UNIT -4(Negotiable instrument Act, 1881)

INTRODUCTION

The Law relating to Negotiable Instruments is contained in the Negotiable Instrument , 1881. The act is based upon the English Common Law relating to Promisory Notes, Bills of Exchange and Cheque.The Act extends to the whole of India.
The Negotiable Instruments are the most common credit devices ,and are freely used in the commercial transactions and monetary dealings. It is always not possible for a businessman adopt a new method of exchanging documents.
-Bills of Exchange , Bills documents , Cheques etc. In place of actual currency for their day to day transactions. Used for substitution of money.

DEFINITIONS—

The word 'Negotiable' means Transferable by 'delivery'.

The word 'instrument' means 'A written document by which a right is created in favour of some person'.

The term 'Negotiable Instrument ' means "Written documents transferable by delivery".

According to Section 13 (1) of the Act defines a Negotiable Instrument thus,
"A Negotiable Instrument means a Promisory Notes, Bills of Exchange or Cheque payable to order or to bearer".

Nature and Characteristics of Negotiable Instruments:

1. **Negotiability**: Negotiable instruments are documents that promise payment to a specific person or bearer and can be transferred from one person to another by delivery or by endorsement and delivery.
2. **Transferability**: These instruments are freely transferable, allowing the transfer of rights from one person to another by delivery or endorsement and delivery.
3. **Legal Recognition**: Negotiable instruments are legally recognized as a form of payment and are enforceable by law.
4. **Uniformity**: The Act provides a set of uniform rules for the use and transfer of negotiable instruments, ensuring consistency in their treatment.

Kinds of Negotiable Instruments:

1. **Promissory Notes**: A promissory note is a written promise made by one party (the maker) to pay a certain sum of money to another party (the payee) either on demand or at a specified future date.

Faculty: Akansha Misra
Shampamisra19@gmail.com

2. **Bills of Exchange**: A bill of exchange is a written order by one party (the drawer) to another party (the drawee) to pay a certain sum of money to a third party (the payee) either immediately or at a specified future date.
3. **Cheques**: A cheque is a written order by an account holder directing their bank to pay a specific amount of money to a named payee or bearer.

NEGOTIABLE INSTRUMENT MENTIONS ONLY-

Promisory Notes, Bills of Exchange, Cheques. All these three are negotiable by statue. But it does does not means that these cannot be any other negotiable instruments than these three.

OTHER DOCUMENTS RECOGNISED BY THE USAGE OR CUSTOMS OR NEGOTIABLE INSTRUMENTS FOR EXAMPLE ARE—

A) TREASURY BILLS
B) DIVIDEND WARRANT
C) BEARER DEBENTURE
D) HUNDIS
E) RAILWAY RECEIPTS
F) SHARE WARRANT
G) GOVERNMENT PROMISSORY NOTES etc.

These have acquired the character of negotiability by custom or usage.
JUSTICE WILLS defines a negotiable instrument as, “ A Negotiable instrument is one the property at which is acquired by anyone who takes it bonafide, and for value not with standing any defect of the title in the person from whom he look at it.

CHARACTERISTICS OF NEGOTIABLE INSTRUMENTS-

1) FREELY TRANSTERABLE
2) BETTER TITLE
3)RIGHT TO SUE
4) PRESUMPTIONS
5)CREDIT OF THE PARTY

1)FREELY TRANSFERABLE
Thetransfer confers on the transferee not only a right to possession but also right to property.Whpever gets possession of the instruments, becomes its owner and is entitled to the sum mentioned as the holder.

2) BETTER TITLE
A person taking an instrument bonafide and for value known or holder in due course, gets the instruments free from all defects in the title of the Transfer. A bonafide, holder for value will get a good and an independent title.

Faculty: Akansha Misra
Shampamisra19@gmail.com

3)RIGHT TO SUE
In case of a negotiable instrument, the transfree is capable of suing the person liable on the instruments, in his own name without any notice to him, the notice that he notice to him, has become the transferee. A holder in due course can recover the full amount on the instruments, in case of Dishonour.

4) PRESUMTIONS
It is necessary for the party entitled to receive money on the instruments to prove the validity of his claim . These presumtions Section 118 and 119 apply to all negotiable instruments, unless contrary is proved.

5) CREDIT OF THE PARTY
A holder of a negotiable instrument expects its prompt payment because its dishonour means ruins of the credit of all the parties to it. Normally such instruments will never be dishonoured.

PROMISORY NOTE

According to Section 4, : A Promissory Note is an instrument in writing (not being a **bank note or 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 to the beaver of the instruments "

The person who makes the promise to pay is called the MAKER.

He is the debtor and must sign the instruments.
The person who will get money is called PAYEE.

The following are the illustrations of promissory note:

Example 1) "I Promise to pay B or order Rs. 500."

Example 2) " I Promise to pay D or order Rs.1000."

The following are not Promissory note:

Example 1) Mr.B IOU Rs. 1000.

Example 2) "I Promise to pay B Rs.500, and all other sums which shall be due to him.

Faculty: Akansha Misra
Shampamisra19@gmail.com

ESSENTIAL OF PROMISSORY NOTE

1) It must be in writing.
2) It must contain a Promise to Pay.
3) The promise to pay must be Unconditional.
4) It must be signed by the Maker.
5) The Sum payable must be certain.
6) Promise to Pay must be Money only.
7) It must contain certain parties
8) Other Formalities like serial number, date, place, consideration, etc are found on the face of a Promissory note.It will be valid, if the place of its making or the phrase for value received are not written.

