



SNS COLLEGE OF ENGINEERING

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DEPARTMENT OF MANAGEMENT STUDIES

COURSE NAME : 19BA104- LEGAL ASPECTS OF BUSINESS

I YEAR / I SEMESTER

Unit - 4 : Negotiable Instrument Act

TOPIC: Special Rules for cheque and drafts



How to Apply for a New cheque

1. Internet Banking
2. Mobile Application
3. ATM
4. Branch Visit



Things to Keep in Mind When Writing a Bank Cheque

Omit the words 'OR BEARER' and Add 'A/C Payee' at the top left corner of the cheque. This ensures that no one apart from the individual in whose favour this cheque is drawn can acquire the stated amount

- Avoid leaving spaces between the words PAY and the Name of the Receiver and also between the name and surname. This practice is important since it doesn't offer anyone a chance to fill in the alphabet before or after the name to claim the money.
- Always write 'ONLY' after mentioning the amount in words in the 'RUPEES' column by using the symbol '/-' at the end
- Ensure there is no sort of overwriting. It means, that no scribbling or cancellation of text would be entertained by the banks
- Fill in the correct date. A cheque without a date permits anyone to put any date and pull-out cash using the bank cheque at their will. Further, a cheque with a post- or pre-date is another issue that can lead to dishonouring of the cheque. Moreover, a wrongly written date, for example, the wrong year or month would also lead you to a problem
- Make sure you do not hand over a cheque without the presence of the date, amount of cheque in numbers and words and the Payee's name
- Keep your signature clear and if needed, sign twice to ensure that the cheque is not bounced due to a signature mismatch
- Further, mention the credit card number, mobile number, connection number, etc., on the reverse side of the cheque while you make payments towards bills for utilities
- It is strictly prohibited to staple, disfigure or fold cheque or any sort of damage to MICR Band



Dishonour a Cheque

- Insufficient funds in the payer's bank account
- Signature missing or mismatch
- Account number mismatch
- An issue with the date of the cheque
- Mismatch in the amount of words and numbers
- Disfigured or damaged cheque
- Crossing the limit of the overdraft
- Scribbling, overwriting or omissions on the cheque without authorization(signature) of the payer
- Cheque is expired
- Drawer's account is closed
- Payment is stopped by the drawer
- Garnishee order on account
- Death or insanity of the drawer
- The seal of the company is missing on the cheque issued by an organization
- Suspicion of a forged cheque



Basis of Comparison	Cheque	Demand Draft
Meaning	A cheque is a written document which contains an order to the bank, to pay a certain sum of money to a specified person.	Demand Draft is a negotiable instrument, issued by the bank in favour of a certain person or entity, to transfer of money from one place to another.
Order of payment	By the account holder to the bank.	By the branch of a bank to another branch of the same bank.
Payment	Payable either to order or to bearer.	Always payable on demand to a specified party.
Issuance	The cheque is issued by a customer of the bank.	Demand Draft is issued by a bank.
Drawer	Customer of the bank.	Bank itself.
Signature	It must be signed by the party issuing it, be it an individual or authorized signatory of a firm.	It contains seal and signature of the authorized officer and the rubber stamp of the ba
Parties Involved	Three parties	Two Parties
dishonor	Yes	No



Liabilities of parties to Negotiable Instruments are as follows :

1. Liability of Drawer
- 2 Liability of Drawee of Cheque
- 3 Liability of endorse
- 4 Liability of Makers of note and acceptor of bill
- 5.Liability of Prior Parties to a holder in due course

1. Liability of Drawer:

According to Section 30 of the Negotiable Instrument Act 1881, The drawer of a bill of exchange or cheque is bound in case of dishonor by the drawee or acceptor thereof, to compensate the holder, provided due notice of dishonor has been given to, or received by, the drawer .

2 Liability of Drawee of Cheque

The drawee of a cheque having sufficient funds of the drawer in his hands properly applicable to the payment of such cheque must pay the cheque when duly required so to do, and, in default of such payment, must compensate the drawer for any loss or damage caused by such default (Section 31 of the Negotiable Instrument Act 1881)



3 Liability of Makers of note and acceptor of bill :

The maker of a promissory note and the acceptor before maturity of a bill of exchange are bound to pay the amount thereof at maturity according to the apparent tenor of the note or acceptance respectively, and the acceptor of a bill of exchange at or after maturity is bound to pay the amount thereof to the holder on demand.

4 Liability of endorse :

Liability of endorser In the absence of a contract to the contrary, whoever endorses and delivers a negotiable instrument before maturity, without, in such endorsement, expressly excluding or making conditional his own liability, is bound thereby to every subsequent holder, in case of dishonor by the drawee, acceptor or maker, to compensate such holder for any loss or damage caused to him by such dishonor, provided due notice of dishonor has been given to, or received by, such endorser as hereinafter provided. Every endorser after dishonor is liable as upon an instrument payable on demand.(Section 35 of the Negotiable Instrument Act 1881

5.Liability of Prior Parties to a holder in due course

Every prior party to a negotiable instrument is liable thereon to a holder in due course until the instrument is duly satisfied.(Section 36 of the Negotiable Instrument Act 1881)



RECAP

QUESTIONS???

THANK YOU