

Cheque



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1. **A Cheque differs fundamentally from a regular Bill of Exchange in which of the following aspects?**

A A Cheque contains an unconditional promise to pay.

B A Cheque is always payable 'on demand' without any days of grace

C A Cheque can be dishonoured by non-acceptance.

D A Cheque involves a minimum of three parties, while a Bill involves two.

Solution

- A Cheque is defined as being expressly payable on demand (Section 6), which means payment is due immediately upon presentation.
- Consequently, cheques are never entitled to the three days of grace that are allowed for time bills (Usance Bills).
- A Cheque is drawn on a specific banker, whereas a Bill of Exchange is drawn on any person/entity.
- A Cheque contains an order to pay, not a promise (a promise is the element of a Promissory Note).
- A Cheque cannot be dishonoured by non-acceptance, only by non-payment

2. In a Cheque, the person who is ordered to pay the amount and on whom the cheque is drawn is known as the:

A Drawer

B Payee

C Drawee

D Holder in Due Course

Solution

- Drawer: The customer who draws or signs the cheque (the person ordering the payment).
- Drawee: The Banker on whom the cheque is drawn and who is ordered to pay the money. The drawee in a cheque is always a specified banker.
- Payee: The person named in the cheque to whom the money is payable (can be the drawer or a third party).
- In banking parlance, the Drawee is referred to as the Paying Banker.
- The Drawee/Banker is legally obliged to honour the customer's order if there are sufficient funds and the cheque is otherwise in order.

3. A Cheque is said to be **Generally Crossed** if it bears which of the following markings?

A Two parallel transverse lines only.

B Two parallel transverse lines with the words "Account Payee Only".

C The name of a specific bank written across the face.

D The words "Not Negotiable" only.

Solution

- General Crossing (Section 123) occurs when the cheque bears across its face, two parallel transverse lines with or without the words "and company" or "not negotiable."
- The effect of a general crossing is that the paying bank must not pay the cheque over the counter. It must only pay it to a bank.
- If the name of a specific bank is added between the lines, it is a Special Crossing (Section 124).
- "Account Payee Only" is an additional direction that restricts collection, not the definition of a general crossing.
- The general crossing is the simplest and most common form of crossing to ensure the payment goes through a proper banking channel

4. **In a Special Crossing, the paying banker is legally obliged to pay the amount of the cheque only to:**

A Any bank specified by the holder.

B The drawer's bank.

C The drawer's bank.

D The Payee only, over the counter.

Solution

- A Special Crossing (Section 124) specifies the name of a banker across the face of the cheque, with or without the words "not negotiable."
- The paying bank is then legally obligated to pay the amount only to the banker so named.
- This is a more secure form of crossing as it limits the channel of collection.
- If the paying bank pays to any other bank, they are deemed to have paid negligently and may lose the protection of payment in due course.
- The named bank becomes the Collecting Banker in this transaction

5. **The addition of the words "Account Payee" or "A/c Payee Only" to a crossing has which legal effect?**

A It restricts the negotiability of the cheque completely.

B It makes the cheque a non-negotiable instrument as per Section 130.

C **It is a direction to the collecting bank that the amount must be credited only to the account of the Payee named.**

D It guarantees the payment of the cheque by the bank.

Solution

- The words "Account Payee" are a direction to the collecting bank (not the paying bank) to credit the proceeds of the cheque only to the account of the payee named on the face of the cheque.
- While the cheque technically remains negotiable, the "Account Payee" notation serves as a strong warning against unauthorized negotiation, which the collecting bank must heed.
- It does not make the cheque non-negotiable under Section 130; that is done by adding the words "Not Negotiable."
- It is generally used to enhance the safety and traceability of the funds.
- If a collecting bank disregards this marking, it may lose its protection and be held liable for conversion if the payee's

endorsement is forged.

6. For a Cheque to be dishonoured and attract criminal proceedings under Section 138 of the NI Act, 1881, the cheque must have been returned by the bank for the reason of:

A Cheque being Stale.

B 'Insufficient Funds' or 'Account Closed'.

C Drawer's signature being forged.

D Payment stopped by the Drawer.

Solution

- Section 138 specifically targets the dishonour of a cheque due to insufficiency of funds in the drawer's account to honour the cheque.
- Judicial interpretation has extended the term "insufficiency of funds" to include a cheque returned as 'Account Closed' as it implies zero or no funds.
- Dishonour due to a forged signature (forgery) or a stale cheque (expired validity) does not attract Section 138, as it is a default of the instrument itself or a statutory rule, not an intentional financial default by the drawer.
- If payment is stopped by the drawer, it still attracts Section 138 if the underlying debt is valid.

