

NEGOTIABLE INSTRUMENTS ACT, 1881 &

BANKING TRANSACTIONS

Chapter 12 Module A PPB By Ashish Sir


◆ Banker's Duty in Payment of Cheques

A banker **must** pay a cheque drawn by its customer if:

- #1 ✓ The cheque is properly drawn and follows legal requirements.
- #2 ✓ Sufficient funds are available in the account.
- #3 ✓ There is no legal restraint on payment.

💡 Example:

✂ Mr. Rajesh issues a cheque for ₹50,000 to XYZ Traders. His account has ₹60,000, and there is no legal restriction.  The bank must honor the cheque.

✂ However, if Rajesh's account has only ₹30,000,  the bank can refuse payment due to insufficient funds.

📖 Negotiable Instruments Act, 1881 (NIA)

PN, B/E / cheques

The **Negotiable Instruments Act (NIA), 1881** governs instruments used in commercial transactions:

1 Promissory Notes 

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2 Bills of Exchange 🏦

3 Cheques 📄

(i) Cheque (Sec. 6) ✓

Definition: "A cheque is a bill of exchange drawn on a specified banker, payable on demand."

✓ Types of Cheques

Type	Explanation
#1 Paper Cheque	Traditional cheque issued physically.
#2 Electronic Cheque	Created & signed digitally via a secure system.
#3 Truncated Cheque	A cheque converted into an <u>electronic image</u> during clearing, eliminating physical movement.

🔦 Example: *drawee* → *Payee*

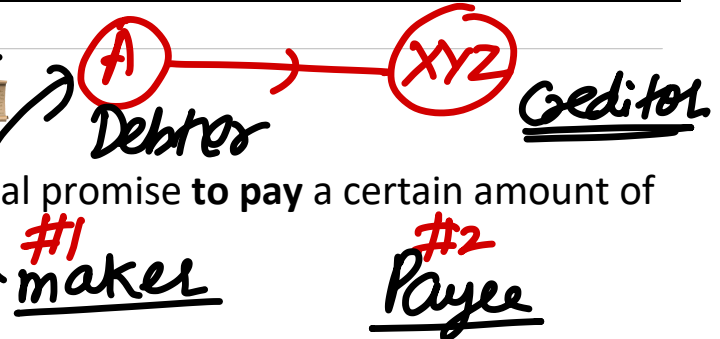
📌 Rahul writes a cheque to Amit, and the cheque is cleared digitally through CTS (Cheque Truncation System) instead of physical processing. 📄 ✓

Boorcher

Unconditional promise

(ii) Promissory Note (Sec. 4)

Definition: A written, unconditional promise to pay a certain amount of money to a specific person.



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✓ Example of a Valid Promissory Note:

✂ "I promise to pay Mr. Ramesh ₹10,000 on demand." – Signed by

Suresh ✓

Unconditional promise / defined Amt

✗ Invalid Promissory Notes:

- α 1. "I promise to pay ₹5,000 if I win the lottery." ❌ (Conditional)
- α 2. "I promise to pay ₹8,000 and also give you my car." ❌ (Not a fixed sum of money)

📖 (iii) Bill of Exchange (Sec. 5) 🏦 *3 parties → drawer, drawee, payee*

Definition: A written instrument ordering a third party to pay a specific sum to a person or bearer.

USance B/E → Credit period

✓ Example:

demand B/E → No credit period

✂ Exporter (X Ltd.) sells goods worth ₹5,00,000 to Importer (Y Ltd.)

and issues a **Bill of Exchange** instructing Y Ltd. to pay the amount in 90 days. ✓

📖 (iv) Drawee & Drawer ✍

✂ Term	💡 Meaning
✍ Drawer	The person who writes (issues) the cheque or bill.
💰 Drawee	The bank or party instructed to pay.

