

**UNIT-VIII
CHAPTER
22**

THE NEGOTIABLE INSTRUMENTS ACT 1930

INTRODUCTION

Negotiable Instruments are documents which promise payment to the assignee (the person whom it is assigned to/given to) or a specified person. These instruments are transferable. Once the instrument is transferred, the holder of such instrument obtains a full legal title to such instrument. The law relating to negotiable instruments is dealt in the Negotiable Instruments Act 1881. This act speaks about promissory note, bill of exchange and cheques etc. This chapter clearly delineates the characteristics of negotiable instruments.

I. CHOOSE THE CORRECT ANSWERS

- Negotiable Instrument Act was passed in the year_____.**
(a) 1981 (b) 1881
(c) 1994 (d) 1818
- Negotiable Instrument is freely transferable by delivery if it is a _____ instrument.**
(a) Order (b) Bearer
(c) Both a & b (d) None of the above
- The transferee of a Negotiable Instrument is the one _____**
(a) Who transfer the instrument
(b) On whose name it transferred
(c) Who enches it
(d) None of the above
- Number of parties in a bill of exchange are**
(a) 2 (b) 6
(c) 3 (d) 4
- Section 6 of Negotiable Instrument Act 1881 deals with**
(a) Promissory note (b) Bills of exchange
(c) Cheque (d) None of the above
- _____ cannot be a bearer instrument.**
(a) Cheque (b) Promissory note
(c) Bills of exchange (d) None of the above
- When crossing restrict further negotiation**
(a) Not negotiable crossing

- (b) General Crossing
(c) A/c payee crossing
(d) Special crossing

- Which endorsement relieves the endorser from incurring liability in the event of dishonour**
(a) Restrictive (b) Faculative
(c) Sans recourse (d) Conditional
- A cheque will become stale after _____ months of its date:**
(a) 3 (b) 4 (c) 5 (d) 1
- Document of title to the goods exclude**
(a) Lorry receipt (b) Railway receipt
(c) Airway bill (d) Invoice

ANSWERS

1.	b	2.	b	3.	b	4.	c	5.	c
6.	a	7.	a	8.	b	9.	a	10.	d

II. VERY SHORT ANSWER QUESTIONS:

- What is meant by Negotiable Instrument?**
 - ❖ The word 'Negotiable' means transferable from one person to another in return for consideration.
 - ❖ The word 'Instrument' means a written document by which a right is created in favour of certain person.

- ❖ A negotiable instrument is a document which entitles a person to a certain sum of money and which is transferable from one person to another by mere delivery or by endorsement and delivery.
- ❖ The law relating to negotiable instrument is dealt in the Negotiable Instrument Act 1881.

2. Define Bill of Exchange

According to section 5 of the Negotiable Instruments Act, "a bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument".

3. List three characteristics of a Promissory Note.

The following are the characteristics of a Promissory Note:

- ❖ A promissory note must be in writing.
- ❖ It must contain a promise or undertaking to pay a mere acknowledgement of indebtedness will not make it a promissory note.
- ❖ The promise to pay must be unconditional.

4. What is meant by a cheque?

A cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand.

5. Define Endorsement:

- ❖ Section 15 of the Negotiable instruments Act 1881 defines endorsement as follows:
- ❖ "When the maker or holder of a negotiable instrument signs the name, otherwise than as such maker for the purpose of negotiation, on the back or face thereof, or on a slip of paper annexed thereto or so signs for the same purpose a stamped paper intended to be completed as a negotiable instrument, he is said to endorse the same and is called the endorsee".

III. SHORT ANSWER QUESTIONS:

1. Explain the nature of a Negotiable Instrument.

1. Transferability:

- ❖ A negotiable instrument is transferable from one person to another without any formality, such as affixing stamp, registration etc.,
- ❖ In other words, the property (the right of ownership) in the instrument can be transferred by mere delivery (in case it is payable to bearer) or by endorsement and delivery (in case it is payable in order).

