

## COMMERCE

### S.4 BANKING (CONTINUED)

#### HOW TO WITHDRAW MONEY FROM A CURRENT ACCOUNT


A person wishing to withdraw money from his current account must draw a cheque and show the date, name of payee, amount, signature, etc.

#### CHEQUE

A cheque is a written order by a bank customer authorizing his bank to pay a specified sum of money to a named person.

A cheque may be drawn open or crossed.

#### FORMAT OF A CHEQUE

<b>dfcu BANK</b> <b>Date</b> <b>Payee</b> <b>Mubiru john</b>  <b>Shs.2,000,000</b>  <b>Apio Jane</b>	<b>Drawee</b> dfcu BANK Masaka branch	<b>Payee</b> 000227	<b>Date: 21/10/18</b> 0200425848
	<b>Pay</b> Mubiru John	<b>or Oder</b>	
	<b>Uganda Shillings: One Million Shillings Only</b> UGX 1000,000/=		
	<b>Cheque Number</b> 000227 <b>Account Number</b> 0200425848		
	<b>Signature:</b>  <b>Apio Jackie</b>		
<b>A</b>	<b>B</b> <b>Drawer</b>		

## MAIN FEATURES OF A CHEQUE

- Cheque number / serial number.
- Date.
- Amount in figures and in words.
- Drawers signature.
- Name of payee.
- Drawee – Name of the bank/branch.
- Drawer's Account number.
- Two panel lines on the face.

## PARTIES TO A CHEQUE

**Drawer;** is a person who writes and signs a cheque i.e. a person demanding payment (account holder.)

**Drawee;** is the bank on which the cheque is written.

**Payee;** is a person to whom the cheque is addressed. At times the drawer can at the same time be the payee.

Part A refers to the **counter foil** or **cheque stub**.

Part B is the **cheque leaf**.

## ADVANTAGES OF PAYING BY CHEQUE

1. It is very convenient and saves time. Writing a cheque takes little time than counting a large number of currency notes and coins.
2. A single cheque can be used to settle various debts or pay money to many people using the credit transfer system.
3. It is easier to store a cheque than cash especially if it is in large sums.
4. It is very safe. Cash can easily be stolen but a cheque can't, especially if it is crossed.

5. It is easy to carry a cheque as compared to cash in large sums i.e. a cheque is more portable.
6. A cheque facilitates easy transfer of money from one bank to another without money physically leaving the bank through the clearing house.
7. A cheque acts as a receipt once it is cancelled. It is evidence that money has been received and no further receipts are required.
8. The counter foil in the cheque book acts as a record of payment for the drawer.

### **DISADVANTAGES OF PAYING BY CHEQUE.**

1. Restricted to only those who have bank accounts.
2. Used by only those who can read and write. (literate).
3. Failure to access cash immediately especially of post-dated cheques.
4. Possibility of dishonoring it unlike cash which is a legal tender.
5. Cheque takes time to mature.
6. It is risky in case of a bearer cheque once it is stolen, cash can be withdrawn.

### **TYPES OF CHEQUES**

#### **OPEN CHEQUES**

These are cheques payable across the counter and may be made payable to anybody holding the cheque or to a named person or his order i.e. to anybody else whom the payee may name.

An open cheque may be;

- A cash cheque
- An order cheque or
- A bearer cheque.

A cash cheque is one where the person presenting it is the drawer. In this case the cheque bears the writings "pay cash".

An order cheque is one payable to the person named on it i.e. it is a cheque where a payee is named. For example, "Pay Nadia".

A bearer cheque may be made payable to any person who may possess it. In this case nobody is named on the cheque as payee. It is expressed as "pay cash or pay bearer". This type of cheque does not require endorsement when being transferred to another person.

Endorsing a cheque is when a person named on it transfers the right to receive money against it to another person by signing his name and putting the name of the new payee on the back of the cheque.

