

Case study example

Finance



Law of Contracts Law of Contracts What Happened Carnack wanted to sell his house and lot at a total cost of \$100, 000. He contracted Willard, who agreed to purchase the house and the lot at that agreed amount of the money. According to the terms of the contract, Willard was to make a 10% deposit of the purchasing price as down payment and then clear the balance later at the stipulated time as demanded in the contract. According to the agreement, in an event that the buyer breached the deal, the seller (Carnack) would take hold of the down payment as liquidated damages. Willard made the required down payment of \$10, 000 but then was not able to top up the balance as agreed due to financial challenges. After a period of two weeks, Carnack sold the house and lot to Balkan at a cost of \$105, 000. Willard wanted Carnack to refund him the deposit that he made to him, but Carnack said that Willard breached the contract, and the deposit was entitled to him as required by the contract.

What the Law Says

According to the law, in an event that the contract is breached, regardless of the form that it takes, the innocent party is always entitled to take a step for the damages. In the case study, the innocent party is Carnack, and by law he is within his legal right to terminate the contract that he made with Willard and retain the deposit as liquidated damages as noted by Koffman & McDonald (2007).

Holding

The contract that Willard and Carnack entered had a provision for liquidated damages clause in it. That provision made it clear that should Willard breach the agreement that he signed with Carnack, then the 10% deposit would be considered as liquidated damages. According to Burling (2011) that clause, <https://assignbuster.com/case-study-example-essay-samples-53/>

therefore, made it clear that Carnack was entitled to the deposit after Willard breached the contract. Generally in most cases, the court always maintains that the clause with the liquidated damages has to be adhered to. The clause has to be respected even if it implies that the affected individual gets less than his or her real damages resulting from the breach. Therefore, Carnack is right in taking the 10% deposit made to him by Willard as part of the down payment since Willard breached the contract.

Reasoning

According to Wilmott et al. (2009), it can be argued that Carnack terminated the contract that he had with Willard based on the following principles of the law. First Willard committed an anticipatory breach. Anticipatory breach is a situation where the buyer states in the form of writing that s/he will not honor the agreement or will do it on terms that were not initially agreed upon. In the case of Carnack and Willard, Willard breached the contract or rather went contrary to what was stipulated in the contract agreement. Therefore, Carnack is legally right in terminating the contract.

Willard did commit fundamental breach with respect to the contract. The outcome of the breach gave Carnack the mandate to terminate the contract since Willard had done contrary to what was stipulated in the contract. Thus, Willard cannot blame Carnack because before they entered into the agreement, they had agreed to the terms and conditions of the contract (Pearce & Halson, 2007).

Lastly, Carnack was very right in terminating the contract with Willard since the law provides room for that. The law states that what people have agreed vividly or a term that common law treats as a condition that affects the core of the contract, any breach of that stated term can be terminated once
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without referring further to circumstances and facts surrounding it. It can be argued that since Willard breached the contract, Carnack (the innocent party) was right to terminate the contract.

References

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