

# **LEGAL ASPECTS IN MATERIALS MANAGEMENT**



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# As a Purchase Manager one should have awareness of the law on

1. Contract
2. Agency
3. Sale of goods Act
4. Arbitration



**Any purchase is a contract under the legal parlance.  
Each contract will have the following aspects.**

1. Two parties i.e. Buyer and seller.
2. There should be a 'subject' matter.
3. There must be consensus and item-  
understanding of the subject.
4. It must be lawful and legal.
5. There must be communication.



6. There must be consideration (not free).
7. There must be an offer from one party.
8. There must be an acceptance from the other party.
9. Competency to the parties.
10. Subject must be possible to be executed.



# AGENCY

Under the law of agency there is a relationship of principal and agent. The agent acts on behalf of the principal. He enters into contracts on behalf of the principal. It may either be verbal or in writing. The rules of agency are one who does through another, does by himself or acts as an agent subject to certain conditions on the acts of the principal. To act as an agent the following are to be fulfilled.

1. An agreement between the principal and the agent.
2. No consideration is necessary to act as an agent. Hence it need not be a contract.



# GUARANTEE & WARRANTY

Warranty is a part of a contract which undertakes to do something. Ex. Free serving for one year with spares/additional free service for one year without spares. On the other hand guarantee is the promise undertakes to be answerable to the promise himself exists or is contemplated. Ex: To replace the equipment if manufacturing defect for one year.



# ARBITRATION

Arbitration is legal process out of court when there is a dispute between the parties on executing the contract.

A clause on Arbitration is to be included. Courts will not accept a litigation unless the arbitration process is over as per the terms of the contract. The terms of Arbitration is dealt with in Arbitration and conciliation Act, 1996.



# LEGAL ASPECTS OF PURCHASING

## 1. LAWS APPLICABLE

## 2. Law of agency

i. Principal and agent by contract/by act

ii. Agent binds by action

Be express or implied

i. Express-By power of attorney

ii. Implied-Buying/selling with knowledge of principal





# LAW OF CONTRACT

- a. Consent-On lawful Object and lawful consideration
- b. Offer and acceptance to be definite
- c. For consideration
- d. Parties are capable to enter into contract
- e. Consensus – Both understanding the same
- f. Lawful object
- g. Not to be vague or uncertain of performance.
- h. To be in writing or oral
- i. Special terms in contracts
  - i. Quantity to supply as & when required
  - ii. To receive & accept all the goods manufactured



# INDIAN SALE OF GOODS ACT

- a. Normal sale payment term not considered as essence of contract
- b. If specific and time bound then it is essence of contract
- c. Condition and warranty
  - i. Condition is the stipulation as essence of contract
  - ii. Warranty will lead to claim of damages



d. Sale by description

i. Producing for the end use of buyer on specification can claim damages.

e. Samples – If supply not equal to sample can reject the contract

f. Works contract – Sale of goods plus labour - This benefits on Sales tax

g. Guarantee – This undertakes the primary liability of the promise



# LEGAL ASPECTS ON PAYMENTS

- a. Time of payment – Payable on due
- b. Place of payment – Normally in the place of seller or as agreed
- c. Mode of payment – By cash, DD or Cheque
- d. Risk and Rights:  
Goods to be verified within reasonable time. Otherwise binding



# ACCEPTANCE

## 6. BREACH OF CONTRACT

- a. On breach of contract buyer is to be compensated equal to his loss.
- b. The loss of buyer only can be claimed not for third parties.
- c. Damages for breach of contract are recoverable.
- d. Unusual natured losses damages cannot be claimed.
- e. Liquidated damages prefixed on certain amount
- f. Penalty in work contracts for delay in execution.
- g. Forfeiture of Tender Deposits for breach of contract.
- h. Patent rights of buyers on own developed products (ex. Godrej)
- i. Inclusion of Arbitration clause.

In Major companies with major purchases professional advise on contracts order terms are essential. At the most of all legal protection, it is the mutual Trust and confidence between Buyer and seller that smoothens the transaction-The proverb should be “My word is my Bond”.



**Thank you**



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