SPECIMEN OF PROMISSORY NOTE

PROMISSORY NOTE

Amount: ₹ 1,50,000 | Date: January 15, 2019
Place: Mumbai, India

I Mrs. Q, make commitment to pay Mr. P, the sum of ₹ 1,50,000. Repayment is to be made in the form of 50 equal payments at 10% interest, or ₹ 3300 payable on 1st of each month, beginning February 1, 2019 until the total debt is paid.

IN WITNESS WHEREOF, I set my hand under seal this 15th of January, 2019 and I acknowledge receipt of a completed copy of this instrument.

Sd/-
Mrs. Q
Pune, India

Sd/-
Notary Public

BILLS OF EXCHANGE

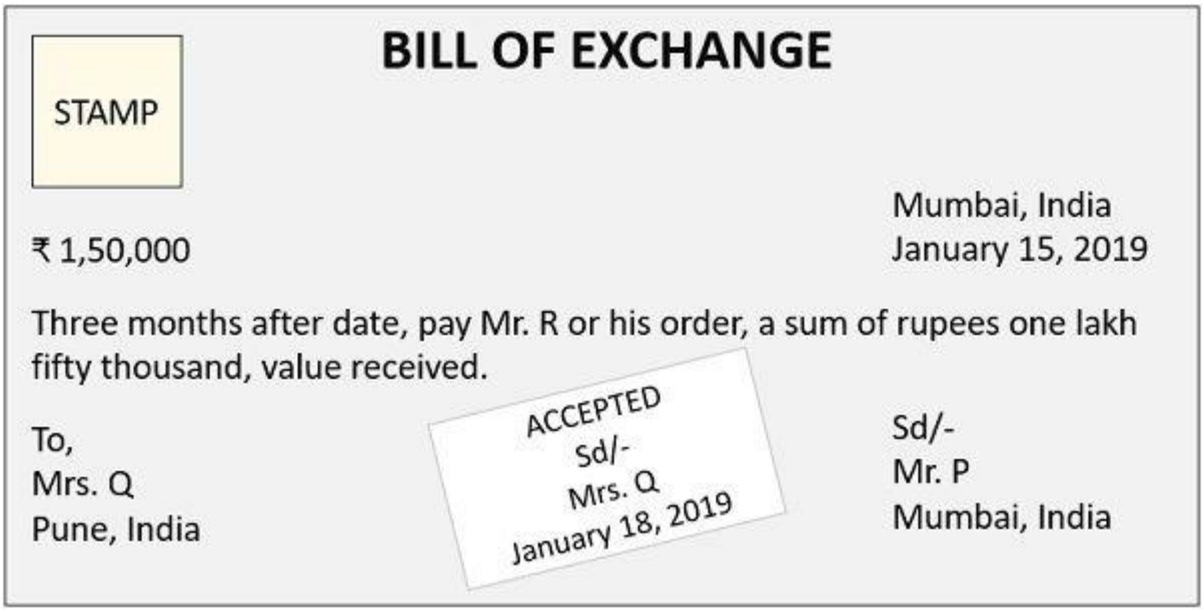
According to Section 5, "A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person to the bearer of the instrument."

There must be three parties to the bill of exchange, i.e , Drawer , Drawee and Payee.
The maker of a bill of exchange is called the DRAWER.
The person who is directed to pay is called the DRAWEE.

Faculty: Akansha Misra
Shampamisra19@gmail.com

The person to whom payment is made is called the PAYEE. The drawer or the payee who is in possession of the bill is also called the ACCEPTOR .

SPECIMEN OF A BILL OF EXCHANGE



Faculty: Akansha Misra
Shampamisra19@gmail.com

DISTINGUISH BETWEEN BILLS OF EXCHANGE AND PROMISSORY NOTE

Basis	Bills of exchange	Promissory Note
Drawer	A bill of exchange is drawn by the creditors.	A Promissory note is drawn by the debtors.
Payee	The payee and drawer can be the same party in case of a bill of exchange.	In the case of Promissory note, the drawer and payee can never be the same party.
Order or Promise	Bill of exchange contains an order to pay the amount on the bill.	A promissory note contains a promise to pay the amount on the note.
Liability	Here, the liability of a drawer arises if the acceptor does not pay the bill. The liability of the drawer is secondary in this case.	IN case of Promissory note, the liability of the drawer is prime.
Stamps.	It is not necessary to have stamp in a bill of exchange.	It is compulsory to afix a stamp in a promissory note.

CHEQUE

According to Sec. 6 , "A Cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand."

A Cheque is a bill of exchange with the following features:

A)A Cheque is always drawn on a specified banker.

B)A Cheque is always payable on demand.

A Cheque has three parties-

DRAWER , DRAWEE AND PAYEE.

Drawee in case of a cheque is always a banker. A Cheque is an unconditional order on the specified banker to pay on demand , a certain sum of monbey to the bearer of the cheque or to his order. It does

Faculty: Akansha Misra
Shampamisra19@gmail.com

not require acceptance . Drawer and the payee may be same person where a person draws a cheque 'Payable to self'.

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 world '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.

Faculty: Akansha Misra
Shampamisra19@gmail.com

Sl. No.	Basic 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 drawn payable to bearer on demand is perfectly valid.
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 is always payable on demand.
6.	Notice	When a bill is dishonoured, notice of dishonour 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.	Currency	A bill can be drawn and payable in any currency.	A cheque is payable only in home currency.
11.	Crossing	A bill cannot be crossed	A cheque can be crossed either generally or specially so as to ensure payment to the rightful owner.
12.	Dishonour	On dishonour of a bill there is a practice of noting and protesting	No such thing is done on the dishonour of a cheque.
13.	Discharge from Liability	The drawer of bills is discharged from liability if it is not duty presented for payment.	The drawer of a cheque is not discharged by delay of the holder in presenting it for payment unless because of the delay his interest have been damaged owing to bank's failure meanwhile.