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drawer
 Example:
 Neha issues a cheque to Priya. Here,

payee

- Neha = Drawer
- Bank = Drawee
- Priya = Payee

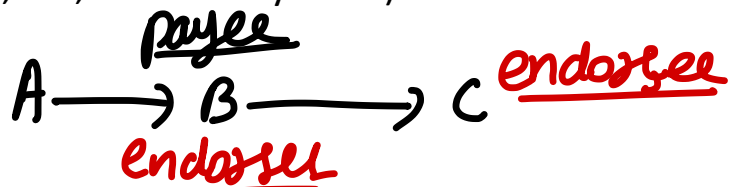
(v) Holder vs. Holder in Due Course

Term	Meaning
Holder	Person legally entitled to the cheque/note.
Holder in Due Course (HDC)	Holder who receives the instrument in good faith & for value.

Example: Ajay receives a signed cheque from Vikas, but later finds out it was forged. Since Ajay had knowledge of the forgery, he is not a Holder in Due Course.

(vi) Negotiation of a Negotiable Instrument

A negotiable instrument (Cheque, Bill, Promissory Note) is transferred to another party.



Methods of Negotiation:

- Endorsement & Delivery – A payee signs & delivers the cheque.
- Delivery Only – For a bearer cheque, simple handover is enough.

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💡 Example:

📌 Mr. Sharma receives a cheque payable to bearer and gives it to his son. ✅ His son can encash it directly without endorsement.



📌 Summary – Negotiable Instruments & Banking Responsibilities

📖 Concept	📌 Explanation
✅ Banker's Obligation	Must honor a valid cheque if funds exist & no legal restrictions apply.
📖 Negotiable Instruments	Includes Promissory Notes, Bills of Exchange, & Cheques.
📄 Cheque (Sec. 6) 3	Payable on demand; can be <i>drawee, drawee, payee</i> electronic or truncated.
📄 Promissory Note (Sec. 4) 2 <i>mateer-payee</i>	Unconditional promise to pay a fixed amount.
💰 Bill of Exchange (Sec. 5) 3	Order for a third party to pay a specific sum.
👉 Drawer & 💰 Drawee	Drawer writes the cheque, Drawee (Bank) pays.
👉 <u>Holder & HDC</u>	Holder in Due Course enjoys strong legal protection. <i>→ possession must</i>
🔄 Negotiation	Transfer of instruments via endorsement/delivery.

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Payment of a Cheque – A Banker’s Responsibility

When a banker pays a cheque, they must **carefully verify** several key aspects to ensure **safe and legal** transactions. Let’s go through the essential checks!  

1 Verifying the Branch

✓ Normally, a cheque is presented at the **branch where the account is maintained**.

✓ With **Core Banking Systems (CBS)**, banks now allow **anywhere banking**, meaning a cheque can be presented at **any branch** of the same bank.

 **Example:**

 **Amit has an account at SBI - Mumbai branch**, but presents a cheque for withdrawal at **SBI - Delhi branch**.  **CBS allows payment!**

2 Checking the Date







A cheque can be:

Undated → α [inchoate]

Post-dated →

Ante-dated →

PDC

Type	Meaning	Payable?
 Current Dated	Today’s date	 Yes
 Post-Dated	Future date	 No
 Stale Cheque	<u>More than 3 months old</u>	 No

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💡 **Example:**

📌 Ravi issues a cheque dated 10 April 2024. If presented on **15 July 2024**, it **becomes stale and is not payable.** 🚫

📌 If a **post-dated cheque** is presented before the date, the bank **cannot process it due to risks like stop payment instructions or death of the drawer.**

📌 **3 Payee Verification** 👤👤

✓ A cheque can be issued to:

1 **Single Payee** – Paid only to the person named.

2 **Joint Payees** (X and Y) – Paid to **both jointly**.

3 **Alternative Payees** (X or Y) – Paid to **either person**.

4 **Bearer Cheque** – Can be encashed by **anyone** who presents it.

5 **"X only" Cheque** – Can be encashed **only by X**.

6 **Company Cheque** – Must be credited to the company's account, **not to an individual**.

💡 **Example:**

📌 If a cheque is written as **"Pay to Rahul and Anjali"**, it **must** be paid **only if both** are present. 🧑🧑



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✦ If written as "Pay to Rahul or Anjali", either one can withdraw the amount. ✓

NI Chapter 12 PPB Part-II

✦ 4 Order Cheque vs. Bearer Cheque

(ID) mandatory

Cheque Type	Payment Conditions
 Order Cheque	Requires endorsement from payee; identity verification needed.
 Bearer Cheque	No endorsement needed; anyone can encash it.