- The cheque must have been issued in discharge of a legally enforceable debt or liability

7. A Post-Dated Cheque (PDC) is an instrument that is:

- A** Payable immediately upon issue, regardless of the date.
- B** Treated as a Bill of Exchange until the date written on it arrives.
- C** Valid immediately, but payment is deferred to a future date.
- D** Not a valid instrument under the NI Act.

Solution

- A Post-Dated Cheque bears a date later than the date of its issue.
- Legally, a cheque is an instrument payable on demand. Since a PDC cannot be demanded before the written date, it does not fulfill the definition of a cheque until that date arrives.
- Until the date written on it, a PDC is treated as a Bill of Exchange (or a Promissory Note, as per some judicial interpretations).
- It becomes a cheque only on the date written on it (the material date) and can be presented for payment from that date onwards.
- If dishonoured before the material date, proceedings under Section 138 cannot be initiated

8. **The Paying Banker is granted statutory protection under Section 128 of the NI Act when paying a specially crossed cheque, provided the payment is made:**

A To the Holder in Due Course.

B In cash over the counter.

C **Only to the specific banker named in the crossing, in good faith, and without negligence.**

D After consulting the drawer for confirmation

Solution

- Section 128 grants protection to the paying banker when dealing with a specially crossed cheque.
- The banker must ensure the payment is made only to the banker specified in the crossing.
- The core conditions for this protection are acting in good faith and without negligence (Payment in Due Course).
- If the banker pays the specified banker, they are entitled to the same rights as if the payment had been made to the true owner of the cheque.
- The protection is lost if the payment is made to a wrong party or in violation of the crossing direction.

9. **If there is a discrepancy between the amount written in words and the amount written in figures on a cheque, the paying banker should:**

A Pay the amount written in figures.

B Pay the lower of the two amounts.

C **Pay the amount expressed in words as per commercial custom and legal principle.**

D Return the cheque as "Refer to Drawer."

Solution

- Commercial banking practice and the implied terms of the NI Act (in line with Section 18 for Bills of Exchange) dictate that the amount expressed in words is the amount the drawer intended to pay.
- Therefore, the paying banker is generally safe in paying the amount in words, provided there is no other reason for doubt.
- If the discrepancy is too large, or causes suspicion, the bank may prudently return the cheque marked "Words and Figures Differ."
- The amount in figures is considered merely a marginal note, while the words constitute the substantive order.
- Returning the cheque is an option, but paying the amount in words is the recognized primary action

10. **To claim protection under Section 131 of the NI Act, a Collecting Banker must prove which essential condition?**

A

They acted in good faith and without negligence while receiving payment for a customer

B

The cheque was a bearer cheque.

C

The cheque was paid in cash over the counter.

D

The cheque was endorsed in full.

Solution

- Section 131 grants protection to the Collecting Banker against claims of conversion if they collect a crossed cheque (to which the customer has no title or a defective title).
- The two conditions are crucial: the bank must act in good faith and without negligence.
- Negligence often includes failure to check the "Account Payee" crossing or opening an account for a new customer without proper introduction/KYC.
- This protection encourages the use of crossed cheques and the banking channel for transactions.
- The protection applies only to crossed cheques and when the bank acts as a collection agent for a customer, not when they cash it for

themselves

11. Payment in Due Course of a cheque means payment that is made:

A At or after the date of maturity.

B To the true owner of the cheque.

C **In accordance with the apparent tenor of the instrument, in good faith and without negligence, to any person in possession thereof.**

D By the Drawee, without consulting the Drawer.

Solution

- Payment in Due Course (Section 10) is the cornerstone of the paying banker's protection.
- It means the payment must be made strictly according to the tenor (terms) of the cheque (e.g., date, amount, crossing).
- The banker must act in good faith (honestly) and without negligence (taking reasonable care, checking signatures, etc.).
- The payment must be made to the person who is the Holder (the person in possession who is entitled in his own name).
- If a payment is made in due course, the banker is discharged from liability, even if the money went to a wrong person due to forgery of an endorsement.

12. **If a cheque is undated, it is presumed in law to have been made:**

A On the day it is presented for payment.

B **On the day it was issued/drawn.**

C On the first day of the preceding financial year.

D On the last valid date for a cheque (3 months prior).

