

B.Com Hons. (Part 2 Paper-4)  
Prof. (Dr.) Reyazuddin,  
Chief Co-ordinator of Commerce and Management,  
Nalanda Open University, Patna.

Topic:--Negotiable instruments & its various types

# **WHAT ARE NEGOTIABLE INSTRUMENTS ?**

According to Section 13 (a) of the Act,  
“Negotiable instrument means a promissory note, bill of exchange or cheque payable either to order or to bearer, whether the word “order” or “bearer” appear on the instrument or not.’ ’

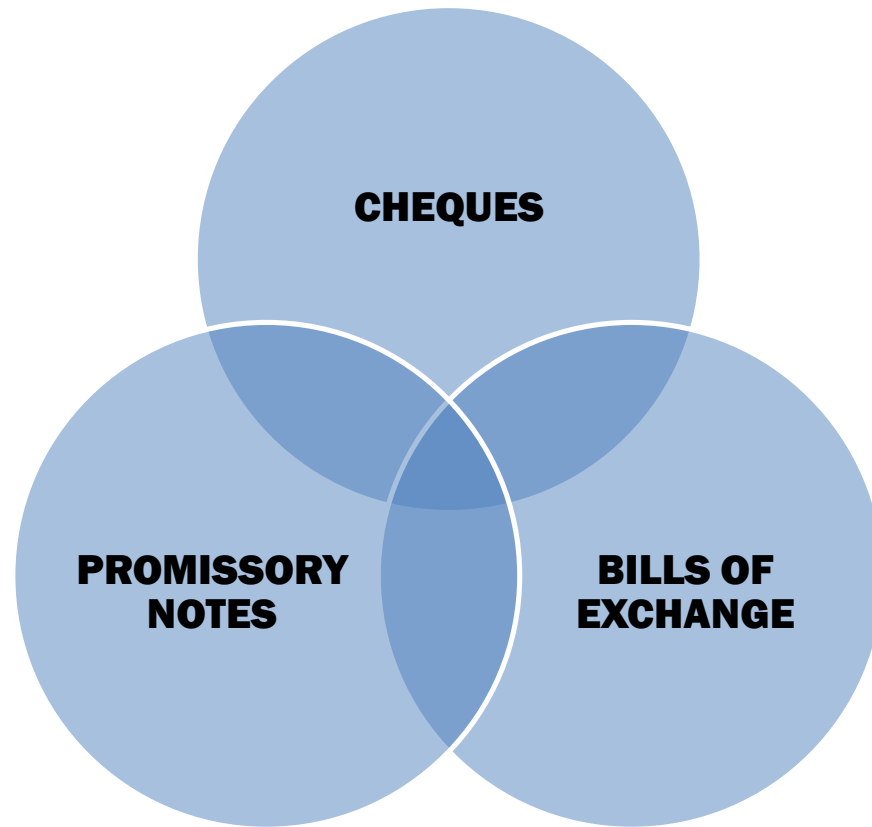
# **HISTORY OF NEGOTIABLE INSTRUMENTS ACT , 1881**

- 1. Dating from the British Colonial Rule, till in force largely unchanged.
- 2. Originally drafted in 1866 by the third India Law Commission.
- 3. Introduced in Dec, 1867 in the council and it was referred to a Select Committee.
- 4. Objections were raised by the mercantile community and the bill had to be redrafted in 1877.
- 5. Bill was revised by a Select Committee but it could not reach the final stage.
- 6. By the order of the Seceretary of State, the bill had to be referred to a New Law Commission.
- 7. On the recommendation of the New Law Commission the bill was re-drafted and again it was sent to a Select Committee.
- 8. Select committee adopted most of the additions recommended by the New Law Commission.
- 9. The draft was prepared for the fourth time and was introduced in the council and was passed into Law in 1881 , being the Negotiable Instruments Act, 1881 (Act No. 26 of 1881)[1].