💡 Example:

✦ Mr. Gupta presents a bearer cheque at the bank. Since it's a bearer cheque, he does not need any ID. ✓

✦ Ms. Pooja presents an order cheque. The bank asks for ID proof before making the payment. ID

✦ 5 Amount in Words & Figures 

✓ The amount **must match** in words and figures.

✓ If there's a mismatch, the amount in **words** is **final** (as per Sec. 18, NIA).

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💡 Example:

📌 Cheque reads: "₹10,000" in figures but "Ten Thousand Five Hundred" in words. ~~✗ Bank will reject the cheque!~~

📌 6 Crossed Cheques ✗ 



✓ Crossed cheques must be deposited into a bank account, not encashed directly.

✓ A cheque **without crossing** can be encashed at the counter.

💡 Example: 📌 A cheque with "A/C Payee Only" can only be deposited in the named payee's account. 🚫 No cash withdrawal allowed!

📌 7 Endorsements & Alterations ✗

✓ Endorsements (signing on the back) must be proper.

✓ Any **material alteration** (date, amount, payee name) **must be authenticated** with the drawer's full signature.

💡 Example: 📌 If Rohan alters the date on a cheque, but does not sign next to the change, the cheque will be rejected. 🚫

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📌 8 Mutilation & Damage 📌

✓ A **torn cheque** may be accepted if the drawer confirms its validity.

✓ If a collecting bank **accidentally tears** a cheque, it must **guarantee the mutilation** by endorsing "Mutilation Guaranteed".

💡 **Example:** 📌 Mr. Sharma accidentally tears his cheque while taking it out of his wallet. He **confirms it to the bank**, and since all details are visible, **the cheque is processed.** ✓

📌 9 Signature of the Drawer 📌

✓ The **drawer's signature** must match the bank's records.

✓ **A forged signature = No mandate to pay!**

💡 **Example:**

📌 **Fake signature on a cheque?** The bank **cannot** process it and must return it unpaid. ✗

📌 **Case Law: Canara Bank vs Canara Sales Corporation (1987)**

Supreme Court ruling – **If the drawer's signature is forged, the bank has no mandate to pay, and it cannot debit the customer's account.**



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📌 10 Stop Payment Instructions 🚫📄 Countermanding

- ✓ If the drawer gives a stop-payment instruction, the bank must not process the cheque.
- ✓ For joint accounts, any one of the holders can request a stop payment.
- ✓ For partnership firms, all partners must agree to cancel a stop payment.

💡 Example: 📌 Rahul writes a cheque for ₹20,000 but later realizes he made an error. He calls the bank to stop the payment. 🛑 Bank will return the cheque unpaid.

📌 11 Checking for Legal Attachments 📄⚖️

✓ The bank must ensure:

✓ Sufficient balance is available.

✓ No legal orders (e.g., Garnishee Orders, Income Tax Attachment Orders) prevent payment.

✓ No notices of death, insolvency, or insanity of drawer have been received.

Garnishee
order

Attachment order

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💡 **Example:** 📌 If Mr. Ramesh's account has an **Income Tax Department attachment order**, the bank **cannot** honor any cheque from that account. 🚫

📌 Summary Table – Cheque Payment Guidelines ✅

Aspect to Check	Explanation
📌 Branch of Presentation	Should match the account branch unless Core Banking System (CBS) is used.
📅 Date	Post-dated & stale cheques cannot be paid.
👥 Payee	Joint payees must sign together; alternative payees can encash individually.
📄 Amount in Words & Figures	If they differ, amount in words is considered final.
✕ Crossed Cheques	Must be deposited into an account , not withdrawn.
📄 Endorsements	Must be proper ; any alteration requires drawer's signature .
🛑 Stop Payment	If requested, the cheque must not be processed .
⚖️ Legal Attachments	If any legal order is in place, cheque payment must be stopped .