2. Title of the holder free from all defects:

- ❖ A person taking the instrument in good faith and for value is known as holder in due course.
- ❖ When the instrument is held by holder in due course in the process of negotiation, it is cured of all defects in the instrument with respect to ownership.
- ❖ In other words, even though the right to the person who transferred the instrument to holder in due course is defective i.e. disentitled to transfer, the title of the holder in due course is superior.
- ❖ He/she need not return the bill to true owner.eg.
- ❖ A sold certain goods to B. B gives a bill of Exchange to S for the price.
- ❖ Later B refuses to pay the Bill of Exchange on the ground that the goods supplied are defective.
- ❖ Meantime, A endorsed the bill to C.
- ❖ In this case, B's defence is of no value.
- ❖ C is holder in due course.
- ❖ His title is not affected by certain defence like fraud or misrepresentation or any mistake.

3. Right of the transferee to sue:

- ❖ Though a bill, a promissory note or a cheque represents a debt, the transferee is entitled to sue on the instrument in his own name in case of dishonor, without giving notice to the debtor that he has become its holder.

2. Distinguish between Negotiability and Assignability.

SI. No	Basic of Difference	Negotiability	Assignability
1.	Legal Ownership	It passes to the transferee by mere endorsement in the case of a bearer instrument and by endorsement and delivery in the case of an order instrument.	An assignment can be made by observing certain formalities. For instance, an instrument is to be made in writing, duly stamped and signed by the transferor or his agent.
2.	Notice	Notice is not necessary for the holder of negotiable instrument to claim the payment from the debtor.	In case of actionable claim, notice of the assignment by the transferee regarding the transfer of debt to the debtor is necessary.
3.	Nature of title	Holder of negotiable instrument in due course gets a better title than even the transferor. It means that the transferee gets the instrument free from any defect existing in the title of the transferor or any prior party.	The transferee's title to the instrument is subject to the defects of the transferor's title. In other words, defects in the title of the transferor pass on to the transferee too.
4.	Consideration	Consideration is presumed	The assignee has to prove the consideration for the transfer.

3. What are the Characteristics of a Bill of Exchange?

The following are the characteristics of a bill of exchange

- i. A bill of exchange is a document in writing.
- ii. The document must contain an order to pay.
- iii. The order must be unconditional.
- iv. The instrument must be signed by the person who draws it.
- v. The name of the person on whom the bill is drawn must be specified in the bill itself.
- vi. The drawer, drawee and payee must all be certain. A bill cannot be drawn on two or more drawees in the alternative because where liability lies, 'no ambiguity must lie'. However, alternative payees are permitted in the law.
- vii. The amount that is required to be paid must be also specified in the bill.
- viii. The bill may be payable on demand or after a specified period.
- ix. It must comply with formalities regarding date, consideration, stamps etc.,

4. Distinguish between Bill of Exchange & Promissory Note.

SI.NO	Basic of Difference	Bill of Exchange	Promissory Note
1.	Nature of Undertaking	A bill of exchange contains an unconditional order to pay money.	A promissory note contains an unconditional undertaking to pay money.
2.	No. of parties	There are three parties in bill of exchange drawer, drawee and payee.	In a promissory note there are only two parties the maker and the payee.
3.	Drawer of the instrument	A creditor draws a bill on a debtor.	A debtor executes a promissory note in favour of a creditor.

4.	Identity of the parties	In a bill of exchange, both the drawer and the payee can be one and the same person.	In a promissory note, the maker himself cannot be the payee because the same person cannot be both the promisor and the promisee.
5.	Order of Liability	The liability of the drawer of a bill is secondary. In other words, when the acceptor dishonors the bill, the liability of the drawer arises as a surety.	The liability of the maker of a promissory note is primary.
6.	Bearer Instrument	A bill of exchange can be drawn payable to bearer	A Promissory note cannot be drawn payable to bearer.
7.	Acceptance	A time bill must be accepted by the drawee.	No acceptance is necessary in the case of a promissory note as it is made by the debtor himself
8.	No. of sets	Foreign bills are drawn in sets of three.	Promissory notes are not drawn so.
9.	Conditionality	A bill may be accepted	A note cannot be conditional.
10.	Notice of dishonour	On dishonour of a bill, notice of dishonour must be given to the drawer and other endorser.	No notice of dishonour is necessary in case of a promissory note.

