

The Six Elements of a Legal Contract

Contracts can be pretty intimidating, no matter what side of the contract you are on; however, contracts don't have to be so scary. Understanding the six basic requirements of a contract can take the edge off:

Offer

The offer is the very first part of creating a contract. It is the proposal a person or entity gives to another with the intention of entering into a valid contract. For example, Martha offers Karen fifty dollars a week in exchange for Karen to come in and clean her house.

Acceptance

A contract cannot legally exist without the offeree giving acceptance to the proposed offer. Without mutual consent from both parties however, there is no valid contract. Karen accepting Martha's offer of fifty dollars for her services, and both Karen and Martha agreeing to go through with the exchange, is acceptance and mutual consent.

Consideration

The object, event, service, payment, etc. that the contract is created for is called the consideration of the contract, but both parties must give something of value. In this scenario, Karen will receive fifty dollars per week, and Martha's house will be cleaned every week.

Legality of subject matter

Legality of subject matter refers to the fact that in order for a contract to be valid, it must be formed for a legal purpose and has to follow any statutory regulations with respect to the contract created. It is legal for Martha to hire Karen to clean her house, but not to rob a bank.

Contractual capacity

A person has the contractual capacity to enter into a contract as long as they have the legal ability to. So if Karen was a ten-year-old child, she would need her parent's consent and signature in order to sign the contract, since Karen's age and lack of experience overall makes her incapable contractually.

Contractual intent

Even with all of the above elements, a contract will not exist if the two parties did not subjectively want to enter into a contract. On paper, Karen has signed the contract to clean Martha's home weekly, and receives a weekly payment of fifty dollars. However, what if the only reason Karen signed the contract was because Martha threatened to show fabricated proof to Karen's boss that she was stealing money from the company she works for? Because of this situation, Karen did not demonstrate contractual intent to enter this relationship with Martha.

Regardless of the type of contract created, all of these elements are crucial to a legally binding contract. Valid contracts are important to all businesses, and all facets of a business, whether the relationship is between the company and a customer, vendor, partner, etc. It is important to understand what a legal contract can adhere a person or business to, and understanding the basics can certainly clear up some of the confusion.