Note: the one signing/endorsing is the **endorser** and the new payee is the **endorsee**.

## **CROSSED CHEQUE**

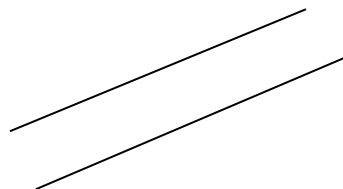
A crossed cheque is one that bears two parallel lines called crossings across its face. A crossed cheque cannot be presented for payment across the counter. It must be deposited to the bank which enables it to trace the payee.

Crossings may be general or special.

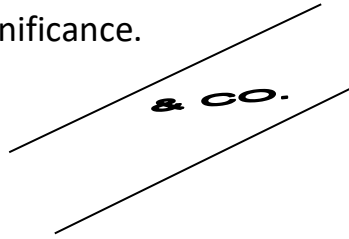
## **GENERAL CROSSINGS**

These may take the following forms;

- a) Just two parallel lines, with no words between them.



- b) Two parallel lines with words "& co." between them. These words however, do not have any significance.

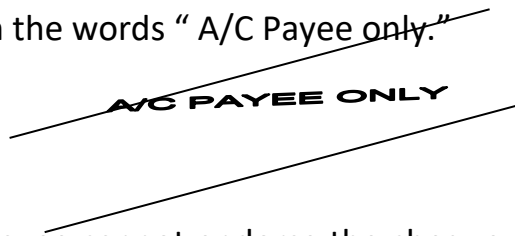


- c) Two parallel lines with or without the words "& co." but with the words "not negotiable" between them.



The words signify that though a payee named on the cheque can transfer the right to receive money against the cheque, the new payee (endorsee) will not have a better title to the cheque than the original payee himself had. So it should not be endorsed to another person in settlement of his debt.

- d) Two parallel lines with the words "A/C Payee only."



This means that the payee cannot endorse the cheque to another person but the money should be paid to the payee's account only named on the cheque.

## **SPECIAL CROSSINGS**

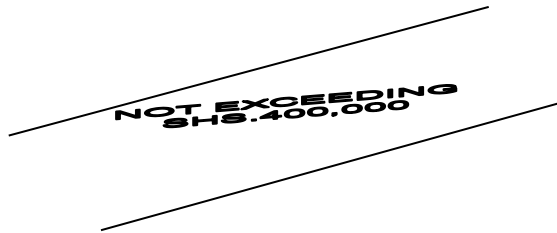
Special crossings consist of two parallel lines with the name of the bank and branch between them to which it should be presented.

A specially crossed cheque can be presented for payment only through the bank and branch named between the crossings.

The words "not negotiable" and "account payee only" may be added to a special crossing to make it more effective.



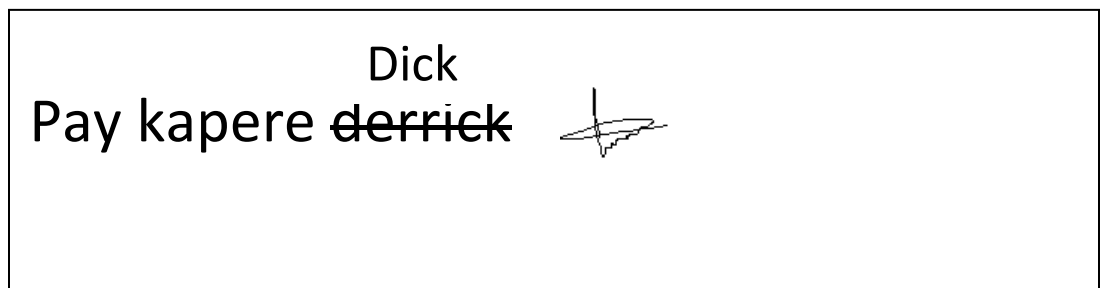
Special Crossings may also be used to indicate the amount payable against the cheque i.e. writing between the crossings the amount e.g. “not Exceeding shs. 400.000”.