5. Discuss the two different types of crossing.



Crossing is of two types:

1. General Crossing and
2. Special Crossing

1. General Crossing:

- ❖ According to section 123 of the Negotiable Instrument Act, 1881.
- ❖ "Where a cheque bears across its face an addition of the words "and company" or any abbreviation thereof, between two parallel transverse lines or of two parallel transverse lines simply, either with or without the words "not negotiable" that addition shall be deemed to be crossed generally".
- ❖ The lines should be drawn across the face of a cheque and not on the reverse thereof.
- ❖ Further, they must be parallel and transverse. Cross marks such as 'X' does not constitute crossing.
- ❖ The words 'and company' or any abbreviation thereof are not an integral part of a crossing and their omission does not affect the validity of crossing.

2. Special Crossing:

- ❖ Section 124 defines special crossing as follows:
- ❖ "Where a cheque bears across its face an addition of the name of a banker with or without the words "not negotiable", that addition shall be deemed a crossing and the cheque shall be deemed to be crossed specially and to be crossed to that banker".

- ❖ Here that parallel transverse lines are not essential.
- ❖ But the name of banker to whom the payment should be made is to be necessarily written on the face of the cheque.
- ❖ Thus it must be noted that while drawing of two parallel transverse lines is a 'must' for a general crossing, the addition of the name of a banker constitutes the essential part of special crossing.

- ❖ A negotiable is presumed to have been accepted.
- ❖ Every negotiable instrument bearing, a date is presumed to have been made or drawn on such a date.
- ❖ It is presumed to have been accepted within a reasonable time after the date and before its maturity.
- ❖ The transfer of a negotiable instrument is presumed to have been made before maturity.
- ❖ The endorsement appearing upon a negotiable instrument is presumed to have been made in the order to which they appear thereon.
- ❖ When a negotiable instrument has been lost, it is presumed to have been duly stamped.

IV. LONG ANSWER QUESTIONS:

1. Mention the presumption of Negotiable Instruments.

Presumption to Negotiable Instrument:

Certain presumption as briefly mentioned below:

- ❖ Every negotiable instrument is presumed to have been drawn, accepted etc. for consideration.

2. Distinguish a cheque and a bill of exchange.

Sl.No	Basis of Difference	Bill of Exchange	Cheque
1.	Drawn	A bill of exchange can be drawn on any person including a banker	A cheque can be drawn only on a particular banker
2.	Payability	It is payable on demand or on the expiry of a certain period	It is payable on demand only
3.	Validity	A bill made payable to bearer on demand is void by virtue of section 31 of the RBI act	A cheque does not require any acceptance
4.	Acceptance	In case of time bill, acceptance by the drawee is necessary before he can be made liable on it	A cheque does not require any acceptance
5.	Grace period	Three days of grace are allowed while calculating the maturity date in the case of time bill	No days of grace are allowed in the case of a cheque for the simple reason that it is always payable on demand
6.	Notice	When a bill is dishonoured, notice of dishonoured is necessary	Notice is not necessary for a cheque
7.	Sets	Foreign bills of exchange are drawn in sets of three	It is not so in case of cheque
8.	Discounting	A bill can be discounted with a bank	A cheque cannot be discounted.
9.	Stamping	Bills are to be sufficiently stamped	Cheques need not be stamped.
10.	Crossing	A bill can not be crossed	A cheque can be crossed either generally or specially so as to ensure payment to the rightful owner.

3. Discuss in detail the features of a cheque.

The following are the features of a Cheque:

(i) Instrument in Writings

- ❖ A cheque or a bill or a promissory note must be an instrument in writing.
- ❖ Though the law does not prohibit a cheque being written in pencil, bankers never accept it because of risks involved.
- ❖ Alternation is quite easy but detection impossible in such cases.

(ii) Unconditional Orders

- ❖ The instrument must contain an order to pay money.
- ❖ It is not necessary that the word 'order' or its equivalent must be used to make the document a cheque.
- ❖ It does not cease to be a cheque just because the word 'please' is used before the word pay.
- ❖ Further the order must be unconditional.
- ❖ In other words, payment of money is made dependent on the happening of an event or on a fulfilment of a condition, the instrument loses the characteristics of a cheque.

