

# Contracts

## Chapter 21

## Unit 5

### **Performance Objectives:**

You will define the word contract, discuss the various kinds of contracts, and the differences between them, and the elements required to make a contract valid. You will search the Internet for business contracts and discuss which of them may be applicable to your business.

### **Evaluation Criteria:**

Successful completion of this chapter requires you to:

- ❖ Read about the different types of contracts.
- ❖ Read about the elements of a valid contract.
- ❖ Search the Internet for and discuss business contracts.

## What is a Contract?

A contract is a legal promise between two or more parties. It can be written or verbal. As an owner of a small business you will need to be familiar with contracts. The best advice, when it comes to dealing with contracts, is to contact an attorney. This chapter will give you an overview of the different types of contracts and what business situations require contracts.

### Task 1: Different Types of Contracts

Read the information below about the different types of contracts that business people may utilize.

- 1. Express Contract**  
An express contract is one in which both parties involved in the contract agree to the terms of the contract in words, either oral or written.
- 2. Implied Contract**  
An implied contract is not stated verbally or in writing, but is implied by actions.
- 3. Bilateral Contract**  
In a bilateral contract both parties agree to do something for each other. An example of this is the sale of a house. You and the seller sit down and sign the contract, you pay the money and the seller gives you ownership of the house.
- 4. Unilateral Contract**  
In a unilateral contract, only one party is obligated. For example, a used car dealership may post an advertisement saying that, "Everything Must Go! No Offers Refused." No one is obligated to come and make an offer, but the seller is obligated to accept all offers. This type of contract can be dangerous financially or legally if it is not worded carefully.

## Task 2: Parts of a Valid Contract

Read the information below about the elements of a valid contract.

Even though an unwritten contract can be legally valid, there are certain things that a contract needs to contain to be legally binding.

1. **Offer and Acceptance**  
This means that both parties must be aware of and completely agree to all parts of the contract. The contract must state all agreed-upon terms.
2. **Consideration**  
Something of legal value must be offered by one party and then accepted by the other as inducement to do something.
3. **Legally Competent Parties**  
All parties involved in the contract must be of legal age and be of mental capacity to understand the nature of the contract.

Make sure that before you create or sign a binding legal business contract that you contact a lawyer.

## Task 3: Finding Contracts Online

Search the Web for business contracts that may be useful in your business. Record the URLs and a description of the contract below.

- 1.
- 2.
- 3.
- 4.

**Notes:**