



Business/Marketing Virtual Learning

10-12 grade Business Law

May 21, 2020



Lesson: [May 21, 2020]

Objective/Learning Target:

Legal Purpose and Proper Form

Identify the types of contracts within the Statute of Frauds.

Let's Get Started

Watch These Videos:

- 1) [Classes of Contracts under the Statute of Frauds](#)
- 2) [Exception to the Statute of Frauds](#)



Types of Contracts Within the Statute of Frauds

The following discuss the five types of executory contracts within the Statute of Frauds, that is, those contracts that must be evidenced by a writing and signed by the party against whom the contract is to be enforced:

1) Contract for the Sale of Goods for \$500 or More

Goods (such as a book, car, or TV) are items of personal property (any property other than real property) that are tangible. If parties agree to buy and sell goods for a price of \$500 or more, their contract must be evidenced by a writing. If a contract for the sale of goods is for less than \$500, then it need not be in writing. However, a modification of that contract which brings the total price above \$500 must be in writing and signed.

The Uniform Commercial Code provides exceptions to the Statute of Frauds. In these cases, a writing and signature is not required:

- a) when goods are ordered to be specially manufactured and they are not suitable to be sold to others in the ordinary course of the seller's business
- b) when goods have been ordered and paid for and the seller has accepted payment
- c) when goods have been received and accepted by the buyer
- d) when the party against whom enforcement is sought admits during legal proceedings that the oral contract was made

Types of Contracts Within the Statute of Frauds

2) Contract to Sell an Interest in Real Property

Real property includes land and buildings permanently attached to land. Transfers of title, ownership of real property, or of lesser interests—such as possession in a lease or the right to profit from real property by pumping oil or cutting timber—must be in a properly signed writing to be enforceable. In most states, oral leases for one year or less are enforceable. Some states require that contracts employing real estate brokers satisfy the Statute of Frauds.

As an exception to the general rule, courts will enforce the oral contract if the seller has delivered the deed or if the buyer also has done all of the following:

- (1) made partial or full payment,
- (2) occupied the land, and
- (3) made substantial improvements to the land.

Types of Contracts Within the Statute of Frauds

3) Contracts That Require More than One Year to Complete

Courts will not enforce a contract that cannot be performed within one year unless there is a signed writing to prove the agreement. The year begins at the time the contract is made, not at the time contractual performance is to begin.

This time provision does not apply to agreements that might be executed within one year. This is true even if such agreements are not actually carried out within that time. The test is not whether the agreement is actually performed within one year, but whether there is a possibility of performance within one year.

4) Contract for Which the Consideration Is Marriage

A signed writing is required for agreements in which one party promises to marry in return for something more than the other persons promise to marry. If Sue and Bill agree to marry each other, this is without the Statute of Frauds. If Alice agrees to marry Buck because he promised to deed his house to her, this is within the Statute of Frauds. Alice and Buck signed a prenuptial agreement prior to their marriage. These agreements usually cover a large number of terms and possibilities related to a marriage and are used frequently in American society. Such agreements must be placed in writing and signed by the parties to be enforceable.

In some states, if one party breaches either an oral or written contract to marry, the victim of the breach may successfully sue for damages. The trend, however, is to ban such “heart balm” suits.

Types of Contracts Within the Statute of Frauds

5) Contract to Pay a Debt or Answer for Another's Debt or the Debts of an Estate

Another provision of the Statute of Frauds requires a writing for a promise to answer for the debt or default of another. For example, if a father tells his daughter's landlord that he will pay the rent if she defaults on a three-month lease, this promise is called a collateral promise. It must be in writing to be enforceable. This contrasts with a primary promise to pay. A primary promise exists if Dad says, "I'll cosign the rental agreement with my daughter. That way you can collect from whichever one of us you care to." This agreement is enforceable without a writing.

When a person dies, a party may be appointed by the court to settle the deceased's estate. In so doing, the party typically uses the estate's assets to satisfy the deceased person's unpaid obligations. However, as the appointed party often is a relative, and, as a consequence, does not want to sell off the assets to pay the debts, he or she may agree to pay them personally. This promise to answer personally for the debts of the estate is not enforceable unless placed in writing.

Exception—Main Purpose Rule

A third party is liable for an oral promise to pay another's debt if the main purpose of the promise serves the promisor's own interest. This is called the **main purpose rule**. Suppose an owner of a house under construction is anxious to see it completed. After the building contractor fails to pay on time, the driver of the delivery truck refuses to unload a shipment of lumber. If the homeowner orally promises to pay the lumberyard if the contractor does not pay for needed supplies, the homeowner cannot defend using the Statute of Frauds. The main purpose rule applies.

ACTIVITY #34

- 1) What amount must be exceeded to require a contract for the sale of goods to be in writing to be enforceable?

- 2) Cervante and Joan were good friends. When they graduated from high school, both were 18. They planned to marry, but first they wanted to become financially secure. So they shook hands and agreed to become partners in operating a small restaurant serving Indian cuisine. “This is just the beginning,” Joan said. “Til death do us part!” both said.
 - a) Does this agreement have to be in writing to be enforceable?

- 3) Jason’s father, Phil, died. He left credit card bills totaling \$17,000 and some additional small bills. His only asset at the time of death was a savings account with \$6,000 in it. One of the credit card companies called Jason. In his grief, Jason orally promised to pay them the balance on his dad’s account, \$2,000, with his own money.
 - a) Is this promise enforceable against him in court?

ACTIVITY #34

- 4) For safekeeping, Kula deposited \$18,300 with the cashier of a Nevada hotel casino and was given a receipt for the money. Kula and a friend, Goldfinger, gambled in the hotel's casino. (Casino gambling is legal in Nevada.) Kula made withdrawals and deposits from time to time with the casino cashier and at the time had a balance of \$18,000. One evening Goldfinger lost \$500 in gambling and was unable to pay it. He asked the shift boss, Ponto, to telephone Kula for a guarantee of the loss. Ponto did so and received Kula's authorization to give Goldfinger credit up to \$1,000 but no more. Ponto confirmed this but stated that Kula had also said Goldfinger could gamble the entire deposit of \$18,000. Goldfinger was permitted to gamble until he lost \$18,000. The casino tried to collect the amount from Kula on his alleged oral promise to cover Goldfinger's debt to \$18,000. The casino did this by refusing to return to Kula the amount he had on deposit. Kula was willing to honor his oral guarantee of Goldfinger's debt up to \$1,000 but no more. Kula sued the hotel for return of his deposit.
- a) Should he get it?