# CHAPTER 18
# THE NEGOTIABLE INSTRUMENTS ACT, 1881

## 1. PRACTICAL QUESTIONS

| Concept Problem 1 | [Nov 2002][May 2004] [Sec 4] |
|---|---|
| Referring to the provisions of The Negotiable Instruments Act, 1881, examine the validity of the following promissory notes.<br>i) I owe you a sum of Rs 1,000. A tells B.<br>ii) X promises to pay Y, a sum of Rs 10,000 six months after Y's marriage with Z. | |
| **Solution** | |
| i. **It is not a valid promissory note –** since A has not made any promise to pay INR 1,000 to B (mere acknowledgement of indebtedness does not result in a valid promissory note). | |
| ii. **It is not a valid promissory note** – since the promise is conditional (as Y's marriage with Z is not certain to happen). | |

| Concept Problem 2 | [Nov. 2007 ] [Sec 4] |
|---|---|
| Whether the following notes may be considered as valid promissory notes: | |
| i. I promise to pay INR 5,000 or 7,000 to Mr. Ram. | |
| ii. I promise to pay to Mohan INR 500 if he secures 60% marks in the examination. | |
| iii. I promise to pay INR 3,000 to Ravi after 15 days of the death of A. | |
| **Ans.** | |
| **i. It is not a valid promissory note** – since the amount payable is not certain. | |
| **ii. It is not a valid promissory note** – since the promise is conditional (since it is not certain that Mohan would secure 60% marks in examination). | |
| **iii. It is a valid promissory note** – since the promise is not conditional (since it is dependent upon death of A which is certain to happen, although the time of its happening is not certain). | |

| Concept Problem 3 | [Nov 2005, May 2015] [Sec 26] |
|---|---|
| A, a major and B, a minor executed a promissory note in favour of C. Examine with reference to the provisions of the Negotiable Instruments Act, the validity of the promissory note and whether it is binding on A and B. | |
| **Solution** | |
| **The promissory note is valid** - since a negotiable instrument does not become invalid only because of the reason that any party to the negotiable instrument (viz. the maker, payee, endorser or endorsee) is a minor. | |
| **B is not liable** – since a minor is not liable on a negotiable instrument. | |
| **A is liable** - since all the parties, except the minor are liable on a negotiable instrument drawn, accepted, endorsed or negotiated by a minor. | |

| Concept Problem 4 | [Nov 2005][Sec 24] |
|---|---|
| Ascertain the date of maturity of a bill payable 120 days after date. The bill of exchange was drawn on 1st June 2005. | |
| **Solution** | |
| **Date of the bill -** 1st June 2005 | |
| **Nature of bill -** Time bill – Payable 120 days after date | |
| **Days to be excluded –** the date on which the bill is drawn i.e. 1st June 2005 shall be excluded | |
| **120 days from 1st June** – Remaining days in June 29 | |
| days in July – 31 | |
| days in August – 3 | |

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| 120th day ends on September 29, 2005 |
| **Days of grace -** 3 days (added to September 29, 2005) |
| **120 days + days of grace calculated from 1st June –** 2nd October 2005 |
| **Date of maturity-** 1st October 2005 (being the preceding business day) since 2nd October is a public holiday. |

| **Concept Problem 5** | **[Nov 2007]** ***[Sec 24]*** |
|---|---|
| Calculate the date of maturity of the following bills of exchange explaining the relevant rules relating to determination of the date of maturity as provided in the Negotiable Instruments Act, 1881. | |
| i. A bill of exchange dated 31st August, 2007 is made payable three months after date. | |
| ii. A bill of exchange drawn on 15th October, 2007 is payable twenty days after sight and the bill is presented for acceptance on 31st October, 2007. | |
| **Solution** | |
| **i)** | |
| **Date of the bill –** 31.08.2007 | |
| **Nature of bill** – Time bill payable 3 months after date | |
| **Corresponding day after 3 months** – 30.11.2007 (Corresponding day of the relevant month) (*i.e.* Date on which negotiable instrument is drawn + stated number of months) + 3rd day. However, if in the relevant month there is no corresponding day, the last day of such month shall be taken) | |
| **Days of grace** – 3 days (added to 30.11.2007) | |
| **3 months + days of grace calculated from 31.08.2007** – 03.12.2007 | |
| **Date of maturity** – 3.12.2007 | |
| | |
| **ii)** | |
| **Date of the bill –** 15.10.2007 | |
| **Nature of bill** – Time bill - payable 20 days after sight | |
| **Date of Presentation of bill for acceptance** – 31.10.2007 | |
| **Days to be excluded** – The date on which the bill is presented for acceptance i.e. 31.10.2007 shall be excluded | |
| **20 days from 31.10.2007** – 20.11.2007 | |
| **Days of grace** – 3 days (added to 20.11.2007) | |
| **20 days + days of grace calculated from 31.10.2007** – 23.11.2007 | |
| **Date of maturity -** 23.11.2007 | |