(iii) Drawn on a Specified Banker Only

- ❖ The cheque is always drawn on a specified banker.
- ❖ A cheque vitally differs from a bill in this respect as latter can be drawn on any person including a banker.
- ❖ The customer of a banker can draw the cheque only on the particular branch of the bank where he has an account.

(iv) A Certain Sum of Money Only

- ❖ The order must be for payment of only money.
- ❖ If the banker is asked to deliver securities, the document cannot be called a cheque.
- ❖ Further, the sum of money must be certain.

(v) Payee to be Certain

- ❖ The cheque must be made payable to a certain person or to the order of a certain person or to the bearer of the instrument.

- ❖ The word, person includes bodies corporate, local authorities, associations, holders of office of an institution etc.,

(vii) Signed by the Drawer

- ❖ The cheque is to be signed by the drawer.
- ❖ Further, it should tally with specimen signature furnished to the bank at the time of opening the account.

(vi) Payable Always on Demand

- ❖ A cheque is always payable on demand.
- ❖ The words on demand are not used when the drawee bank is asked to pay and the time for its payment is not specified, it is considered to be payable on demand.

4. What are the requisites for a valid endorsement?

The following are the requisites of a valid Endorsement:

1. Endorsement is to be made on the face of the instrument or on its back. It is usually made on the back of a negotiable instrument.
2. When there is no space for making further endorsements a piece of paper can be attached to the negotiable instrument for this purpose. This piece of paper is called 'Allonge'.
3. If the endorsee's name is wrongly spelt, the endorsee should sign the same as spelt in the instrument and write the correct spelling within brackets after his endorsement.
4. Endorsement for only a part of the amount of the instrument is invalid. It can be made only for the entire amount.
5. Where, however, the instrument has been partly paid, a note to that effect can be given on the instrument and endorsement made for the balance amount.
6. Endorsement is complete only when delivery of the instrument is made. On the death of the endorsee who has endorsed an instrument but has not delivered it to the endorsee, the endorsement becomes invalid.

7. It is presumed that the endorsements appearing on a negotiable instrument were made in the order in which they appear thereon.
8. Signing in block letters does not constitute regular endorsement.
9. The prefixes or suffixes added to the names of the payees or endorsees must be omitted in the endorsement.
10. Endorsement must be in link
11. If the payee is an illiterate person, he can endorse it by affixing his thumb impression on the instrument. But it must be duly attested by somebody who should give his full address thereon.
12. A person duly authorised to endorse a cheque or a bill must indicate that he is signing init on behalf of his principal by using such words as "for", "on behalf of" or "per pro".

5. Explain the different kinds of endorsement.

The following are the different kinds of endorsement:

1. Endorsement in Blank or General Endorsement:

- ❖ When the endorser puts his mere signature on the back of an instrument without mentioning the name of a person to whom the endorsement is made, it is called Blank Endorsement or General Endorsement.

2. Endorsement in full or special endorsement:

- ❖ Where the endorser, in addition to his signature, specifies the person to whom or to whose order the instrument is payable, the endorsement is called endorsement in full.
- ❖ Any holder can convert a blank endorsement into special endorsement by writing above the signature of the endorser a direction to pay himself or to some other person.

3. Conditional or qualified endorsement:

- ❖ Where the endorser of a negotiable instrument makes his liability dependent upon the happening of an event which may or may not happen, it is called conditional endorsement.

- ❖ Where the right of the endorsee to receive the amount is made dependent upon the happening of an event which may or may not happen, then also the endorsement is called conditional or qualified endorsement.
- ❖ Conditional endorsement does not affect negotiability. Such endorsements are not usually made.

4. Restrictive Endorsement:

- ❖ When an endorsement restricts or prohibits further negotiability of the instrument, it is called Restrictive Endorsement.
- ❖ The omission of the words "or order" does not render the endorsement restrictive.

5. Sans recourse Endorsement:

- ❖ Ordinarily the endorser becomes liable to subsequent parties in the event of dishonour of the instrument.
- ❖ If he makes it clear that the subsequent holders should not look to him payment in case it is dishonored, the endorsement is called Sans Recourse Endorsement.

6. Facultative Endorsement :

- ❖ To make an endorser liable on the instrument, notice of dishonour must be given to him
- ❖ If the endorser waives this right by a writing "Notice of dishonour Waived" at the time of endorsing, it is called Facultative endorsement.