Faculty: Akansha Misra
Shampamisra19@gmail.com

What is Crossing of Cheques?

- Cheque crossing is recognized in the Negotiable Instruments Act of 1881.
- Crossing a cheque means drawing two parallel transverse lines between the lines on the cheque with or without additional words such as "& CO." or "Account Payee" or "Not Negotiable."

Different Types Of Crossing of Cheque

A crossing of cheques is basically of 2 types:

- **General Crossing**
- **Special Crossing of cheques.**

General Crossing

Section 123 of the Negotiable Instruments Act deals with the general crossing of cheque, In the following cases, a cheque is generally considered to be crossed:

- If two parallel transverse lines are marked across the cheque face.
- If the cheque has an abbreviation "& C" between the two parallel transverse lines.
- If the cheque is written between the two parallel lines, the words "Not Negotiable".
- When the cheque comes with the words "A / C. Payee" between the two parallel transverse lines.

COLLECTION OF DEMAND DRAFT AND CHEQUES

A demand draft is issued by a bank while a check is issued by an individual. Also, a demand draft is drawn by an employee of a bank while a check is drawn by a customer of a bank. Payment of a demand draft may not be stopped by the drawer as it may with a check.

Cheques and demand draft (DD) are two financial instruments provided by banks to their customers for making payments.

Faculty: Akansha Misra
Shampamisra19@gmail.com

Although both of them are used to transfer or money, there are some significant differences.

Meaning of Demand Draft and Cheque

A cheque is a negotiable instrument which includes instructions to the bank, duly signed by the drawer, to transfer funds of a certain amount to a specified individual subject to clearance. A demand draft is also a negotiable instrument, but is payable in full on demand.

Read on to find out the key differences between a demand draft and a cheque.

- A demand draft(DD) cannot be dishonoured as the money is already paid to the bank, while in the case of a cheque, it can bounce due to instructions to stop payment by the drawer or due to insufficient funds in the account.
- While the bank issues a demand draft, a cheque is issued by the customer of the bank.
- A cheque payment can be stopped by the customer, however, payment done through a DD cannot be stopped.
- A cheque book is available only to the account holder, while a DD can be executed both by account holders as well as non-account holders.
- While the bank does not charge a fee on a cheque, a demand draft entails a bank fee.
- In a cheque transaction, there are three parties involved: the drawee, drawer, and payee, while in a demand draft, only two parties are involved: drawer and payee.

Both, DDs and cheques are negotiable instruments intended to make payments.

DISHONOUR OF CHEQUE-

Dishonour of a negotiable instrument means the loss of honour for the instrument on the part of the maker, drawee or acceptor, which renders the instrument unsuitable for the realization of the payment.

What is discharge of negotiable instruments with example?

Thus, a negotiable instrument is discharged if the acceptor has become the holder of the instrument at or after maturity in his own rights, i.e., not in any other capacity such as agent, executor, trustee, etc. For instance, **A accepts a bill drawn on him by B.**

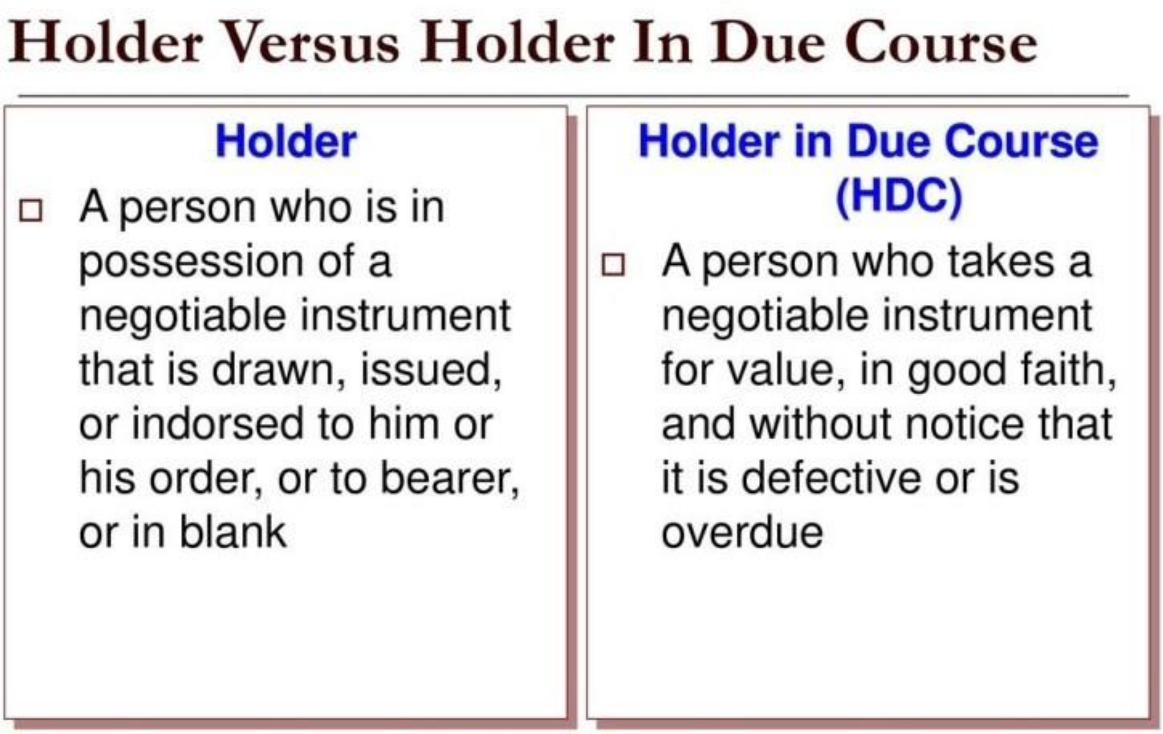
Faculty: Akansha Misra
Shampamisra19@gmail.com

