

# Contracts

Business



Essentials of a Valid Contract of Essentials of a Valid Contract The determination as to whether a contractual agreement exists between any two parties to an agreement, six salient requirements must be fulfilled. The establishment of a contractual relationship begins with the offeror manifesting his/her willingness to fulfill the desired promise under specified terms and conditions. Following the offer, the offeree must either in express or implied terms accept to enter into the agreement to fulfill he/her part of the bargain under the terms and conditions specified. Parties must be of sound mind and of legal age make legally binding decisions. Minors or persons with unsound mind lack the capacity to contract.

Upon acceptance of the offer, the offeree must provide a specific compensation for the promise fulfilled, often referred to as a consideration. Additionally, agreements only amount to contracts when formed with a legal purpose and with the intent to create a legal obligation between the parties involved. For this reason agreements between family members, with the exception of commercial agreements do not create a valid contracts. Certainty of the subject matter is another essential requirement of a valid contract since contracts cannot be based on ambiguity or unclear subject matter. Finally, agreements forming contracts must be mutual, coercion or undue influence invalidates a contract.

The parole evidence rule holds that when the contracting parties agree to record their content of their agreement in writing, they often intend that whatever is written down to be the only reliable source of reference to the agreement, which supersedes any other terms and conditions agreed to during the bargain but not written. The basis of the parole evidence rule is that what is reflected in writing should be taken as a true representation of

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the terms of the contract. The parole evidence rule bars any parole evidence presented in addition to the written evidence.

Assignment of rights in contract refers to a situation where the beneficiary to a contractual agreement willfully relinquishes all the rights to receive the aforesaid benefits to a third party, not initially considered in the contractual agreement. For example, if J agrees to sell his house to W for \$3000, and then J transfers his right under the contract to pay the \$ 3000 to X, X becomes the assignee and the legal beneficiary to the contract. This does not however, give X authority to execute the terms of the contract. In this case, J will only have delegated his duty to receive the consideration of \$ 3000 to X.

#### Reference

Blum, B. A. (2007). *Contracts* (4th Ed.). New York, NY: Aspen Publishers.