Common Mistakes In Contract Law

This specific case looks at common mistakes in contract law and how they can affect contracts and more specifically the subject matter. A common mistake in simple is where both parties hold the same mistaken belief of the facts within a contract. This, therefore, leads both parties to reach an agreement however this agreement is based on a mistaken assumption. In situations like this, it is possible for the courts to set aside the contract as they dismiss the consent of both parties. Bell v Levers Bros (1932) is one of the leading causes if not the leading case on common mistake as both the defendants and claimants entered a contract in which they came to the agreement to serve for five years as chairman and vice-chairman, respectively, of a subsidiary company of the claimants.

However, the issues that arose from this was due to the fact that one of the terms of the agreement was that none of the parties could actually make any private profit for their own individual means and this would have to be fulfilled by not doing business on their own private accounts whilst working for the company. However, the defendant (Mr. Bell) was unaware and did engage in business without disclosing his profits to the claimant (Lever Bros).

Without knowledge of these activities, Lever Bros Ltd made an offer of redundancy to Mr Bell, terminating his contract and offering a £30,000 payment as compensation. However, after this money had been paid it came to the claimant's attention that Mr. Bell was indeed breaching the company agreements.

The significance of the breaches by the defendants was that the claimants would have been able to terminate the defendant's contract without having to pay them compensation which they did due to them not knowing the situation in its full capacity. Thus in this situation, the claimant did try to recover the money they had paid however the judges found that when the defendants were entering into this compensation contract they did not have in mind the duties they had breached. This led the judges to find that both parties were indeed under a common mistake when entering this compensation agreement as they thought that the service agreement was indeed valid when they were actually avoidable.

It was reached by a majority of three to two in the house of lords that the claimants could not get their money back with both Lord Atkin and Thankerton agreeing that the mistake made did not have the means to make the contract void. The courts, therefore, held that the contract, in this case, was actually not void as the mistake was not ‘an essential and integral part in the contract trading that the defendant had done during their employment was not related to the subject matter of the new contract formed when he was being made redundant and his personal profit was seen to be minuscule compared to the profit he had made for the entire company including for the claimant's benefit. This case was pivotal in establishing the idea that a mistake made must be crucial to the distinctiveness of the contract being formed.