7. Partial Endorsement:

- ❖ Where the endorsement seeks to transfer only a part of the amount payable under the instrument, it is called as partial endorsement.
- ❖ It does not operate as a negotiation of the instrument.
- ❖ If part of the amount has already been paid or settled, a note to that effect may be made on the instrument which may then be negotiated for the balance.

ADDITIONAL QUESTIONS:**I. CHOOSE THE CORRECT ANSWERS:**

1. What does section 6 deals with in Negotiable Instruments Act?
a) Cheque b) Drawee
c) Dishonoring of cheque d) None
2. Drawee is defined in which section of Negotiable Instruments Act _____.
a) Section 5 b) Section 8
c) Section 9 d) Section 7
3. An order in writing directing a person to pay a sum of money to a specified person is called _____.
a) Crossed Cheque b) Bearer Cheque
c) Bill of Exchange d) None
4. The Bill of Exchange is prepared by _____.
a) The Creditor b) The Debtor
c) The Surety d) The Buyer
5. The difference between the Promissory note and the cheque is _____.
a) The Cheque has limited validity
b) Cheques are drawn on a specific bank
c) Cheques can be crossed for safety purpose
d) All of the above
6. _____ is a bill to which the document of title to the goods and other documents are attached.
a) Attached Bills b) Documentary Bills
c) Both (a) and (b) d) None
7. _____ is a bond, deed, or other document kept in the custody of a third party and taking effect only when a specified condition has been fulfilled.
a) Escrow b) Custody Bill
c) Bill in Sets d) None
8. In case of Cheque as Negotiable Instrument, the Payer's (who prepares to cheque) bank is called as _____.
a) Drawer b) Drawee
c) Indorser d) None of the above
9. In case of Cheque as Negotiable Instrument, the Person, one whose name the cheque is drawn to pay the dues is called as _____.
a) Drawer b) Drawee
c) Payer d) Payee
10. The Negotiable Instrument may be dishonoured either by _____.
a) Non acceptance of Negotiable Instrument (Bill of Exchange)
b) Non Payment of mentioned value (Pronote/ Cheque)
c) Both a & b
d) None
11. The Negotiable Instrument while drafting (writing), becomes faulty, it is called as _____.
a) Faulty Bill b) Ambiguous Bill
c) Dishonored Bill d) Escrow Bill
12. " Pay to the order of R" – This statement comes under the category of the following instrument _____.
a) Bearer Instrument b) Order Instrument
c) Foreign Instrument d) None of the above
13. Which of the following provisions of RBI are not affected by the Negotiable Instrument ?
a) Sec.31 and Sec 32 b) Sec 23 and Sec 25
c) Both a & b d) None
14. Which of the following is the example of Documentary Bill?
a) Lorry receipt b) Bill of Lading
c) Railway Receipt d) All of the above
15. IFSC had _____ character code.
a) 12 b) 6 c) 11 d) 10
16. Statement (I): When the endorsement seeks to transfer only a part of the amount payable under the instrument, it is partial endorsement.
Statement (II). Partial endorsement does not operate as a negotiation of the instrument.

Codes:

- (A) Both (I) and (II) are correct and (II) is correct explanation of (I).
 (B) Both (I) and (R) are correct, but (II) is not a correct explanation of (I).
 (C) (I) is correct, but (II) is incorrect.
 (D) (I) is incorrect, but (II) is correct

17. Statement (I): If the endorser wrote "Notice of dishonour waived" at the time of endorsing it is called facultative endorsement.

Statement (II): To make an endorser liable on the instrument, notice of dishonour must be given to him.

Codes:

- (A) Both (I) and (II) are correct and (II) is correct explanation of (I).
 (B) Both (I) and (R) are correct, but (II) is not a correct explanation of (I).
 (C) (I) is correct, but (II) is incorrect.
 (D) (I) is incorrect, but (II) is correct

18. Assertion (A): Signing in block letters does not constitute regular endorsement.
Reason(R): The prefix or suffix added to the names of the payee or endorsee should be omitted in endorsement.

- (A) (A) is true but (R) is false
 (B) (A) is false but (R) is true
 (C) (A) and (R) are correct and (R) is correct explanation of (A).
 (D) Both (A) and (R) are correct, but (R) is not the correct explanation of (A).

