk by elaborating the terms and conditions clearly.
   2. **VERBAL CONTRACTS**- These contracts are also known as oral contract or parol contract. In this type of contract, a verbal contract is created without documenting it in writing.
   3. **E-CONTRACTS**- These contracts are called electronic contracts as these contracts are created and executed electronically. E contracts consists of three basic requirement as detailed below:-
2. Offer- The list of terms and conditions presented by party who draft the contract document.
3. Acceptance- Approval by all parties as indicated by electronically signing the contract.
4. Consideration- Following through on all terms and conditions of agreement in the contract.

**ADVANTAGES OF E-CONTRACT**

1. Faster execution and less time to sign the contract. The workflow automation of E-contract can instantly send the contract document to other party as soon as it is generated and signed.
2. E contracts can be updated for all concerned parties simultaneously from a central location without having different parts of drafts of the contract at multiple locations.
3. E-contracts are not vulnerable to physical forgery and water damage. They are more secure and safe from unauthorized access and tampering.
   1. **IMPLIED CONTRACTS**- An implied contract is derived from the actions or circumstances of the parties involved. There is no oral or written agreement between the two parties involved. For example, an implied contract is established when one enters a restaurant and orders for lunch there.
   2. **EXPRESS CONTRACTS**- Express contracts are created when two or more parties enter into an agreement willfully and they agree to abide the terms and conditions as set forth which may be written or oral. These contracts clearly define the terms and conditions of the agreement and parties entering into express contract are fully aware about the conditions and commitment requirements needed. These contracts are legally enforceable and binding. Breach of this contract can lead to court interference or penalty.
   3. **QUASI-CONTRACTS-** This contract is also known as implied law or a constructive contract. This contract is a type of legal obligation imposed by law to prevent unjust enrichment. It is based on the principle of equity and justice rather than mutual agreement between two parties. This is a written contract and imposed by a judge and subsists of an obligation of one party to another when the latter is in possession of the former’s property, or when the former has performed a service for which they have not been compensated as agreed upon.

For example, if a package belonging to A is delivered to M, then M is legally obligated to return the package to A. If M uses the contents of the packaging for himself, then ‘A’ has the right to sue M. Under this case the court can order M to reimburse A under Quasi-contract law. According to section 68 of the Indian Contract Act, 1872, a quasi contract is created by the court to prevent injustice.

1. **CONTRACTS CLASSIFIED ON THE BASIS OF NATURE OF THE CONTRACT**
   1. **ADHESION CONTRACTS –** This contract is a legal agreement that is drafted by one party, but not by the other. It is a standardized contract being offered by a party with more bargaining power to a party with less bargaining power. These contracts are often used in consumer transactions and are characterized by their non-negotiable terms. The party signing the agreement has no chance to bargain for the agreements’ term. It is a ‘take or leave’ type of agreement.
   2. **OPTION CONTRACTS**- An option contract is an agreement that gives the option holder the right to buy or sell the asset at certain date (known as aspiration date or maturity date) at a pre specified price (known as strike price or exercise price).It is a promise to keep an option offer open for another party to accept within a period of time. With an option contract, the offer is not permitted to revoke the offer within the stated period of time. Most options contracts require consideration and other contract formalities in order to be enforceable.

Options are a type of derivative security. So options are contracts that grant the right but not the obligation to buy or sell an underlying asset at a set price on or before a certain date. The right to buy is called a call option and the right to sell is put option.

* 1. **UNCONSCIONABLE CONTRACTS**- A contract is categorized as unconscionable contract when it is found unfair or abusive to one of the parties involved in the contract generally decided by the court of law.
  2. **ALEATORY CONTRACTS**- These contracts is an agreement where parties involved in contract do not perform a particular action until a specific event occurs. The trigger events of aleatory contracts are not under the contract of any of the parties such as natural disaster or death. Example of such contracts is insurance policies where insurer does not have to pay the insured until an event such as the fire or accident has happened.
  3. **UNILATERAL CONTRACTS**- In unilateral contract an offer is made by one party, where other party is paid only after they perform the jobs as outlined within the contract. Unilateral contracts are one sided which means that only one of the parties involved has an obligation.
  4. **BILATERAL CONTRACTS** – In bilateral contracts both the parties give their consent to perform something (job/obligation due to agreement) for each other. The parties entering into a bilateral obligation have reciprocal obligations, which means that one party has some obligations to another and vice – versa.

1. **CONTRACTS CLASSIFIED ON THE BASIS OF EXECUTION OF THE CONTRACT**
   1. **EXECUTORY CONTRACTS**- An executor contract is ongoing contract agreement between two parties who enter into obligation for completing certain responsibilities over a specific period of time as detailed out in the contract agreement. These are written agreements that ensure each party is having clear understanding of their own and other’s responsibilities. An example of an executory contract is a shop given on lease. The lessee is under obligation to pay the decided rent for the period and the lessor is expected to ensure proper maintenance of the property till the expiry of the contract period.
   2. **EXECUTED CONTRACTS**- A contract is said to be executed contract when all the parties involved in the contract have fully performed all their obligations of the agreements as laid down in the contract. It is a contract that has been signed by all the parties necessary to make it legally enforceable. Example of executed contract is the purchase of motor vehicle after payment of lump sum amount to the showroom. The contract is immediately completed once the vehicle is delivered and the selling process is completed.