| **Concept Problem 6** | **[Nov 2004]*[Sec 43]*** |
|---|---|
| A draws a bill on B. B accepts the bill without any consideration. The bill is transferred to C without consideration. C transferred it to D for value. Decide-<br>i. Whether D can sue the prior parties of the bill and<br>ii. Whether the Prior parties other than D have any right of action interse?<br>Give your answer with reference to the provisions of Negotiable Instruments Act, 1881 | |
| **Solution** | |
| **Rights of D –** D can recover the amount of the bill from all the prior parties since D is a holder for value. | |
| **Rights of prior parties other than D –** No party prior to D can recover the amount of the bill from any prior party since a negotiable instrument creates no obligation of payment between the parties if it was made, drawn, accepted, endorsed or transferred without consideration. | |

| **Concept Problem 7** | **[May 2008]*[Sec 43]*** |
|---|---|
| A draws a bill exchange payable to himself on X who accepts the bill without consideration just to accommodate 'A'. 'A' transfers the bill to 'P' for good consideration. State the rights of 'A' and 'P'. Would your answer be different if 'A' transferred the bill to 'P' after maturity? | |
| **Solution** | |
| **A is not entitled to sue X** – since there is no consideration between A and X.<br>- since there is no obligation to pay if there is no consideration between the parties to the transaction. | |
| **P is entitled to sue A and X** – since P is a holder for consideration<br>since a holder for consideration can sue the transferor for consideration and every party prior to him. | |

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| **If A had transferred the bill after maturity –** the answer would have remained same since the right to sue the transferor for consideration and every party prior to him is available to holder for consideration even though he is not a holder in due course (i.e. even if the holder for consideration obtains the bill after maturity). |

| **Concept Problem 8** **[Nov 2010]** ***[Sec 44]*** |
|---|
| P draws a bill on Q for INR 10,000. Q accepts the bill. On maturity, the bill was dishonoured by non-payment. P files a suit against Q for payment of INR 10,000. Q proved that the bill was accepted for value of INR 7,000 and as an accommodation to the plaintiff for the balance amount i.e. INR 3,000. Referring to the provisions of the Negotiable Instruments Act, 1881, decide whether P would succeed in recovering the whole amount of the bill. |
| **Solution** |
| **P is entitled to recover only INR 7,000 –** since the consideration was originally absent in a part (i.e. for INR 3,000) and so the drawer is entitled to receive only INR 7,000. |

| **Concept Problem 9** **[May 2007]** ***[Sec 44]*** |
|---|
| A owes a certain sum of money to B. A does not know the exact amount and hence he makes out a blank cheque in favour of B, signs and delivers it to B with a request to fill up the amount due payable by him. B fills up fraudulently the amount due payable by A and endorses the cheque to C in full payment of dues of B. Cheque of A is dishonoured. Referring to the provisions of The Negotiable Instruments Act, 1881, discuss the rights of B and C. |
| **Solution** |
| **B is entered to recover only such amount as was payable by A**<br>- Since B (i.e. payee) stands in immediate relation with A (i.e. drawer).<br>- Since the consideration consists of money.<br>- Since the consideration was originally absent in part. |
| **C is entitled to recover the whole amount of cheque**<br>– Since a holder in due course is entitled to receive whole of the amount of the negotiable instrument. |

**Concept Problem 10** **[Nov 2008] [Nov 2016]** ***[Sec 8]***

Discuss with reasons whether the following persons can be called a Holder under the Negotiable Instrument Act, 1881.

a) X who obtains a cheque drawn by Y by way of gift.
b) A, the payee of the cheque who is prohibited by a court order from receiving the amount of the cheque.
c) M who finds a cheque payable to bearer on the road and retains it.
d) B, the agent of C, is entrusted with an instrument without endorsement by C who is the payee.
e) D, who steals a blank cheque of A and forges A's signature.

**Or**

Discuss with reasons, in the following given conditions, whether 'M' can be called as a "holder" under the Negotiable Instrument Act, 1881:

1. 'M', the payee of the cheque, who is prohibited by a court order from receiving the amount of the cheque.
2. 'M', the agent of 'Q', is entrusted with an instrument without endorsement by 'Q' who is the payee.