19. Statement (I): Any holder can convert a blank endorsement into special endorsement by writing above the signature of the endorser.

Statement (II): The endorsement in full or special endorsement allows the additions to the signature of the endorser.

- (A) (A) is true but (R) is false
 (B) (A) is false but (R) is true
 (C) (A) and (R) are correct and (R) is correct explanation of (A).
 (D) Both (A) and (R) are correct, but (R) is not the correct explanation of (A).

20. Statement (I): If the payee is an illiterate person, the affixing of thumb impression on the instrument is allowed.

Statement (II): The above instrument should be duly attested by somebody who should give full address there on.

Codes:

- (A) Both (I) and (II) are correct.
 (B) Only (I) is correct, but (II) is wrong.
 (C) Only (II) is correct, but (I) is wrong.
 (D) Both (I) and (II) are wrong

21. Match the following

List I	List II
Negotiable Instrument	1. After 3 months of its date
Cheque	2. No liability
Facultative endorsement	3. Bill of Exchange
Stale of cheque	4. Transferrable from one person to another

- a) b) c) d)
 a) 4 3 1 2
 b) 3 4 1 2
 c) 3 2 1 4
 d) 4 3 2 1

22. Match the following

List I	List II
Bill of Exchange	1. Section 123 of NI act 1881
Endorsement	2. Section 15 of NI act 1881
General Crossing	3. Section 5 of NI act 1881
Special Crossing	4. Section 124 of NI act 1881

- a) b) c) d)
 a) 4 3 1 2
 b) 3 4 1 2
 c) 3 2 1 4
 d) 4 3 2 1

23. Match the following:

List I	List II
Pay to R or bearer	1. Foreign Instrument
Pay to the order of R	2. Inland Instrument
Bill drawn in Delhi and payable in London	3. Order Instrument

Bill drawn in Delhi on a merchant in London and payable in London	4. Bearer Instrument
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	a)	b)	c)	d)
a)	4	3	1	2
b)	3	4	1	2
c)	3	2	1	4
d)	4	3	2	1

24. Find the odd one out

- a) Promissory Note
- b) Bill of Exchange
- c) Cheque
- d) Invoice

Reason : Except invoice(d) all the above three are instruments which is used to transfer money.

25. Find the odd one out:

- a) Lorry Receipt
- b) Bill of Lading
- c) Railway receipt
- d) Cheque

Reason: except cheque all the others are document bills.

ANSWERS									
1.	a	2.	d	3.	c	4.	a	5.	a
6.	b	7.	a	8.	b	9.	d	10.	a
11.	b	12.	b	13.	a	14.	d	15.	c
16.	a	17.	a	18.	d	19.	c	20.	a
21.	d	22.	c	23.	d	24.	d	25.	d

II. VERY SHORT ANSWER QUESTIONS:**1. What is meant by MICR?**

- ❖ MICR is a character recognition technology used mainly by the banking industry to ease processing and clearance of cheques and other documents.
- ❖ It is found at the bottom of the cheque.
- ❖ It includes bank code, bank account number, cheque number, cheque amount and a control indicator.

2. Why emergency holidays are declared under Negotiable Instruments Act?

- ❖ Where the maturity date of the negotiable instrument falls on the notified public holiday, it is to be paid on the preceeding working day
- ❖ When emergency holidays are declared for reasons like death of a leader in power, natural calamities, strike, election day and so on, that day should be made a public holiday.
- ❖ So that negotiable instruments maturing on the day can be paid on the next working day.

III. SHORT ANSWER QUESTIONS:**1. Define Bill of Exchange :**

According to section 5 of the Negotiable Instruments Act, "a bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument".

2. What is meant by Not Negotiable Crossing?

- ❖ The words not negotiable are sometimes included in the general crossing or special crossing.
- ❖ Even with these words, the cheques are transferable, but they are deprived of the special feature of negotiability.
- ❖ "Such a cheque is like a stolen fountain pen or a watch, the transferee of which does not get a better title than that of their".
- ❖ It must be clearly understood if there is no defect in the title of the transferor, the transferee for value of a cheque with the words 'not negotiable' gets good title to it.
- ❖ The words 'Not negotiable' have no effect unless they are put on a crossed cheque.