### MAKING ALTERATIONS ON THE CHEQUE

If the drawer wishes to change anything on the cheque, he must write the alterations above clearly and sign his full signature above the alterations.

Eg.



### OPENING A CROSSED CHEQUE

If the payee has no account on which he can be paid using a crossed cheque, or if the drawer wishes to obtain cash from the bank and yet all his cheques are printed crossed, such a drawer may cancel the crossings by stamping the face of the cheque with the words “crossings cancelled, please pay cash” etc. followed by his signature.

**A/C Payee Only  
Crossings cancelled  
please pay cash**



### **3. TRAVELLERS CHEQUE**

This cheque is issued by the bank in fixed denominations to a person or businessman who pays for it in advance.

Travelers cheques are issued to those customers making many journeys to enable them avoid carrying large sums of money in cash. A small service fee is charged.

*The bank issues the traveler with cheque leaves and asks him to sign them in the presence of a bank officer.*

*When presenting these cheques for payment, the holder must countersign the cheques in the presence of an officer of the paying bank. The two signatures will be compared and if found similar, payment would be made against cheque. A person may also be called upon to prove his identity. This makes travelers cheques very safe because if stolen, they cannot be cashed.*

There are two types of travelers' cheques namely;

- In land traveler's cheques – these are used within the territory of a given country.
- International travelers cheques – these are issued in one country and cashed in another country.

## TERMS USED TO DESCRIBE CHEQUES

1. **STALE CHEQUE:** this is a cheque that has not been cashed within six months from the day it was written. Such a cheque cannot be accepted or honored by the bank. It is an expired cheque.
2. **POST DATED CHEQUE:** is a cheque presented to the bank before its maturity date.
3. **STOPPED CHEQUE:** is a cheque to which the drawer instructs the bank not to honour e.g. if he discovers the cheque was stolen, he can instruct the bank not to effect payment. *It is a cheque for which payment has been stopped by the account holder.*
4. **BLANK CHEQUE:** Is a cheque which is incomplete, say missing the amount, date or signature of the drawer. Blank cheques are risky because someone may fill them and withdraw more money from the drawer's account.
5. **FORGED CHEQUE:** is a cheque with a forged signature or amount.

## MAKING A CHEQUE SECURE

- Always make crossings on the cheque because such cheques cannot be cashed across the counter. They are always deposited in the bank and only cashed by the person to whom they are made.
- Never leave unnecessary gaps between words and figures when writing a cheque.
- Avoid signing blank cheques because these tempt people to withdraw more money than they should have.
- Always report loss of cheques to the bank or police as soon as possible.
- Always keep the cheque book locked in a safe place to avoid loss.
- The drawer should ensure that his signature is not easy to forge since an imposter can counterfeit it and withdraw money from his account.

## DISHONOURING A CHEQUE

This is when the bank refuses to effect payment against a cheque.



## **CIRCUMSTANCES UNDER WHICH A CHEQUE MAY BE DISHONoured**

- If the drawer has insufficient funds on his account with the bank. If the cheque is dishonored for this reason, it will be marked “Insufficient funds” or “R/D”.
- When the drawer is insane or dead or bankrupt.
- When the drawer instructs the bank not to honor the cheque.
- If the cheque is stale i.e. presented six months after the date on it.
- When the cheque has an error on it e.g. the amount in words and figures do not agree.
- In case the cheque is postdated i.e. if the cheque is presented for payment before the date on it or before maturity.
- If the drawer has closed his account with the drawee bank.
- If the cheque is not signed by the drawer or if the account has two signatories but the cheque is signed by one person instead of two.
- In case there are alterations on the cheque and are not countersigned by the drawer himself.
- If the signature on the cheque differs from the specimen signature held by the bank.
- If the cheque is mutilated i.e. if the cheque is too old or torn.