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Payment in Due Course (Sec. 10) & Liability of Paying Bank (Sec. 31)






What is Payment in Due Course? (Sec. 10)

A banker gets **legal protection** if the cheque payment is made "in due course", as per **Sec. 10 of the Negotiable Instruments Act (NIA), 1881.**

Definition:

"Payment in due course" means payment **as per the apparent tenor** of the instrument, in **good faith** and **without negligence**, to a person **entitled** to receive the payment.

Key Elements of Payment in Due Course:

Element 	<u>Sec 10 PDC</u> Meaning
 Apparent Tenor	Payment must follow the cheque details (date, payee name, amount in words & figures, crossings, etc.).
 Good Faith & No Negligence	The banker must act honestly & carefully . Any negligence (e.g., crediting an account without verifying details) removes protection.
 Payment to Holder in Due Course	Payment must be made to the rightful holder of the cheque.
 Entitled to Receive Payment	No reason should exist to doubt the payee's legal right to receive payment.

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💡 Example of Good Faith in Payment 🏦:

📌 If a customer deposits ₹50,000 but mistakenly writes the wrong A/C number, the banker must verify details before crediting the wrong account. Failing to do so = Negligence, no protection ❌.

📌 Case Law Example: *Pranendu Mohan Das vs. Central Bank of India* (1978) 🏛️

A customer accused a bank of paying a forged cheque despite his stop payment request. The court ruled in favor of the bank as it had acted diligently, ensuring due verification before payment. ✅

payment in due course

📌 Liability of Paying Banker (Sec. 31) ⚖️

The drawee bank (the bank where the cheque is presented) must honor a cheque if:

- ✓ Sufficient funds are available.
- ✓ No legal restrictions exist (e.g., stop payment, garnishee orders).

📌 If a bank wrongly dishonors a cheque, it must compensate the customer for any financial loss or damage. 💰

🚫 When Funds are NOT Properly Applicable for Payment

A cheque cannot be honored in the following cases:

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	Reason ✗	Description
#1	🔴 Stop Payment Order	Customer instructs the bank not to pay a specific cheque.
#2	🔴 Death of Drawer	If a bank receives official notification of the account holder's death , payments must be stopped.
#3	⚖️ Garnishee Order	If a court freezes the account , no cheque payments can be made.
#4	🏦 Earmarked Funds	Funds kept aside for specific purposes cannot be used for cheque payment.
#5	💰 Bank's Set-Off Rights	If the account holder owes money to the bank , the bank can use funds to settle dues instead of honoring cheques.

→ end of Banker - Customer relationship
(imp)
Debtor - creditor | Creditor - debtor

💡 **Example:** 📌 Mr. Sharma issues a cheque for ₹10,000, but the Income Tax Department attaches his account for ₹50,000 dues. The bank cannot clear the cheque as funds are **legally blocked**. ✗

📌
Protections Available to Paying Banker
🏦

1 Protection in Case of Forged Endorsements in Order Cheques (Sec.

85(1))

Paying bank → Regularity

✓ If a cheque is **payable to order**, the bank is protected if it verifies that:

To check genuineness of endorsement [Collecting Bank]

#1 ✓ The cheque is endorsed correctly. [Regular]

#2 ✓ Payment is made in **due course** (Sec. 10).

💡 Example:

📌 If A's cheque (payable to B) is fraudulently endorsed by C, the bank is **protected** if it followed due diligence.

#

2 Protection in Case of Forged Endorsements in Bearer Cheques (Sec. 85(2))

✓ A **bearer cheque** can be cashed by **anyone who presents it**, no endorsement is required.

✓ The bank is **not liable** for any **forged endorsements** on a **bearer cheque**.

💡 Example:

📌 Suresh finds a lost bearer cheque & cashes it. Even if the cheque was originally issued to Ramesh, the bank is not liable since it was a bearer cheque. ✓

#imp

3 Protection for Forged Endorsements in Bank Drafts (Sec. 85A)

✓ A bank issuing a **demand draft** is **protected** if the draft seems **regularly endorsed** and paid in **due course**.

