



CHEQUES

Negotiable Instruments Act

Module - V

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Cheques

- Cheque is an important negotiable instrument which can be transferred by mere hand delivery. Cheque is used to make safe and convenient payment. It is less risky and the danger of loss is minimised
- "A cheque is a bill of exchange drawn on a specified banker and expressed not to be payable otherwise than on demand" (section 6).

OR

- "Cheque is an instrument in writing containing an unconditional order, addressed to a banker, sign by the person who has deposited money with the banker, requiring him to pay on demand a certain sum of money only to or to the order of certain person or to the bearer of instrument."

- **Cheque:** A cheque in the electronic form" means a cheque which contains the exact mirror image of a paper cheque, and is generated, written and signed in a secure system ensuring the minimum safety standards with the use of digital signature (with or without biometrics signature) and asymmetric crypto system.

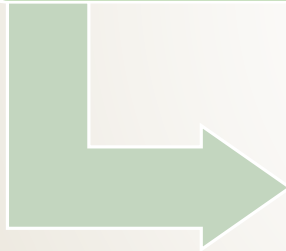
The image shows a sample of an electronic cheque form. The form is titled "Pay" and includes the following fields:

- Pay to:** Mr. Chand
- Date:** 10-11-2008
- Payable to:** Or Bearer
- Amount in Words:** Rupees Fifty Thousand Only
- Amount in Figures:** 50,000/-
- AC No.:** 2010000390
- LF No.:** 1/127
- Bank Name:** Syndicate Bank, NFC, New Delhi
- Signature:** M. C. S. D.
- QR Code:** 112112011
- Serial Number:** 110017222

Parties to Cheque

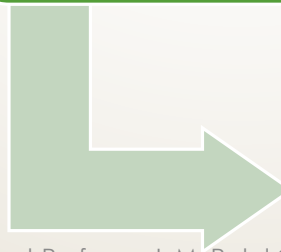
DRAWER

- The person who makes the cheque



DRAWEE

- the banker



PAYEE

- in whose favour the cheque is drawn



CROSSING OF CHEQUES

- The bank allows a customer to withdraw his money from his account on demand. However, the customer has to give his order in writing through a printed cheque issued by the bank.
- Cheques may be open cheques or crossed cheques. The banker is obliged to pay depending on the type of cheque. Certain cheques can be handed over at the counter, and money can be received immediately.
- Other cheques can be more complex in nature. A cheque must be in writing with an express order to pay another party. It should be definite and unconditional order.



Open or Uncrossed Cheques

- An open or uncrossed cheque is the one for which the banker has to pay cash across the counter, when it is presented by the customer.
- An open cheque is risky because, if the holder of the cheque loses it, any person, who is in possession of it, can take the payment from the bank.
- The payment of such cheques can be stopped by the drawer by writing a letter to the banker regarding loss of cheque.
- To make cheques secure and useful, crossing of cheques was adopted.



Illustration

- Sanjay gave a cheque to Mitra for Rs.12500/- on purchasing 50 metres of silk cloth. He did not cross the cheque. Mitra was traveling in a bus and a pick pocket took away his possessions and cashed the cheque over the counter at a bank. It was an open bearer cheque. Sanjay has suffered a loss. Can Sanjay recover the money?
- Since the cheque was not crossed, he was not protected. He cannot recover the amount