Solution

- If a negotiable instrument is undated, it is presumed to have been made, drawn, or endorsed on the date on which it was issued (Section 118, NI Act).
- A holder of an undated instrument has the authority to insert the correct date of issue/drawing on the cheque.
- This is a legal rebuttable presumption, meaning evidence can be presented to prove the actual date was different.
- However, an undated cheque is an incomplete instrument, and a cautious bank may refuse payment until the date is inserted.
- If the date is inserted, it must reflect the true date, or the holder could be held liable for material alteration against prior parties

13. **If the endorsement of the payee on an 'Order' cheque is forged, and the bank pays the cheque, who is protected by the NI Act?**

A The Drawer is protected.

B The Payee is protected.

C **The Paying Banker is generally protected (Section 85).**

D The Collecting Banker is protected.

Solution

- Section 85 of the NI Act provides special protection to the Paying Banker against the risk of forged endorsements on 'Order' instruments.
- If the bank pays an 'Order' cheque in due course, believing the endorsement to be genuine, the bank is discharged from liability.
- This protection exists because the banker cannot reasonably be expected to know the signature of every endorsee.
- Crucially, this protection does not extend to the Collecting Banker, who must verify the title of their customer.
- This protection applies only to the endorsement, not the drawer's signature.

14. **The addition of the words 'Not Negotiable' to a crossed cheque:**

A Makes the cheque untransferable.

B

Does not prohibit transfer, but makes the transferee's title no better than that of the transferor.

C Converts the cheque into a Bill of Exchange.

D Ensures the drawer's signature cannot be forged.

Solution

- The 'Not Negotiable' crossing (Section 130) is a crucial concept. It does not stop the negotiability/transferability of the cheque.
- Its effect is that the transferee cannot become a Holder in Due Course (HDC).
- The transferee gets a title no better than that of the transferor. If the transferor's title was defective (e.g., they stole the cheque), the transferee's title is also defective, even if they paid value and took it in good faith.
- This means the ultimate recipient is fully exposed to all the defects of title from previous holders.
- It is primarily used as a warning to potential transferees.

15. A cheque that is neither generally nor specially crossed is known as a(n):

A Stale Cheque

B Documentary Cheque

C Open Cheque

D Ante-dated Cheque

Solution

- An Open Cheque is one that can be presented for payment over the counter to the paying bank and paid in cash.
- It bears no crossing lines or bank name across its face.
- Open cheques are payable to Bearer or to Order. If payable to order, the bank verifies the payee's signature or identification before payment.
- Open cheques are less safe than crossed cheques as they carry the risk of being cashed by a person who is not the rightful owner.
- Stale cheques are open or crossed cheques that have expired

16. **A General Crossing on an open cheque can be legally converted to a Special Crossing by:**

A The Holder (and subsequent endorsers/bankers).

B The Paying Banker.

C The Drawee.

D The Notary Public.

Solution

- Initially, the Drawer can cross a cheque generally or specially.
- If the cheque is uncrossed or generally crossed, the Holder can cross it generally or specially.
- If the cheque is already generally crossed, the Holder may convert it into a special crossing by adding a specific bank's name.
- The Banker to whom the cheque is specially crossed may again specially cross it to another banker (their agent) for collection.
- The Paying Banker (Drawee) is not entitled to alter or add to the crossing

17. **If the payee's endorsement on a Bearer cheque is forged, and the bank pays it in due course, the bank is:**

A Liable, as it failed to verify the true owner.

B Liable, as the endorsement was forged.

C **Protected and discharged from liability.**

D Liable to the drawer only.

Solution

- A Bearer cheque is negotiated by mere delivery, and the bank pays the person in possession.
- By definition, an endorsement on a bearer cheque is superfluous (unnecessary) for negotiation.
- Even if the endorsement of the payee/holder is forged, the bank is protected under the Payment in Due Course principle because the payment would have been made even if the endorsement wasn't there.
- The focus for a bearer cheque is possession, not the validity of any signature other than the drawer's.
- The law protects the bank when paying a bearer instrument in good faith and without negligence

18. **When a cheque is drawn by the customer payable to "Self," the paying bank:**

A Must return the cheque, as the drawer and payee cannot be the same.

B Can legally pay the amount in cash to the drawer or their authorized agent.

C Must insist that the drawer first endorse the cheque.

D Must only credit the amount to the drawer's account.

Solution

- A cheque drawn payable to "Self" is common and legal; it means the drawer is both the Drawer and the Payee, essentially withdrawing cash.
- When the drawer signs on the reverse, it converts the cheque into a bearer instrument, payable to the person presenting it (usually the drawer themselves).
- The bank can legally pay the amount in cash over the counter to the drawer after verifying the signature.
- There is no requirement to credit the amount, as the instruction is for cash payment.
- The cheque is a valid order to pay

19. **The primary legal responsibility for the genuineness of the drawer's signature on a cheque lies with:**

A The Payee, who must verify the drawer.

