

The Sales Contract

Primary feature of a sales contract is seller's agreement to provide the goods to the buyer and the buyer's agreement is to pay the specified price in return. All agreements are contracts when they are legally enforceable. So, illegal agreements are not contracts as they are not legally enforceable.

For example, agreement for sale and purchase of prohibited drugs are illegal agreements and hence not legally enforceable, so they are not contracts.

Once parties agree to sell and buy goods, they will enter into a formal contract in writing incorporating all the terms and conditions of their agreement. In many legal jurisdictions, though contracts need not be in writing, parties may still prefer to reduce to writing to have clarity and precision on agreed terms and to use it as evidence in case of disputes.

At times, instead of making a formal contract, seller may send a pro-forma invoice to the buyer or alternatively, buyer may send a purchase order to the seller for acceptance of the other party when. Yet it is always advised to make a proper contract duly signed and stamped by both the parties in a single document .

Apart from covering basic features of a sales contract like viz. goods description, quantity , price, payment terms, shipment schedule etc., the contract must also cover penalty clauses against default of the parties, non performance by the parties due to force majeure (circumstances beyond their control), legal jurisdiction and dispute resolution etc., to make the contract a very comprehensive.

Following are the essential features of a sales contract:

Contract for sale of goods (Number & Date.....)

Name & address of the seller

Name & address of the buyer

Description of goods

Quality specifications

Packing description

Shipping marks

Quantity with unit of measurement/ number of units

Percentage of tolerance for the quantity

Price with currency unit including Incoterms with place of delivery & source of incoterms

Total contract value with currency unit (percentage of tolerance)

Shipment from & to

Latest date of shipment/Shipment period/shipment schedule in case of instalments

Partial shipments allowed or not allowed

Payment terms - Sight payments/Deferred payment/Acceptance of Bill of Exchange

Payment method - Advance Payment/Open account/Documentary collection/
Documentary credit

Documents required - Financial documents, Commercial documents and Official documents

Penalty clauses against non performance by the parties

Force majeure clauses such as Acts of God, Wars, strikes etc., beyond control of the parties, due to which parties if fail to perform their obligations, contract may be cancelled/suspended without penalties.

Legal jurisdiction & governing law / dispute resolution procedures in case parties prefer outside court settlement i.e Arbitration, Mediation etc.

Seal & signatures of parties with dates