HOLDER AND HOLDER IN DUE COURSE-

A holder in due course is any person who receives or holds a negotiable instrument such as a check or promissory note in good faith and in exchange for value; without any notice or suspicion that it is overdue or was previously dishonoured**.**

Who is called as holder?

ACCORDING TO SECTION 8. "Holder".—The "holder" of a promissory note, bill of exchange or cheque means **any person entitled in his own name to the possession thereof and to receive or recover the amount due thereon from the parties thereto**.



PENALTIES IN CASE OF DISHONOUR OF CERTAIN CHEQUES FOR INSUFFICIENCY OF FUNDS—

If found guilty, the defaulter can be punished with monetary penalty which may be twice the amount of the cheque or imprisonment for a term which may be extended to two years or both. The bank also has the right

Faculty: Akansha Misra
Shampamisra19@gmail.com

to stop the cheque book facility and close the account for repeat offences of bounced cheques.

What is the penalty in 138 of Negotiable Instrument Act?

PUNISHMENT: After the amendment of 2002 the **imprisonment that may be imposed may extend to two years, while fine may extend to twice the amount of cheque**. However, the trial is conducted in summary way, then Magistrate can pass sentence of imprisonment not exceeding one year and amount of fine exceeding Rs. 5,000/.

Is Dishonour of Cheque a bailable offence?

In most cheque bouncing cases, a warrant for your arrest is issued if you do not appear before the Court after being summoned. **The crime of cheque bouncing is bailable**.

What are the types of dishonor of cheque?

Dishonour is of 2 kinds:

- Dishonour of bill of exchange by non-acceptance.
- Dishonour of promissory note, bill of exchange or cheque by non-payment

Difference Between Holder and Holder in Due Course -

BASIS FOR COMPARISON	HOLDER	HOLDER IN DUE COURSE (HDC)
Meaning	A holder is a person who legally obtains the negotiable instrument, with his name entitled on it, to receive the payment from the parties liable.	A holder in due course (HDC) is a person who acquires the negotiable instrument bonafide for some consideration, whose payment is still due.
Consideration	Not necessary	Necessary
Right to sue	A holder cannot sue all prior parties.	A holder in due course can sue all prior parties.

Faculty: Akansha Misra
Shampamisra19@gmail.com

BASIS FOR COMPARISON	HOLDER	HOLDER IN DUE COURSE (HDC)
Good faith	The instrument may or may not be obtained in good faith.	The instrument must be obtained in good faith.
Privileges	Comparatively less	More
Maturity	A person can become holder, before or after the maturity of the nego	A person can become holder in due course, only before the maturity of negotiable instrumen

PENALTIES IN THE CASE OF DISHONOUR OF CHEQUE

According to Section 138 of the Act,the dishonour of cheque is a criminal offence and is punishable by imprisonment up to two years or with monetary penalty or with both. If payee decides to proceed legally, then the drawer should be given a chance of repaying the cheque amount immediately.

Faculty: Akansha Misra
Shampamisra19@gmail.com

Crossing of Cheques:

Crossing a cheque involves drawing two parallel lines on the face of the cheque, indicating that the payment should be made through a bank and not directly to the bearer.

Payment and Collection of Cheques and Demand Drafts:

The Act outlines the procedures for presenting cheques and demand drafts for payment and the responsibilities of banks in the collection process.

Discharge and Dishonor of Negotiable Instruments:

Negotiable instruments may be discharged when the obligation they represent is fulfilled, or they may be dishonored when the party obligated to pay fails to do so, usually due to insufficient funds or other reasons.

Holder and Holder in Due Course:

A holder is someone who is in possession of a negotiable instrument, while a holder in due course is a holder who has acquired the instrument in good faith, for value, and without notice of any defects or irregularities.

Payment in Due Course:

Payment in due course refers to payment made according to the terms of the negotiable instrument, to a holder in due course, and in good faith.

Penalties in Case of Dishonor of Certain Cheques for Insufficiency of Funds:

The Act provides for penalties in case a cheque is dishonored due to insufficient funds, including legal consequences for the drawer of the cheque.

Faculty: Akansha Misra
Shampamisra19@gmail.com

Overall, the Negotiable Instruments Act, 1881 provides a comprehensive legal framework for the use, transfer, and enforcement of negotiable instruments in India.

100 MCQ

Q-1 What legislation governs negotiable instruments in India?

A) Indian Contract Act, 1872

B) Negotiable Instruments Act, 1881

C) Indian Penal Code, 1860

D) Companies Act, 2013

Answer: B) Negotiable Instruments Act, 1881

Q-2 Which of the following is not a characteristic of negotiable instruments?