Types of Crossing





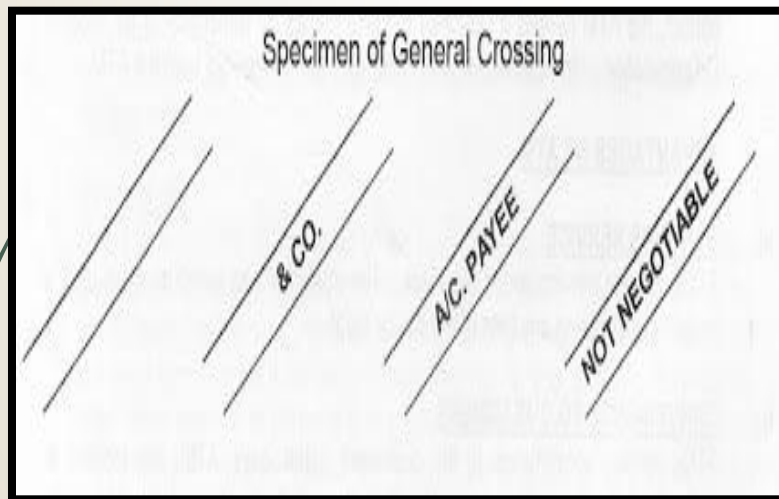
General Crossing

- According to Section 123 of the Banking Regulation Act, 1949, a general crossing on a cheque can be made by inserting two parallel lines on the left hand top corner of a cheque.
- The two lines themselves show that the cheque has to be treated in a special way because something, in addition to an uncrossed cheque, has been inserted.
- Between the two parallel transverse lines the options are to add certain words like --- '**and company**', '**& company**' or '**not negotiable**'.



Illustration

- Shiv draws a cheque of Rs. 9,500 in favour of Minu as full and final payment of his debt. He crosses the cheque by adding the words '**& company**'. Can Minu take the money from the counter in the bank by signing her name?
- This is a crossed cheque. Minu is required to deposit this cheque in her bank account to get the money.
- The amount will be credited in Minu's account.

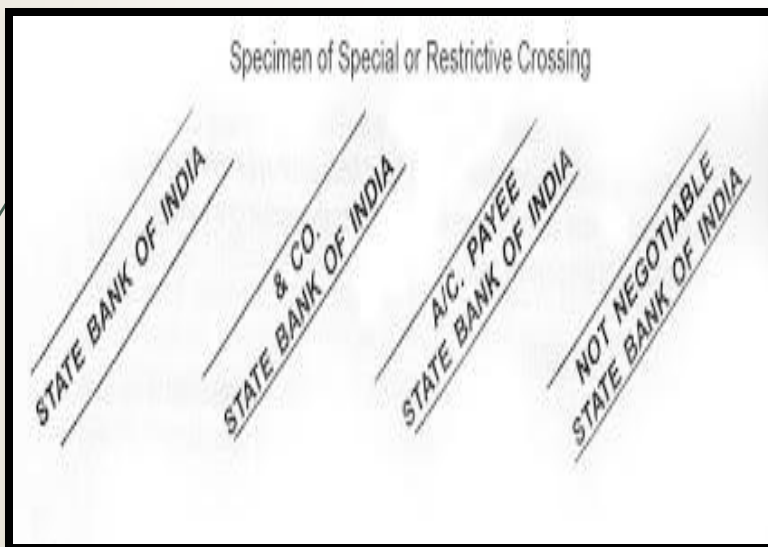




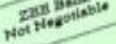
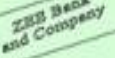

| Types of General Crossing | Specimen |
|---|----------|
| <ul style="list-style-type: none"> Two parallel transverse lines on cheque. | |
| <ul style="list-style-type: none"> 'And company' between two parallel lines. | |
| <ul style="list-style-type: none"> '& Co.' between two parallel lines. | |
| <ul style="list-style-type: none"> 'Not Negotiable' between two transverse parallel lines. | |
| <ul style="list-style-type: none"> 'and company Not Negotiable' crossing between two parallel lines. | |
| <ul style="list-style-type: none"> '& Co. not Negotiable' written between two parallel lines. | |





Special Crossing

- A special crossing was introduced to provide greater protection to the drawer of the cheque. According to Section 124, “a cheque is deemed to be specially crossed when in the parallel transverse lines in a cheque the name of the banker is written with or without the words ‘not negotiable’”.
- Even two parallel transverse lines are not necessary for a special crossing.
- When a cheque is specially crossed, cash can be received only from the banker, whose name appears on the face of the cheque with or without the parallel lines (Section 126).



| Types of Special Crossing | Specimen |
|---|---|
| Name of the bank without parallel lines. |  |
| Name of the bank between two parallel lines. |  |
| Name of the bank with the words 'not negotiable' between two parallel lines. |  |
| Name of the bank with the words 'and Company' between two parallel lines. |  |
| Name of a bank with the words 'not negotiable' as well as '& Co.' written between two parallel lines. |  |

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- The payment of such cheque is not made unless the bank named in crossing is presenting the cheque. The effect of special crossing is that the bank makes payment only to the banker whose name is written in the crossing.
 - Specially crossed cheques are more safe than a generally crossed cheques.