3. What is meant by Account Payee Crossing?

- ❖ Words such as "Account Payee" or Payee's account are also added to general or special crossing.
- ❖ Even though the addition of these words has not legal sanctity, it has gained significance because of trade usage and banking practice.
- ❖ These words constitute a direction to the collecting banker to collect the amount of the cheque for the benefit of the payee's account only.

- ❖ If he credits negligently proceeds of the cheque to a wrong account he loses the statutory protection given to him as a collecting banker.
- ❖ Paying banker need not satisfy himself that it is collected only for the payee's account.
- ❖ Though usually a banker will not collect an "Account Payee" cheque for a person other than the payee, he does it in exceptional cases to trusted customers.

4. Write a note on IFSC :

- ❖ IFSC code is an alphanumeric code which facilitates electronic fund transfer in India.
- ❖ This code uniquely identifies each bank branch participating in the two main Payment and Settlement systems in India.
- ❖ The Real Time Gross Settlement (RTGS) and the National Electronic Fund Transfer (NEFT) systems.
- ❖ IFSC is a 11 character code.
- ❖ The first 4 alphabetic characters represent the bank name and the last 6 characters (usually numeric) represent the branch.
- ❖ The fifth character is 0 and reserved for future use.
- ❖ This code routes the messages to the destination banks or branch.
- ❖ The format of IFSC code is given below:

1	2	3	4	5	6	7	8	9	10	11
Bank Code				0		Branch Code				

IV. LONG ANSWER QUESTIONS:

1. What are the features of Negotiable Instrument?

1. Transferability

- ❖ A negotiable instrument is transferable from one person to another without any formality, such as affixing stamp, registration etc.,
- ❖ In other words, the property (the right of ownership) in the instrument can be transferred by mere delivery (in case it is payable to bearer) or by indorsement and delivery (in case it is payable in order).

2. Title of the holder free from all defects

- ❖ A person taking the instrument in good faith and for value is known as holder in due course.
- ❖ When the instrument is held by holder in due course in the process of negotiation, it is cured of all defects in the instrument with respect to ownership.
- ❖ In other words, even though the right of the person who transferred the instrument to holder in due course is defective i.e. disentitled to transfer, the title of the holder in due course is superior.
- ❖ He/she need not return the bill to true owner.
- ❖ Eg. A sold certain goods to B. B gives a Bills of Exchange to S for the price.
- ❖ Later B refuses to pay the Bills of Exchange on the ground that the goods supplied are defective. Mean time,
- ❖ A endorsed the bill to C. In this case, B's defence is of no value.
- ❖ C is a holder in due course.
- ❖ His title is not affected by certain defence like fraud or misrepresentation or any mistake.

3. Right of the transferee to sue

- ❖ Though a bill, a promissory note or a cheque represents a debt, the transferee is entitled to sue on the instrument in his own name in case of dishonour, without giving notice to the debtor that he has become its holder.

2. Explain the Features of Cheque:

(i) Instrument in Writings

- ❖ A cheque or a bill or a promissory note must be an instrument in writing.
- ❖ Though the law does not prohibit a cheque being written in pencil, bankers never accept it because of risks involved.
- ❖ Alternation is quite easy but detection impossible in such cases.

(ii) Unconditional Orders

- ❖ The instrument must contain an order to pay money. It is not necessary that the word 'order' or its equivalent must be used to make the document a cheque.

- ❖ It does not cease to be a cheque just because the word 'please' is used before the word pay.
- ❖ Further the order must be unconditional.
- ❖ In other words, payment of money is made dependent on the happening of an event or on a fulfilment of a condition, the instrument loses the characteristics of a cheque.

(iii) Drawn on a Specified Banker Only

- ❖ The cheque is always drawn on a specified banker.
- ❖ A cheque vitally differs from a bill in this respect as latter can be drawn on any person including a banker.
- ❖ The customer of a banker can draw the cheque only on the particular branch of the bank where he has an account.

(iv) A Certain Sum of Money Only

- ❖ The order must be for payment of only money.
- ❖ If the banker is asked to deliver securities, the document cannot be called a cheque.
- ❖ Further, the sum of money must be certain.