A) Negotiability

B) Transferability

C) Unilateral Obligation

D) Legal Recognition

Answer: C) Unilateral Obligation

Q-3 A promissory note is a promise to pay:

A) A specified sum of money

B) An unspecified sum of money

C) Only in kind, not in cash

Faculty: Akansha Misra
Shampamisra19@gmail.com

D) A specified commodity

Answer: A) A specified sum of money

Q-4 What is the term used for the person to whom a bill of exchange is payable?

A) Payor

B) Drawer

C) Drawee

D) Payee

Answer: D) Payee

Q-5 Crossing of a cheque involves:

A) Signing the back of the cheque

B) Drawing two parallel lines on the face of the cheque

C) Cancelling the cheque

D) Writing the amount in words and figures

Answer: B) Drawing two parallel lines on the face of the cheque

Q-6 A demand draft is a:

A) Bill of exchange

B) Promissory note

C) Cheque

D) None of the above

Faculty: Akansha Misra
Shampamisra19@gmail.com

Answer: A) Bill of exchange

Q-7 When a negotiable instrument is discharged, it means:

A) The instrument is canceled and no longer valid

B) The instrument is transferred to another party

C) The obligation under the instrument is fulfilled

D) The instrument is dishonored

Answer: C) The obligation under the instrument is fulfilled

Q-8 Who is a holder in due course?

A) Any person who holds a negotiable instrument

B) A person who receives the instrument after it has been dishonored

C) A person who acquires the instrument for value, in good faith, and without notice of defects

D) A person who holds the instrument but has no intention to enforce it

Answer: C) A person who acquires the instrument for value, in good faith, and without notice of defects

Q-9 Payment in due course refers to:

A) Payment made according to the terms of the instrument, to a holder in due course, and in good faith

B) Payment made before the due date

C) Payment made after the instrument has been dishonored

D) Payment made to any person holding the instrument

Faculty: Akansha Misra
Shampamisra19@gmail.com

Answer: A) Payment made according to the terms of the instrument, to a holder in due course, and in good faith

Q-10 What penalty is prescribed in case of dishonor of certain cheques for insufficiency of funds?

A) Imprisonment up to one year or a fine or both

B) Fine equivalent to the amount of the cheque

C) Double the amount of the cheque

D) Triple the amount of the cheque

Answer: A) Imprisonment up to one year or a fine or both

Q-11The Negotiable Instruments Act, 1881, applies to which of the following instruments?

A) Only promissory notes

B) Only bills of exchange

C) Only cheques

D) Promissory notes, bills of exchange, and cheques

Answer: D) Promissory notes, bills of exchange, and cheques

Q-11 Which of the following is not a characteristic of promissory notes?

A) Unconditional promise to pay

B) Signed by the maker

C) Payable to a specified person or order

D) Drawn by the drawee

Answer: D) Drawn by the drawee

Faculty: Akansha Misra
Shampamisra19@gmail.com

Q-12 The person who signs the promissory note is known as the:

A) Payee

B) Drawer

C) Maker

D) Endorser

Answer: C) Maker

Q-13 A bill of exchange must be accepted by the:

A) Drawer

B) Payee

C) Drawee

D) Endorser

Answer: C) Drawee

Q-14 Crossing of a cheque can be done by:

A) The drawer only

B) The drawer or the payee

C) The drawee bank only

D) The payee only

Answer: B) The drawer or the payee

Q-15 Which of the following is not a type of crossing of cheques?

A) General crossing

B) Special crossing

Faculty: Akansha Misra
Shampamisra19@gmail.com

C) Double crossing

D) Triple crossing

Answer: D) Triple crossing

Q-16 A demand draft is issued by:

A) The payer bank

B) The payee bank

C) The drawer bank

D) The drawee bank

Answer: C) The drawer bank

Q-17 When a negotiable instrument is dishonored, it means:

A) The instrument is transferred to another party

B) The obligation under the instrument is fulfilled

C) The instrument is not honored by the drawee

D) The instrument is discharged

Answer: C) The instrument is not honored by the drawee

Q-18 A holder in due course is entitled to:

A) Enforce payment of the instrument

B) Cancel the instrument

C) Endorse the instrument

D) Discharge the instrument

Answer: A) Enforce payment of the instrument

Faculty: Akansha Misra
Shampamisra19@gmail.com

Q-19 Payment in due course protects the payer from:

A) Legal consequences

B) Criminal charges

C) Civil liabilities

D) All of the above

Answer: D) All of the above

Q-20 In case of dishonor of a cheque due to insufficiency of funds, the drawer is liable to pay:

A) The amount of the cheque only

B) Double the amount of the cheque

C) Triple the amount of the cheque

D) Both the amount of the cheque and penalty as prescribed

Answer: D) Both the amount of the cheque and penalty as prescribed

Q-21 How many parties are involved in a promissory note?

1. One
2. Two
3. Three
4. Four

Answer

Option 2 : Two

Q-22 Negotiable instrument means-

1. a promissory note
2. Bill of exchange
3. Payable Cheque

Faculty: Akansha Misra
Shampamisra19@gmail.com

4. All of them

Answer
Option 4 : All of them

Q-23 Where the endorser signs his name on the back of the instrument only, the endorsement is said to be:

1. In full
2. In blank
3. Facultative endorsement
4. Conditional endorsement

Answer
Option 2 : In blank

Q-24 Which of the following section of Negotiable Instrument Act, 1881 describes about "Cheque"?

1. Section 4
2. Section 5
3. Section 7
4. Section 6
5. Section 8

Answer
Option 4 : Section 6

Q-26 How many chapters and sections do the Negotiable Instruments (NI) Act have?