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💡 Example:

📌 Bank issues a draft payable to "XYZ Ltd." If fraudsters forge XYZ Ltd.'s signature, but the bank paid as per usual process, it is not liable.

#imp

4 Protection Against Material Alteration (Sec. 89)

✓ If a cheque appears regular but contains a hidden alteration, the bank is protected if it pays as per original instructions.

● Cheque alterations NOT allowed under CTS (Cheque Truncation System):

✗ Changing the payee name. #1

✗ Modifying the amount. #2

✗ Altering the cheque date. #3

💡 Example: 📌 Cheque for ₹10,000 is altered to ₹90,000, but the alteration is not visible. Bank pays ₹90,000. The bank is not liable if it acted in due course. ✓

#imp

5 Protection for Crossed Cheques (Sec. 128 & 129) ✗ 🏦

✓ If a cheque is crossed, the bank must pay only to another bank, not to an individual.

↳ No OTC payments

✓ If the bank mistakenly pays a crossed cheque to an individual, it loses protection.

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💡 **Example:** 📌 Mr. X issues a cheque crossed "A/C Payee Only" to Mr.

Y. If the bank **mistakenly allows cash withdrawal**, it is liable for the loss. ❌

📌 Bank pays a crossed cheque to ABC Bank for collection – Payment is valid. ✅

📌 Summary Table – Paying Banker's Liability & Protection ✅

Protection 📖	When It Applies? ✅	Example 📌
Forgery in Order Cheques (Sec. 85(1))	If payment is made to an apparent endorsee in due course .	Rohan endorses Ajay's cheque to Deepak (but forgery). Bank is protected if process followed.
Forgery in Bearer Cheques (Sec. 85(2))	If cheque is payable to bearer , no endorsement check needed.	"Pay ₹5,000 to bearer" cheque is lost & encashed. Bank is not liable.
Forgery in Drafts (Sec. 85A)	If the draft appears to be correctly endorsed & paid in due course.	Demand draft forged but bank followed process – No liability.
Material Alteration (Sec. 89)	If the cheque appears normal but was altered later.	₹1,000 cheque altered to ₹10,000. Bank not liable if unaware.

Endorsements Regularity

#1

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Payment of Crossed Cheque (Sec. 128)	Must be paid only to a bank.	Crossed cheque cashed by an individual = Bank is liable.
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CH-12 Part 3 PPB Module A

Collection of Cheques & Endorsement of Cheques

COLLECTION OF CHEQUES - DUTIES OF A COLLECTING BANK

A **collecting bank** is responsible for collecting **cheques, promissory notes, dividend warrants**, and similar financial instruments on behalf of its customers. The bank must **exercise caution** to ensure that the person depositing the cheque **has a valid title to it.**

Liability of Collecting Banker

If a bank collects a **cheque fraudulently deposited** by someone **without valid title**, it may be **held liable for wrongful conversion** (i.e., illegal interference with another's property).

How a Collecting Banker Gets Protection? (Sec. 131)

A collecting banker is **protected from liability** if the following conditions are met:

Condition ✓	Description
1 The cheque is collected for a customer	KYC (Know Your Customer) norms should be followed to verify identity.

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<p>2 The cheque is crossed</p>	<p>The cheque should be crossed (either generally or specially) before being received by the bank. If the bank itself adds a crossing, this protection does not apply.</p>
<p>3 Bank acts in Good Faith & Without Negligence</p>	<p>The banker should act honestly and diligently, ensuring that the depositor has the right to collect the amount.</p>

#3

Case Law Example:

Syndicate Bank vs. Jaishree Industries and Others (1994 Karnataka 315)

Endorsement

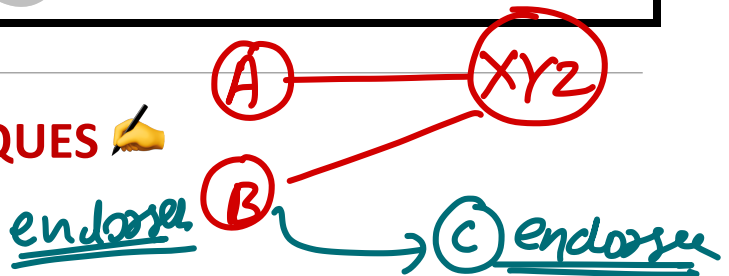
The bank collected a cheque that was fraudulently endorsed. Since it failed to verify the depositor's right, it was held liable [Banks must ensure proper verification before collecting cheques] ✓

Imp

ENDORSEMENT OF CHEQUES

Definition (Sec. 15):

When the holder of a negotiable instrument (e.g., cheque) signs on the back or attaches a slip (allonge) for transferring it to another person, this is called endorsement.