(v) Payee to be Certain

- ❖ The cheque must be made payable to a certain person or to the order of a certain person or to the bearer of the instrument.
- ❖ The word, person includes bodies corporate, local authorities, associations, holders of office of an institution etc.,

(vii) Signed by the Drawer

- ❖ The cheque is to be signed by the drawer. Further, it should tally with specimen signature furnished to the bank at the time of opening the account.

(vi) Payable Always on Demand

- ❖ A cheque is always payable on demand.
- ❖ The words on demand are not used when the drawee bank is asked to pay and the time for its payment is not specified, it is considered to be payable on demand.

3. Explain the characteristics of a Promissory Note. (any Five)

- ❖ A promissory note must be in writing. An oral promise to pay does not constitute a promissory note.
- ❖ It must contain a promise or undertaking to pay a mere acknowledgement of indebtedness will not make it a promissory note.
- ❖ The promise to pay must be unconditional. In other words, the promise to pay must not depend upon the happening of any uncertain event.
- ❖ It must be signed by the maker. The signature must be in any part of the instrument and it need not be at the bottom.
- ❖ The maker of the note must be a certain person. Where there are two or more makers, they may bind themselves jointly or jointly and severability. But alternative promissors are not permitted in law because where liability lies no ambiguity must lie.

4. Differentiate Cheque and Promissory Note. (Any five)

Sl.No	Basis of Difference	Cheque	Promissory Note
1.	Nature of order	A cheque contains an order to pay money	A promissory note contains an undertaking to pay money
2.	No.of parties	There are three parties in a cheque- drawer,drawee and payee	In a promissory note there are only two parties- the maker and the payee
3.	Creator of the instrument	The drawer of a cheque is a creditor	The maker of a note is a debtor
4.	Identity of the parties of the instrument	The drawer and the drawee can be one and same person	This cannot be so in a promissory note
5.	Payableness	A cheque is always payable on demand	A promissory note, on the other hand is payable either on demand or after a specified period.

OWN THINKING:**1. Find out whether the following transactions can be included under the Contract of Sale:**

- i. X agreed to sell 100 shares to Y for Rs. 10,000.
- ii. X agreed to sell his building for Rs. 1,00,000 to Y
- iii. X agreed to exchange with Y 100 kg of rice valued at Rs. 20 per kg for 200 Kg of wheat valued at Rs. 12 per kg. and pay the difference in cash.
- iv. X agreed to transfer some jewellery to his prospective wife out of love and affection.
- v. X agree to buy a painting from an artist
- vi. X supplied a piece of cloth to a tailor to stitch a suit for him. The tailor agreed to supply lining materials and buttons.
- vii. X agreed to pledge his goods valued at Rs. 1,00,000 with Y

Answer : The following can be included in the Contract of Sale:

i	ii	iii	vi	vii
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Clues: Students are advised to understand the meaning for goods and the essential elements of contract of sale.

2. Find out whether the following contracts of sale amount to sale or agreement to sell:

- i. X entered into a contract for sale entire crop of rice cultivated in his farm.
- ii. A railway administration agreed to sell coal-ash that might accumulated during the period of the contract.
- iii. X entered into a contract for sale of some goods in a particular ship to be delivered on the arrival of the ship
- iv. X entered into a contract for sale of a painting only if Z, its present owner sells it to him.

Answer :

i	Sale
ii	Agreement to Sell
iii	Agreement to sell
iv	Sell

3. State whether the seller is an unpaid seller or not in the following cases:

- i. X sold some goods to Y for Rs. 10,000. Y paid Rs. 9,900 but failed to pay the balance
- ii. X sold some goods to Y for Rs. 10,000 and received a cheque for the full price as conditional payment. On presentment, the cheque was dishonoured by the bank.
- iii. X sold some goods to Y for Rs. 10,000 on a credit of one month. One month has not yet expired.
- iv. X sold some goods to Y for Rs. 10,000 on a credit of one month and one month has expired and the price remains unpaid.
- v. X sold some goods to Y for Rs. 10,000 on a credit of one month. Y became insolvent during the period of credit.

Answer:

i	no
ii	Unpaid Seller
iii	no
iv	Un paid Seller
v	Unpaid Seller

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