1. 25, 178
2. 13, 121
3. 17, 148
4. 121, 19

Answer
Option 3 : 17, 148

Faculty: Akansha Misra
Shampamisra19@gmail.com

Q-27 Which of the following is not a negotiable instrument under the Negotiable Instruments Act, 1881?

a) Promissory Note

b) Bill of Exchange

c) Cheque

d) Demand Draft

Answer: c) Cheque

Q-28 A promissory note is defined under which section of the Negotiable Instruments Act, 1881?

a) Section 4

b) Section 5

c) Section 6

d) Section 7

Answer: b) Section 4

Q-29 A bill of exchange is drawn by:

a) Creditor

b) Debtor

c) Drawee

d) Banker

Answer: a) Creditor

Q-30 The maximum maturity period for a promissory note is:

a) 6 months

b) 12 months

c) 18 months

Faculty: Akansha Misra
Shampamisra19@gmail.com

d) 24 months

Answer: b) 12 months

Q-31 A bill of exchange drawn upon itself is known as:

a) Inland Bill

b) Foreign Bill

c) Accommodation Bill

d) Clean Bill

Answer: c) Accommodation Bill

Q-32 Who is the maker of a promissory note?

a) Payee

b) Drawer

c) Acceptor

d) Maker

Answer: d) Maker

Q-33 Endorsement of a negotiable instrument is governed by which section of the Negotiable Instruments Act, 1881?

a) Section 15

b) Section 16

c) Section 17

d) Section 18

Answer: c) Section 17

Q-34 A cheque is payable on demand, so it is generally valid for:

a) 6 months

b) 3 months

c) 1 month

d) 12 months

Answer: b) 3 months

Q-35 Which of the following is not a party to a promissory note?

a) Payee

b) Drawer

c) Maker

d) Endorser

Answer: b) Drawer

Q-36 Crossing of a cheque is defined under which section of the Negotiable Instruments Act, 1881?

a) Section 124

b) Section 125

c) Section 126

d) Section 127

Answer: c) Section 126

Q-37 Which of the following is not a feature of a negotiable instrument?

a) Right to Sue

b) Transferability

c) At par payment

d) Conditional Payment

Answer: d) Conditional Payment

Faculty: Akansha Misra
Shampamisra19@gmail.com

Q-38 A promissory note is not valid without:

a) Delivery

b) Acceptance

c) Consideration

d) Endorsement

Answer: a) Delivery

Q-39 A bill of exchange must be:

a) Dated

b) Signed by the maker

c) Stamped

d) Delivered

Answer: b) Signed by the maker

Q-40 Who is the payee in a promissory note?

a) The person who makes the note

b) The person to whom the note is made payable

c) The person who endorses the note

d) The banker

Answer: b) The person to whom the note is made payable

Q-41 Which of the following instruments cannot be crossed?

a) Cheque

b) Bill of Exchange

c) Promissory Note

d) Demand Draft

Answer: c) Promissory Note

Faculty: Akansha Misra
Shampamisra19@gmail.com

Q-42 Which section of the Negotiable Instruments Act, 1881 deals with the dishonor of cheque for insufficiency of funds?

a) Section 138

b) Section 139

c) Section 140

d) Section 141

Answer: a) Section 138

Q-43 The person who signs the promissory note is known as:

a) Drawer

b) Payee

c) Maker

d) Endorser

Answer: c) Maker

Q-44 A cheque which is payable to a specific person and is not transferable is known as:

a) Order Cheque

b) Bearer Cheque

c) Crossed Cheque

d) Restrictive Cheque

Answer: d) Restrictive Cheque

Q-45 Who is the drawee in a bill of exchange?

a) The person to whom the money is to be paid

b) The person who makes the bill

c) The person who accepts the bill

Faculty: Akansha Misra
Shampamisra19@gmail.com

d) The person on whom the bill is drawn

Answer: d) The person on whom the bill is drawn

Q-46 The maturity period of a bill of exchange is calculated from:

a) The date of acceptance

b) The date of making

c) The date of endorsement

d) The date of delivery

Answer: b) The date of making

Q-47 Which of the following is not a type of negotiable instrument?

a) Cheque

b) Hundi

c) Demand Draft

d) Invoice

Answer: d) Invoice

Q-48 A hundi is primarily used in which country?

a) India

b) China

c) Japan

d) Indonesia

Answer: a) India

Q-49 Crossing of a cheque is done primarily to:

a) Protect the payee

b) Ensure the genuineness of the cheque

c) Enable multiple endorsements

Faculty: Akansha Misra
Shampamisra19@gmail.com

d) Enhance the negotiability of the cheque

Answer: b) Ensure the genuineness of the cheque

Q-50 A cheque crossed generally "Account Payee Only" means:

a) The cheque can be encashed only at the issuing bank

b) The payee's account will be credited directly

c) The cheque cannot be further negotiated

d) The cheque is payable to bearer

Answer: c) The cheque cannot be further negotiated

Q-51 Which of the following is true about a hundi?

a) It requires stamp duty as per the Stamp Act

b) It is always payable on demand

c) It is drawn by the debtor

d) It is a type of promissory note

Answer: a) It requires stamp duty as per the Stamp Act

Q-52 A cheque is defined under which section of the Negotiable Instruments Act, 1881?

a) Section 5

b) Section 6

c) Section 13

d) Section 138

Answer: b) Section 6

Q-53 A hundi is a:

a) Written order to pay money

b) Promise to pay money

Faculty: Akansha Misra
Shampamisra19@gmail.com

c) Bill of exchange

d) Order to receive money

Answer: c) Bill of exchange

Q-54 Which type of crossing implies that the payment must be made only to the banker?