Unlimited

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📌 **Example of Endorsement:** If A issues a cheque to B, and B signs on the back & writes "Pay to C", then C can now deposit or transfer the cheque.

✔️ Kinds of Endorsements (Sec. 15 to 17)

Type 📌	Description 📄	Example 📝
1 Blank Endorsement <i>Converts to bearer</i>	Just a signature without specifying the next payee's name. This makes the cheque payable to bearer (anyone who holds it).	<i>B signs behind the cheque but does not write "Pay to C".</i>
2 Full Endorsement	The endorser writes the payee's name along with a signature. The cheque can now be transferred only to this person.	<i>B writes "Pay to C" & signs. Now, only C can cash it.</i>
3 Conditional Endorsement	The right to payment depends on a condition. <i>Conditional verification is not must</i>	<i>"Pay C if he completes project X."</i>
4 Restrictive Endorsement	The cheque cannot be transferred further beyond a specified person.	<i>"Pay to Nalini Mumbaikar only."</i>
5 Facultative Endorsement	The endorser waives the right to receive notice if the cheque is dishonored.	<i>"Pay to Manorama or order, notice of dishonor waived."</i>

💡 **Real-life Example:** 📌 Mr. X receives a cheque of ₹10,000 from Mr. Y. He writes "Pay to Mr. Z" & signs. Now, only Mr. Z can deposit it. This is a **Full Endorsement**. ✔️

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#1

By Ramesh Guy

Sans Recourse Endorsements

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★ Summary Table – Collection & Endorsement of Cheques ★

Topic 📖	Key Points ✅
#1 Duties of Collecting Banker (Sec. 131) 🏦	<input type="checkbox"/> Collect cheques only for verified customers (KYC). <input type="checkbox"/> <u>Ensure cheques are properly crossed.</u> <input type="checkbox"/> <u>Act in good faith & without negligence.</u>
#2 Liability of Collecting Banker ⚖️	If the bank collects a cheque without verifying the depositor's right , it may be held liable for wrongful conversion .
#3 Types of Endorsements 🖋️	<ul style="list-style-type: none">◆ Blank: Only signature, payable to bearer.◆ Full: Payee's name specified.◆ Conditional: Payment depends on a condition.◆ Restrictive: Cannot be transferred further.◆ Facultative: Endorser waives notice of dishonor.
Example of Endorsement 📄	Mr. A issues a cheque to B. B writes " Pay to C " & signs. Now, only C can deposit it. (Full Endorsement) ✅








Imp 🏦 **CROSSING OF CHEQUES** 🖋️


Crossing a cheque **enhances security** by ensuring that it is credited only to a bank account, preventing unauthorized encashment. **Sections 123 to 131 of the Negotiable Instruments Act (NIA), 1881** govern the rules related to cheque crossing.

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Types of Crossing

Type of Crossing 	Description 	Example 
#1 1 General Crossing	Two parallel transverse lines across the cheque. May contain "& Co." or "Not Negotiable." Ensures payment is made only through a bank. 	A cheque with "&&" drawn across it.
#2 2 Special Crossing	The cheque contains the name of a specific bank in addition to the parallel lines. Must be collected through the specified bank only. 	"Crossed to HDFC Bank" - It must be credited via HDFC only.
#3 3 Not Negotiable Crossing	This <u>removes negotiability</u> , meaning the transferee <u>cannot get a better title</u> than the transferor. 	If Mr. A transfers a cheque with "Not Negotiable" to B, B cannot claim better rights than A.
#4 4 Account Payee Crossing	"A/c Payee Only" ensures that the cheque is <u>credited to the named payee's account.</u> 	If a cheque says "Payee's A/c Only," it must go to that account.