B The Holder in Due Course.

C **The Drawee Banker, under the principle of "Know Your Customer."**

D The Collecting Banker.

Solution

- The Drawee Banker (the paying bank) is presumed to know the signature of its own customer (the drawer).
- This is an absolute duty arising from the contractual relationship between the banker and the customer.
- If the bank pays a cheque where the drawer's signature is forged, the payment is not in due course, and the bank cannot debit the customer's account for the loss.
- The banker must bear the loss unless the customer was negligent in a manner that directly contributed to the forgery.
- This principle safeguards customer funds against unauthorized withdrawal.

20. If a cheque has a General Crossing, which party is legally authorized to convert it into a Special Crossing?

A The Drawer only.

B The Drawee only.

C The Holder or any subsequent banker receiving it for collection.

D The bank's legal department.

Solution

- The Drawer can initially draw an uncrossed, generally crossed, or specially crossed cheque.
- If the cheque is uncrossed or generally crossed, the Holder has the right to add a crossing or convert a general crossing into a special one.
- A banker who receives a generally crossed cheque for collection can also convert it to a special crossing in its favour (or for an agent).
- This provision allows the holder to enhance the safety of the cheque by restricting its collection channel.
- The Paying Banker cannot alter the crossing

21. **Is it legally permissible for the Drawer of a cheque to also be the Payee?**

A No, the roles must be distinct for a valid negotiable instrument.

B

Yes, the Drawer can draw a cheque payable to "Self" or their own name.

C Only if the bank gives special permission

D Only if the cheque is crossed "Account Payee Only."

Solution

- The definition of a Bill of Exchange (and thus a cheque) allows the drawer and payee to be the same person.
- A cheque payable to "Self" or the drawer's own name is a common practice for cash withdrawals.
- In this scenario, the drawer becomes the Holder of the instrument, and by endorsing the back, they convert it into a bearer instrument, allowing them to receive payment.
- The three roles are defined: Drawer (customer), Drawee (banker), and Payee (recipient). The customer can fulfill both the Drawer and Payee roles.
- This practice does not violate any of the fundamental principles of the NI Act.

22. **If a Drawee Banker pays a cheque on which the drawer's signature is forged, can the bank recover the amount from the person who received the payment?**

A No, the bank bears the loss absolutely.

B Yes, the bank can always recover the money from the payee.

C Only if the cheque was post-dated.

D

Generally yes, under the doctrine of 'mistake of fact' (subject to the recipient's position).

Solution

- If the bank pays on a forged drawer's signature, the payment is not in due course, and the bank bears the loss to the customer (Drawer).
- However, the bank may be able to recover the amount from the person who received the payment (the collecting bank/payee) under the general law of contract, specifically the doctrine of 'payment made under a mistake of fact'.
- This recovery right is often subject to the Rule in Price v. Neal, which states that the acceptor (bank) is generally estopped from denying the drawer's signature to an HDC who received it for value.
- In India, a cautious approach allows recovery unless the recipient of funds would be prejudiced by the repayment.

- This legal recourse is outside the NI Act and falls under the Indian Contract Act/common law.

23. An endorsement on a cheque stating "Pay B only" is a:

A Restrictive Endorsement

B Endorsement in Full

C Sans Recours Endorsement

D Conditional Endorsement

Solution

- A Restrictive Endorsement restricts or prohibits the further negotiation of the instrument.
- "Pay B only" prevents B from transferring the cheque further; B can only receive payment.
- An Endorsement in Full names the endorsee but permits further negotiation (e.g., "Pay B or Order").
- The purpose of a restrictive endorsement is to limit the cheque's circulation and ensure the intended recipient receives the funds.
- Such a restriction is a legal way for the holder to control the cheque's destiny.

24. The Drawee Banker has a right of set-off against a customer's credit balance:

A Only after the customer files for insolvency.

B Only if the customer gives written permission.

C **If the customer dies or becomes insolvent, allowing the bank to adjust outstanding debts.**

D If the customer issues a post-dated cheque.

Solution

- A banker's right of set-off is the right to combine different accounts of the same customer (debt and credit) to arrive at a single net balance.
- This right is generally exercised when the banker's mandate is revoked, such as upon the death, mental incapacitation, or insolvency of the customer.
- Upon notice of death or insolvency, the bank's authority to pay is revoked, and the banker can immediately exercise the right to settle any debts owed to it by the customer before paying creditors.
- The bank can only pay cheques from the remaining credit balance after set-off.