# CHARACTERISTICS OF NEGOTIABLE INSTRUMENT

- i) *A negotiable instrument must be in writing*
- ii) *A negotiable instrument must be signed by its maker*
- iii) *A negotiable instrument must contain an unconditional promise or order to pay some money.*
- iv) *A negotiable instrument must contain certain amount of money only .*
- v) *A negotiable instrument must be freely transferable from one person to another.*

# TYPES OF NEGOTIABLE INSTRUMENTS



# WHAT IS A CHEQUE ?

According to Section 6 of the Negotiable Instruments Act, 1881 ,


**“A cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form.”**

# **PARTIES INVOLVED :**

- 1. DRAWER :** He is the maker of the cheque .He is the account holder who draws the cheque for drawing money from his bank account. He is the person who issues cheque directing the bank to pay a certain sum of money to a certain person or to the bearer.
- 2. DRAWEE :** Drawee is the party upon whom the cheque is drawn . Drawee is the bank. It is the party to whom the drawer gives order to pay the amount to the person named on the cheque or his order to the bearer.
- 3. PAYEE :** Payee is the party who presents the cheque for payment. He is the person who receives money from bank. He is the party in favor of whom cheque is issued. The payee is the person whose name is mentioned on the cheque. If the cheque is made payable to self , the drawer himself becomes the payee.

# SPECIMEN OF A CHEQUE :

## Specimen of Cheque

<i>A/c Payee</i>		DATE <u>17/6/2010</u>
Pay <u>Anil Sharma</u>		OR BEARER
RUPEES <u>Twenty-three thousand five hundred and forty and</u> <u>paise seventy-eight only</u>		Rs. <u>23,540.78</u>
SBGEN A/c No.	<u>000012345678</u>	
 <b>ABC Bank</b> ABC Bank Limited Bank Complex, Madhuban - 900 051.		<i>R Sharma</i> Rakesh Sharma
#*000000# 0000000000: 000000# 00		



# **DIFFERENT KINDS OF CHEQUES**

- I. BEARER CHEQUE
- II. ORDER CHEQUE
- III. UNCROSSED / OPEN CHEQUE
- IV. CROSSED CHEQUE
- V. ANTI-DATED CHEQUE
- VI. POST-DATED CHEQUE
- VII. STALE CHEQUE

# WHAT IS A PROMISSORY NOTE ?

- **According to Section 4 of the Negotiable Instruments Act, 1881,**
- “A promissory note is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.”

# **PARTIES INVOLVED :**

- 1. MAKER OR DRAWER :** The maker is the person who makes and signs the note. He agrees to pay a certain amount on the date of maturity.
- 2. PAYEE OR DRAWEE :** The person in whose favour the promissory note is drawn is called payee. He is also known as drawee or promisee. Usually , the drawee is also the payee.

# SPECIMEN OF A PROMISSORY NOTE :

FORMAT OF A PROMISSORY NOTE	
Hari Das	113, Janak Puri, Ambala Cantt
₹ 1,00,000	1 <sup>st</sup> April, 2011
Stamp	
<i>Five months after date I promise to pay Sh. Vinay Pujari or order a sum of rupees one lakhs only for value received.</i>	
To	(Signed)
Shri Vinay Pujari	Hari Das
236, Mall Road	
New Delhi.	

# **TYPES OF PROMISSORY NOTES**

1. PERSONAL PROMISSORY NOTES
2. COMMERCIAL PROMISSORY NOTES
3. REAL ESTATE PROMISSORY NOTES
4. INVESTMENT PROMISSORY NOTES

# WHAT IS A BILL OF EXCHANGE ?

**According to section 5 of the Negotiable Instruments Act, 1881,**

**“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.”**

# **PARTIES INVOLVED :**

- 1. DRAWER :** The person who draws the bill is called the drawer. In other words, he is the person who grants credit.
- 2. DRAWEE :** The person on whom the bill is drawn for its acceptance by him is called the drawee. In other words, he is the person to whom the credit is granted.
- 3. PAYEE :** The person in whose favour the bill is drawn is called the payee. The payee may be a third party or the drawer himself.

# SPECIMEN OF A BILL OF EXCHANGE :

## Specimen of Bill of Exchange

	Place:	
	Date: March 03, 2012	
Rs 20,000/-		
<table border="1"><tr><td>STAMP</td></tr></table>	STAMP	One month after date pay to me (Mr. A, Drawer) or my order, the sum of Twenty thousand, value received
STAMP		
Accepted	(Signed)	
(Signed)	Mr.A	
Mr.B	Adress:	
Date: March 03,2012	To	
Adress:	Mr B (Drawee)	
	Adress:	



# **CLASSIFICATION OF BILLS OF EXCHANGE :**

**1. INLAND AND FOREIGN BILLS**

**2. TIME AND DEMAND BILLS**

**3. TRADE AND ACCOMODATION BILLS**

😊😊😊 THANK YOU 😊😊😊