 RBI has mandated that banks should only collect "A/c Payee" cheques for the named payee.

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💡 **Real-Life Example:** 📌 Mr. X issues a cheque to Y for ₹50,000 and crosses it "A/c Payee Only." [Even if someone else gets the cheque, only Y's account can receive the money.] ✓

🔄 Crossing After Issuance of Cheque 🏦

Holder

- A holder can cross an uncrossed cheque (either generally or specially).
- A generally crossed cheque can be converted into a specially crossed cheque by adding the bank's name.
- **Words like "Not Negotiable" can be added later to ensure safety.**

💡 **Example:** 📌 Mr. A receives an uncrossed cheque and decides to cross it for security. He writes "A/c Payee Only" before depositing it in his bank. ✓

⚠️ **FORGED INSTRUMENTS & CHEQUES** 🚫

A **forged cheque** is one where the **drawer's signature, amount, or payee details** are fraudulently altered. **Forgery is not protected under law**, meaning a bank cannot debit a customer's account for a forged cheque.

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🔍 Common Types of Forgery 🔍

Type of Forgery 🔍	Description 📄	Legal Impact ⚖️
#1 1 Forged Signature ✍️	Someone fakes the drawer's signature on the cheque.	<u>No legal liability on the true account holder.</u> The bank must refund the amount.
#2 2 Altering Payee Name 📝	Fraudster changes the payee name after issuance.	The bank is not protected under law for such payments.
#3 3 Modifying Amount 💰	The cheque amount is increased fraudulently.	<u>The payment can be reversed,</u> and the fraudster can be sued.
#4 4 Fake Endorsements 🔄	A cheque is fraudulently endorsed to another party.	If the bank fails to verify endorsements, it loses legal protection.



💡 **Example of Forgery Case:** 📌 A fraudster alters a cheque from ₹5,000 to ₹50,000 and deposits it in his account. If the bank **fails to detect this**, it must **refund the excess amount** to the true owner. ✅

⭐ Summary Table – Cheque Crossing & Forgery ⭐


Topic 📖	Key Points ✅
Cheque Crossing ✍️	◆ General – Two parallel lines, ensures bank payment. ◆ Special – Specific bank name added. ◆ Not Negotiable –

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	Reduces risk of fraud. ♦ Account Payee – Only credited to payee's account.
 <p>Changing Crossing</p>	♦ A cheque can be crossed after issuance for security. ♦ Words " Not Negotiable " can be added later.
 <p>Forgery & Legal Impact</p>	♦ A forged cheque is invalid – banks must refund money if paid. ♦ Altering name, amount, or endorsements is illegal.

BOUNCING (DISHONOUR) OF CHEQUES

A bank is legally required to **dishonour** a cheque if it does not meet the necessary conditions for payment. The bank must also specify the **exact reason** for dishonour to the payee. 

Reasons for Dishonour

♦ **Common Reasons for Cheque Bounce:**

 Reason	 Description
#1 Insufficient Funds	The balance in the account is not enough to cover the cheque amount.
#2 No Arrangement	The drawer has not made any prior arrangement with the bank to honour the cheque.
#3 Exceeds Arrangement	The cheque amount exceeds the <u>agreed limit</u> with the bank.

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#4	Payment Stopped	The drawer has issued a Stop Payment instruction.
#5	Refer to Drawer	The bank asks the payee to contact the drawer for <u>payment</u> .
#6	Closure of Account	The drawer has closed the bank account before cheque presentation. 🚫

◆ Additional Reasons in CTS-Based Clearing:

- #1 ◆ Presented in the Wrong Zone
- #2 ◆ Digital Certification Failure
- #3 ◆ Alterations in Instrument (except Date Field)

💡 **Example:** 📌 *Mr. A issues a cheque to Mr. B for ₹50,000. When B presents it, the bank dishonours it due to "Insufficient Funds."* Mr. B can now take legal action under Section 138 of the Negotiable Instruments Act (NIA). 🚫