a) General crossing

b) Special crossing

c) Not negotiable crossing

d) Restrictive crossing

Answer: b) Special crossing

Q-55 In a crossed cheque, the two parallel lines are drawn:

a) On the face of the cheque

b) On the back of the cheque

c) Above the payee's name

d) Below the payee's name

Answer: a) On the face of the cheque

Q-56 A crossed cheque cannot be encashed over the counter but must be deposited into a:

a) Current account

b) Savings account

c) Fixed deposit account

d) Recurring deposit account

Answer: a) Current account

Faculty: Akansha Misra
Shampamisra19@gmail.com

Q-57 The Negotiable Instruments Act, 1881 does not apply to which of the following?

a) Cheques

b) Drafts

c) Hundi

d) Gift vouchers

Answer: d) Gift vouchers

Q-58 Which of the following is not a type of crossing of a cheque?

a) General crossing

b) Special crossing

c) Blank crossing

d) Restrictive crossing

Answer: c) Blank crossing

Q-59 A crossed cheque provides greater security compared to an uncrossed cheque because:

a) It requires two signatures to be valid

b) It can only be paid into a bank account

c) It can be encashed at any bank branch

d) It cannot be cancelled once issued

Answer: b) It can only be paid into a bank account

Q-60 Hundi is mainly used in commercial transactions for:

a) International trade

b) Domestic trade

c) Personal loans

d) Real estate transactions

Faculty: Akansha Misra
Shampamisra19@gmail.com

Answer: b) Domestic trade

Q-61 The crossing of a cheque is usually done using which color ink?

a) Blue

b) Black

c) Red

d) Green

Answer: a) Blue

Q-62 In a cheque, the drawer is also known as the:

a) Payee

b) Maker

c) Drawee

d) Endorser

Answer: b) Maker

Q-63 Which of the following statements regarding a crossed cheque is true?

a) It can be encashed over the counter at any bank.

b) It can only be paid to the person named as the payee.

c) It can be endorsed to transfer ownership.

d) It does not require any signature to be valid.

Answer: b) It can only be paid to the person named as the payee.

Q-64 Crossing of a cheque is made by:

a) The drawer

b) The bank

c) The payee

Faculty: Akansha Misra
Shampamisra19@gmail.com

d) The endorser

Answer: a) The drawer

Q-65 A cheque crossed "Not Negotiable" means:

a) It cannot be further negotiated

b) It can be negotiated only once

c) It can be negotiated only by the named payee

d) It can be negotiated without any restrictions

Answer: a) It cannot be further negotiated

Q-66 Which type of crossing restricts payment of the cheque to a specific bank?

a) General crossing

b) Special crossing

c) Not negotiable crossing

d) Restrictive crossing

Answer: b) Special crossing

Q-67 Which of the following is not governed by the Negotiable Instruments Act, 1881?

a) Promissory Note

b) Bill of Exchange

c) Cheque

d) Money Order

Answer: d) Money Order

Q-68 A promissory note is defined under which section of the Negotiable Instruments Act, 1881?

a) Section 3

b) Section 4

Faculty: Akansha Misra
Shampamisra19@gmail.com

c) Section 5

d) Section 6

Answer: b) Section 4

Q-69 A bill of exchange drawn upon oneself is known as:

a) Inland Bill

b) Foreign Bill

c) Accommodation Bill

d) Clean Bill

Answer: c) Accommodation Bill

Q-70 Which section of the Negotiable Instruments Act, 1881 deals with the dishonor of cheque for insufficiency of funds?

a) Section 138

b) Section 139

c) Section 140

d) Section 141

Answer: a) Section 138

Q-71 Who is the payee in a promissory note?

a) The person who makes the note

b) The person to whom the note is made payable

c) The person who endorses the note

d) The banker

Answer: b) The person to whom the note is made payable

Q-72 Crossing of a cheque is defined under which section of the Negotiable Instruments Act, 1881?

Faculty: Akansha Misra
Shampamisra19@gmail.com

a) Section 122

b) Section 123

c) Section 124

d) Section 125

Answer: d) Section 125

Q-73 Which of the following is not a feature of a negotiable instrument?

a) Right to Sue

b) Transferability

c) At par payment

d) Conditional Payment

Answer: d) Conditional Payment

Q-74 A cheque is payable on demand, so it is generally valid for:

a) 6 months

b) 3 months

c) 1 month

d) 12 months

Answer: b) 3 months

Q-75 Who is the drawee in a bill of exchange?

a) The person to whom the money is to be paid

b) The person who makes the bill

c) The person who accepts the bill

d) The person on whom the bill is drawn

Answer: d) The person on whom the bill is drawn

Q-76 A bill of exchange must be:

a) Dated

b) Signed by the maker

c) Stamped

d) Delivered

Answer: b) Signed by the maker

Q-77 Which section of the Negotiable Instruments Act, 1881 deals with presentment for acceptance?

a) Section 60

b) Section 61

c) Section 62

d) Section 63

Answer: c) Section 62

Q-78 In a bill of exchange, the drawer is also known as the:

a) Payee

b) Maker

c) Drawee

d) Endorser

Answer: b) Maker

Q-79 Which of the following is not a party to a promissory note?

a) Payee

b) Drawer

c) Maker

d) Endorser

Answer: b) Drawer

Faculty: Akansha Misra
Shampamisra19@gmail.com

Q-80 The maximum maturity period for a promissory note is:

a) 6 months

b) 12 months

c) 18 months

d) 24 months

Answer: b) 12 months

Q-81 A bill of exchange is drawn by:

a) Creditor

b) Debtor

c) Drawee

d) Banker

Answer: a) Creditor

Q-82 Which section of the Negotiable Instruments Act, 1881 deals with the negotiation of a promissory note, bill of exchange, and cheque?