- This right is derived from commercial custom and is a key safeguard for the bank

25. A cheque that bears a forged drawer's signature is legally a:

A Valid instrument that only requires an endorsement.

B

Nullity (void ab initio) that conveys no title and gives no right to the payment.

C Valid cheque, but the drawer is discharged.

D Bill of Exchange until the forgery is proved.

Solution

- A forged signature of the drawer means that the instrument is not the order of the customer.
- In the eyes of the law, a forged instrument is a complete nullity (void ab initio - void from the beginning).
- No party can claim a better title through a forged instrument, not even a Holder in Due Course, because the instrument itself is a sham.
- The Paying Banker who pays a forged cheque acts outside its mandate and must bear the entire loss.
- This principle underscores the strict liability of the banker for knowing its customer's signature.

26. An instrument is drawn on 'Post Master, XYZ Post Office' and is payable on demand. Is this a valid Cheque under the NI Act?

A Yes, as the Post Office acts as a bank.

B No, because the drawee (Post Office) is not a 'specified banker' as required by law.

C Yes, because it is payable on demand.

D No, because the amount is uncertain.

Solution

- A Cheque must be a Bill of Exchange drawn on a specified banker.
- While some post offices offer banking services, the term "banker" in the context of the NI Act and RBI regulation refers to institutions specifically licensed and regulated as banks.
- The instrument would likely be treated as a Bill of Exchange, but it does not meet the strict legal requirements of a Cheque.
- The payment being "on demand" is a necessary but not sufficient condition for classification as a cheque.
- The identity of the Drawee is paramount in defining a cheque

27. **What is the effect of the death of the Drawer on the Drawee Banker's authority to pay a cheque?**

A

The bank must continue to pay the cheque until the 3-month period expires.

B

The bank's authority is revoked immediately upon receiving notice of the Drawer's death.

C

The bank must wait 15 days before revoking the authority

D

The bank is discharged from all liability on the cheque.

Solution

- The bank's authority to pay a cheque is part of an agency relationship, and the death of the Principal (the Drawer) terminates the agent's (Banker's) authority.
- Section 126 of the NI Act (by applying the rules for bills of exchange) implies the cessation of the banker's authority upon the death of the drawer.
- The revocation is effective only when the bank receives notice of the death. If the bank pays a cheque in good faith and without negligence before receiving such notice, the payment is valid.
- The bank is then legally bound to hold the account balance for the deceased customer's legal representatives.

- Insolvency of the drawer also revokes the bank's authority upon notice

28. If a banker wrongfully dishonours a customer's cheque (when sufficient funds are available), the customer can sue the banker for:

A Criminal charges under Section 138.

B Payment of the cheque only.

C Compelling the payee to accept a new cheque.

D Damages for breach of contract and loss of goodwill/reputation.

Solution

- The relationship between a banker and a customer is primarily one of a debtor and creditor, governed by contract law.
- Wrongful dishonour is a serious breach of this contract.
- The customer has a right to sue the banker for damages. The damages awarded are often exemplary (high) for a trader (business person) due to the severe damage to their business reputation.
- A non-trader customer may be awarded nominal damages unless they can prove specific losses

29. In India, the legal definition of a "Cheque" is specified in which section of The Negotiable Instruments Act, 1881?

A Section 4

B Section 5

C Section 6

D Section 7

Solution

- Section 6 of The Negotiable Instruments Act, 1881, specifically defines a Cheque.
- It states that a cheque is a Bill of Exchange drawn on a specified banker and expressly payable on demand.
- A key differentiator is that a cheque does not require acceptance by the drawee (the bank) to be a valid instrument.
- For reference, Section 4 defines a Promissory Note, Section 5 defines a Bill of Exchange, and Section 7 defines the parties to these instruments.
- All provisions of the NI Act applicable to a Bill of Exchange, payable on demand, also apply to a cheque, unless otherwise provided

30. **The banker's primary duty to honour a customer's cheque is subject to which condition(s)?**

A The cheque must be 2 months old.

B The cheque must be an 'Account Payee' cheque.

C The cheque must be presented during working hours.

D

Sufficient funds must be available, the cheque must be properly drawn, and presented within the validity period.

Solution

- The primary duty of a banker is a contractual duty to pay cheques when the customer has sufficient clear funds in the account.
- The cheque must be properly drawn (correct date, correct amount, correct signature, no material alteration).
- If the banker wrongfully dishonours a cheque, the customer has a right to sue the banker for damages for breach of contract.
- The bank is not obliged to honour a cheque when presented outside banking hours, but payment is often facilitated electronically.



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