



# PROMISSORY NOTE

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# Meaning

"A Promissory Note is *an instrument in writing*, containing an *unconditional undertaking* by the *maker* to pay a certain *sum of money*, to, or to the order of , a *certain person*, or only to the bearer of the instrument."

- Suppose you take a loan of Rupees Five Thousand from your friend Ramesh. You can make a document stating that you will pay the money to Ramesh or the bearer on demand. Or you can mention in the document that you would like to pay the amount after three months. This document, once signed by you, duly stamped and handed over to Ramesh, becomes a negotiable instrument.
- Now Ramesh can personally present it before you for payment or give this document to some other person to collect money on his behalf. He can endorse it in somebody else's name who in turn can endorse it further till the final payment is made by you to whosoever presents it before you. This type of a document is called a Promissory Note.

# ***Section 4. "Promissory Note"***

- ***Illustrations***

- (a) "I promise to pay b or order Rs. 500."
- (b) "I acknowledge myself to be indebted to B in Rs.1,000, to be paid on demand, for value received."
- (c) "Mr. B, I.O.U. Rs.1,000."
- (d) "I promise to pay B Rs. 500 and to deliver to him my black horse on 1st January next."

The instruments marked (a) and (b) are promissory notes. The instruments marked (c) and (d) are not promissory notes.

Rs. 20,000.



Rangoon, 16<sup>th</sup> December 1926.

On Demand we promise to pay at the Imperial Bank of India, Rangoon, to O. A. K. C. Karuppan <sup>Chelliar</sup> or order, for value received, the sum of Rupees Twenty Thousand only with interest thereon from this date at the rate of 6  $\frac{1}{2}$  per cent per annum.



I. B. I.—RGN. 47.



~~By order of the Cashier~~  
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By his attorney Lechumanan Chelliar

### Promissory Note

I, Jane Monroe, do promise to pay City Finance Co. the sum of \$50,000. Repayment is to be made in the form of 300 equal payments at 6% interest, or \$322.15 payable on the 1st of each month, beginning 8/1/2005 until the total debt is satisfied.

Signed,

Jane Monroe  
7/1/2005

FIG. 152. PROMISSORY NOTE



216, MalkaGanj,  
Delhi-110 007  
5th May, 2012.

₹ 10,000.00 P



Three months after date, we promise to pay M/s Lakhmi Chand & Sons or  
their order a sum of Rupees Ten Thousand Only, for value received.

To  
M/s Lakhmi Chand & Sons,  
126, Chandni Chowk,  
Delhi-11006

For M/s Aggarwal Stores  
(Signed) Nakul Gupta  
(Nakul Gupta)  
Partner

## Specimen Of Promissory Note

Rs.5000/-

New Delhi

September 25, 2010

On demand, I promise to pay Rohit of Delhi or order a sum of Rs. 5000/- (Rupees Five Thousand only), for value received.

To, Rohit

Sd/Rajeev

Address.....

Stamp

[www.fingyan.com](http://www.fingyan.com)



# Parties to a Promissory Note

There are primarily two parties involved in a promissory note. They are

- **i. The Maker or Drawer** – the person who makes the note and promises to pay the amount stated therein. In the above specimen, Rajeev is the maker or drawer.
- **ii. The Payee** – the person to whom the amount is payable. In the above specimen it is Rohit

In course of transfer of a promissory note by payee and others, the parties involved may be -

**a. The Endorser** – the person who endorses the note in favour of another person. In the above specimen if Rohit endorses it in favour of Ranjan and Ranjan also endorses it in favour of Puneet, then Ramesh and Ranjan both are endorser.

**b. The Endorsee** – the person in whose favour the note is negotiated by endorsement. In the above, it is Ranjan and then Puneet.

# Features of a promissory note

- i. A promissory note must be in writing, duly signed by its maker and properly stamped as per Indian Stamp Act.
- ii. It must contain an undertaking or promise to pay. Mere acknowledgement of indebtedness is not enough. For example, if some one writes 'I owe Rs. 5000/- to Satya Prakash', it is not a promissory note.
- iii. The promise to pay must not be conditional. For example, if it is written 'I promise to pay Suresh Rs 5,000/- after my sister's marriage', is not a promissory note.

iv. It must contain a promise to pay money only. For example, if some one writes '**I promise to give Suresh a Maruti car**' it is not a promissory note.

v. The parties to a promissory note, i.e. the maker and the payee must be certain.

vi. A promissory note may be payable on demand or after a certain date. For example, if it is written '**three months after date I promise to pay Satinder or order a sum of rupees Five Thousand only**' it is a promissory note.

vii. The sum payable mentioned must be certain or capable of being made certain. It means that the sum payable may be in figures or may be such that it can be calculated.