a) Section 14

b) Section 15

c) Section 16

d) Section 17

Answer: b) Section 15

Q-83 The person who signs the promissory note is known as:

a) Drawer

b) Payee

c) Maker

d) Endorser

Faculty: Akansha Misra
Shampamisra19@gmail.com

Answer: c) Maker

Q-84 Which section of the Negotiable Instruments Act, 1881 deals with the liability of the maker of a promissory note in case of dishonor?

a) Section 111

b) Section 112

c) Section 113

d) Section 114

Answer: d) Section 114

Q-85 A bill of exchange is not valid without:

a) Delivery

b) Acceptance

c) Consideration

d) Endorsement

Answer: b) Acceptance

Q-86 Which type of crossing restricts payment of the cheque to a specific bank?

a) General crossing

b) Special crossing

c) Not negotiable crossing

d) Restrictive crossing

Answer: b) Special crossing

Q-87 Who is considered a holder of a negotiable instrument?

a) Any person in possession of the instrument

b) The person named in the instrument as payee

c) The person who signed the instrument

Faculty: Akansha Misra
Shampamisra19@gmail.com

d) The banker of the payee

Answer: a) Any person in possession of the instrument

Q-88 A holder in due course is someone who:

a) Holds the instrument for a specific period

b) Receives the instrument after it has matured

c) Acquires the instrument for value, in good faith, and without notice of any defects

d) Holds the instrument without consideration

Answer: c) Acquires the instrument for value, in good faith, and without notice of any defects

Q-89 Which section of the Negotiable Instruments Act, 1881 defines a holder in due course?

a) Section 9

b) Section 20

c) Section 26

d) Section 42

Answer: d) Section 42

Q-90 When a holder of a negotiable instrument acquires it after it is dishonored, they are referred to as:

a) Holder in due course

b) Holder for value

c) Holder in possession

d) Holder by negotiation

Answer: b) Holder for value

Faculty: Akansha Misra
Shampamisra19@gmail.com

Q-91 The holder of a dishonored cheque has the right to initiate legal proceedings against:

a) The drawer of the cheque

b) The payee of the cheque

c) The bank of the drawer

d) The endorser of the cheque

Answer: a) The drawer of the cheque

Q-92 Under which section of the Negotiable Instruments Act, 1881, is the drawer liable to compensate the holder in case of dishonor due to insufficient funds?

a) Section 138

b) Section 139

c) Section 140

d) Section 141

Answer: a) Section 138

Q-93 If a cheque is dishonored due to "Account Closed," the drawer may be liable under which section of the Negotiable Instruments Act, 1881?

a) Section 138

b) Section 139

c) Section 140

d) Section 141

Answer: a) Section 138

Q-94 A holder in due course takes the instrument:

a) Subject to all defects

b) Free from all defects

c) Only if it's fully matured

Faculty: Akansha Misra
Shampamisra19@gmail.com

d) Only if it's endorsed by the drawer

Answer: b) Free from all defects

Q-95 When can a holder be considered as a holder in due course?

a) When the instrument is dishonored

b) When the instrument is endorsed by the drawer

c) When the holder acquires the instrument for value and without notice of any defects

d) When the holder is the payee named in the instrument

Answer: c) When the holder acquires the instrument for value and without notice of any defects

Q-96 The holder of a dishonored cheque can initiate legal proceedings within:

a) 30 days from the date of dishonor

b) 60 days from the date of dishonor

c) 90 days from the date of dishonor

d) 120 days from the date of dishonor

Answer: c) 90 days from the date of dishonor

Q-97 If a cheque is dishonored due to "Refer to Drawer," it means:

a) The drawer's signature is missing or irregular

b) The drawer's account does not have sufficient funds

c) The cheque is post-dated

d) The cheque is stale

Answer: a) The drawer's signature is missing or irregular

Q-98 A holder in due course can sue:

a) Only the drawer of the cheque

Faculty: Akansha Misra
Shampamisra19@gmail.com

b) Both the drawer and the endorser of the cheque

c) Only the endorser of the cheque

d) The bank of the drawer

Answer: a) Only the drawer of the cheque

Q-99 Which of the following is not a requirement for a person to be considered a holder in due course?

a) Acquiring the instrument for value

b) Acquiring the instrument in good faith

c) Acquiring the instrument with notice of defects

d) Acquiring the instrument without notice of defects

Answer: c) Acquiring the instrument with notice of defects

Q-100 In case of dishonor of a cheque, the drawer is generally liable to pay the holder:

a) The face value of the cheque

b) Double the face value of the cheque

c) Triple the face value of the cheque

d) The amount specified in the bank guarantee

Answer: a) The face value of the cheque

Q-101 A holder in due course takes the instrument:

a) Subject to equities

b) Subject to dishonor

c) Free from equities

d) Free from dishonor

Answer: c) Free from equities

Faculty: Akansha Misra
Shampamisra19@gmail.com

Q-102 If a cheque is dishonored due to "Signature Mismatch," it means:

a) The cheque has been forged

b) The drawer's signature does not match the specimen signature with the bank

c) The cheque is stale

d) The cheque is not properly dated

Answer: b) The drawer's signature does not match the specimen signature with the bank

Faculty: Akansha Misra
Shampamisra19@gmail.com