⚖️ Dishonour Due to Insufficient Funds – Section 138 ⚖️

If a cheque **bounces** due to **insufficient funds** or exceeding an agreed limit, the drawer is liable for **criminal prosecution** under **Section 138** of the NIA. The **penalties include:**

- ✅ Imprisonment up to 2 years 🏠
- ✅ Fine up to 2 times the cheque amount 💰
- ✅ Both fine and imprisonment 🚫

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◆ Conditions for Legal Action:

- #1 ✓ The cheque was **presented within 3 months** of issuance.
- #2 ✓ The **payee sent a demand notice** within **30 days** of dishonour.
- #3 ✓ The drawer failed to **repay the amount within 15 days** of receiving the notice.

💡 **Real-Life Case Example:** In *G. Venkataramanaiah vs. Sillakollu Venkateswarlu (1999)*, the court ruled that a cheque dishonoured due to account closure also constitutes an offence under Section 138.

Legal Cases on Cheque Bouncing

Case	Judgment
#1 Smt. Bhupindar Lima vs. State of Andhra Pradesh (2000)	Legal heirs of a deceased drawer cannot be held criminally liable.
#2 <u>G. Venkataramanaiah vs. Sillakollu Venkateswarlu (1999)</u>	Account closure still amounts to an offence under Section 138.
#3 S. Bhadram vs. M. Sunil Kumar (1998)	A cheque can be presented any number of times within its validity.
#4 N. Sivalingam vs. A.V. Chandraiya (1996)	Post-dated cheques are considered valid from the date they bear.

Offences by Companies - Section 141

If a **company** (including firms and associations) issues a **dishonoured cheque**, then:

#1 ✓ All responsible individuals (directors, partners, managers) are also guilty along with the company.

#2 ✓ **Government-nominated directors are not liable** for prosecution.



✓ A company cannot restart limitation periods by presenting a cheque multiple times (Chahal Engg. & Construction Ltd vs. Verma Plywood Co., 1994).

 **Example:**  If XYZ Ltd. issues a cheque that bounces, its CEO, CFO, and Directors may also be prosecuted along with the company.

Summary Trial by Court - Section 143

✓ Cheques under Sections 138/141 are tried in a summary trial by a Judicial Magistrate or Metropolitan Magistrate.

✓ **Punishment for Summary Trials:**

- Imprisonment up to 1 year 
- Fine up to ₹5,000 

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✓ Mode of Service of Summons – Section 144

- ◆ Summons may be served via **Speed Post or Court-Approved Courier Services**.

✓ Evidence on Affidavit – Section 145

- ◆ The complainant's evidence **can be submitted in an affidavit form** in court.

✓ ^{Imp} Bank's Dishonour Memo as Prima Facie Evidence – Section 146

- ◆ The **bank's dishonour memo is sufficient evidence** unless the accused disproves it.



✓ Offences Under NIA are Compoundable – Section 147

- ◆ Cheque bouncing offences can be **settled** between the drawer and payee without full trial.

✓ Power of Appellate Court – Section 148

- ◆ If convicted, the appellate court may ask the drawer to **deposit at least 20% of the cheque amount** as compensation before appeal.

★ Summary Table - Cheque Bounce & Legal Actions ★

 Topic	 Key Takeaways
Reasons for Dishonour ❌	<u>Insufficient Funds, No Arrangement, Stop Payment, Account Closed, Digital Certification Failure.</u>
Criminal Liability (Sec. 138) ⚖️ →	<u>Punishment: Up to 2 years in prison or fine up to twice the cheque amount.</u>
Legal Cases on Dishonour 🏛️	Criminal liability not inherited; account closure still an offence.
Company Liability (Sec. 141) 🏢	All responsible persons (directors, managers) can be prosecuted.
Summary Trial (Sec. 143-148) 🚀	Magistrate trial, fine up to ₹5,000, evidence on affidavit allowed.

💡 **Final Tip:** Always ensure you have **sufficient funds** before issuing a cheque to avoid legal consequences! ✅🚫

📌 **Have you ever faced a cheque bounce issue? Let's discuss below!**



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