

# Elements of a contract

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Elements Of A Contract Affiliation) A contract should contain five essential elements so it can be recognized as a legal document and can be enforced legally: consideration, capacity, acceptance, offer and legality. Once you agree or enter into any contract that contains all the five elements, you are legally bound to operate according to the contract. The five key and most essential elements of a contract are as follows: Offer Each contract is created between two or additional individuals called parties, one party is referred to as offeror and the other one is recognized as offeree. Offeror is the individual or party that makes the first offer. For example: person A offers person B to sell his car for \$1000. Person A is the offeror, and person B is the offeree. Offeree is that individual or party to whom the offer is made by the offeror. Once the offer is made to the offeror, the offeror gains the authority of either accepting or rejecting the offer. Once the offer is made, there are four reactions that an offeree can respond with: lapse, counter offer and refusal, acceptance and revocation (Tulsian, 2005, p. 2. 9). Lapse takes place when the offeree fails to respond in a certain period of time, counter offer takes place when the offeree bargains for the contract, rejection takes place when the offeree is no longer interested in the contract and revocation takes place if the offeror cancels the offer himself. Acceptance An offeree has four reactions to choose from as stated earlier, but a contract is only created when the offeree accepts the offer and no contract is created if the offeree chooses any of the other three reactions. For example: person B agrees to purchase the car for \$1000. This means that person B (offeree) has accepted the offer made by the offeror (person A). According to common law, acceptance only occurs if offeree has accepted the exact offer made by the offeror. If the offeree proposes different terms on the offer made by the

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offeror, it is referred to as a proposal according to UCC (Uniform Commercial Code) law (Meiners, 2000, p. 237). Consideration The third most important element of a contract is consideration; consideration refers to the promise made by the offeror to the offeree and the promise accepted by the offeree. When offeror makes a promise, he is referred to as a promisor and when the consideration is accepted by the offeree, he is recognized as promise. For example: person A promises to sell his car for \$1000 and the promise accepts to purchase the car for \$1000. Consideration refers to a task that the promisee accepts to do on the offer made by the promisor and was priory not legally bound to conduct. Capacity The fourth essential part of a contract is capacity; capacity refers to the cognitive condition of the individuals or parties involved in the creation of a contract. If any one of the two parties does not have the capacity to understand the repercussions of entering in a contract, the contract is not valid. According to the court of law, those individuals lack capacity that are psychologically ill or fall in the category of a minor (Goldman, 2001, p. 152). A minor has the option of not completing a contract if he wished to and if his age is under eighteen. This option given to the minor by the court of law is recognized as disaffirmance. For example: a sixteen years old individual purchases a car for \$1000 and agrees to pay in installments. If the individual fails to pay the installments, he can return the car and the contract will end. If the individual returns the car, his installments have to be returned back to him by the car seller. Once an individual reaches the age of eighteen, he is no longer recognized as a minor by the court of law and the law treats him as a majority or major. Legality A contract has to be legal to be considered as a valid contract; a legal contract is one which is created for a legal purpose. If the purpose of the contact is

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illegal, the contract becomes unenforceable. For example: if A person purchases a hotel room to conduct an illegal activity such as prostitution, the contract becomes unenforceable. The five essential parts of a contract include: an offer, that is made by the offeror, the acceptance, the affirmation given by the offeree to the offeror, consideration, promise made by the offeror and accepted by the offeree, capacity, the mental ability of the parties and legality, the legal purpose for which the contract is created.

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