**Solution**

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|---|---|
| **X is a holder** | - Since X is entitled in his own name to the possession of the cheque and to receive the amount of the cheque. |
| **A is not a holder** | - Since he is not entitled to recover the amount of the cheque as per court's order. |
| **M is not a holder** | - Since the cheque was not negotiated to him.<br>- Since mere possession does not make a person a holder. It is the entitlement to possession which makes a person holder.<br>- Since M is not entitled to the possession and is not entitled to receive or recover the amount of the cheque (sec 8).<br>- Since a finder of a lost negotiable instrument has no rights to receive the amount of the negotiable instrument (sec. 58). |
| **B is not holder** | - Since he is entitled to the possession of the negotiable instrument but not is his own name.<br>- Since he is entitled to receive the amount of the negotiable instrument but not in his own name. |
| **D is not a holder** | - Since he is in wrongful possession of the negotiable instrument.<br>- Since he is not at all entitled to the possession of the negotiable instrument. |

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|---|---|
| | - Since he is not entitled to receive on recover the amount of the negotiable instrument.<br>- Since a cheque containing forged signature of the drawer is a nullity and does not confer any title to any person. |

| **Concept Problem 11** | **[Nov 2015] *[Sec 9]*** |
|---|---|
| Mr. A is the payee of an order cheque. Mr. B steals the cheque and forges Mr. A's signatures and endorses the cheque in his own favour. Mr. B then further endorses the cheque to Mr. C who takes the cheque in good faith and for valuable consideration.<br>Examine the validity of the cheque as per the provisions of the Negotiable Instruments Act, 1881 and also state whether Mr. C can claim the privileges of a Holder in Due Course? | |
| **Solution** | |
| **Mr. C is not HDC** | - Since forgery is nullity. |
| | - Since Mr. C shall not derive any title under an endorsement made by Mr. B as Mr. B had no title to the cheque because of forged endorsement of Mr. A. |
| | - Since Mr. B was neither the payee nor the endorsee of the cheque by reason of forged endorsement of Mr. A and so Mr. C cannot become the payee or endorsee of such cheque under an endorsement made by Mr. B. |

| **Concept Problem 12** | **[Nov. 2006] *[Sec 9]*** |
|---|---|
| B obtains A's acceptance to a bill of exchange by fraud. B endorses it to C who is a holder in due course. C endorsed the bill to D who knows of the fraud. Referring to the provisions of the Negotiable Instruments Act 1881, decide whether D can recover the money from A in the given case. | |
| **Solution** | |
| **D is HDC** | - Since all the conditions given u/s 9 are satisfied. |
| | - Since D has acquired the negotiable instrument from C and the title of C is not defective. |
| | - Since it is immaterial that D had knowledge of the fraud (provided D was not a party to the fraud). |
| **D can recover payment from A** | - Since HDC has the right to receive or recover payment of the negotiable instrument from all the prior parties. |

| **Concept Problem 13** | **[May 2010] *[Sec 9, 36 and 120]*** |
|---|---|
| J accepted a bill of exchange and gave it to K for the purpose of getting it discounted and handing over the proceeds to J. K, having failed to discount it returned the bill to J. J tore the bill in two pieces with the intention of cancelling it and threw the pieces in the street. K picked the pieces and pasted the two pieces together in such manner that the bill seemed to have been folded for safe custody rather than cancelled. K put it into circulation and it ultimately reached L who took it in good faith and for value. Is J liable to pay the bill under the provisions of the Negotiable Instrument Act, 1881? | |
| **Solution** | |
| **L is a holder in due course** | - Since he acquired the bill in good faith and for value.<br>- Since he became the possessor of the bill payable to bearer (assuming that the bill was payable to bearer) (sec.9) |
| **J cannot deny the validity of the bill** | - Since no drawer or acceptor of a bill shall, in a suit by a holder in due course, be permitted to deny the validity of the bill as originally drawn and thus, L who is the holder in due course, acquires a good title to the bill (sec 120) |
| **L is entitled to recover the payment of the bill from J and all prior parties** | - Since a holder in due course has the right to sue all the prior parties (sec 36) |

| **Concept Problem 14** | **[Nov. 2014] [Nov 2016] *[Sec 53]*** |
|---|---|
| S, by inducing T, obtains a Bill of Exchange from him fraudulently in his (S) favour. Later, he enters into a commercial deal and endorses the bill to U towards consideration to him (U) for the deal. U takes the bill as a Holder-in-due-course. U subsequently endorses the bill to S for value, as consideration to S for some other deal. On maturity the bill is dishonoured. S sues T for recovery of the money. | |

With reference to the provision of the Negotiable Instruments Act, 1881, decide whether S will succeed in the case or not.

**Or**

'F' by inducing 'G' obtains a bill of exchange from him fraudulently in his (F) favour. Later he enters into a commercial deal with 'H' and endorses the bill to him (H) towards consideration for the deal. 'H' takes the bill as a holder in due course. 'H' Subsequently endorses the bill to 'F' for value as consideration to 'F' for some other deal. On maturity, the bill is dishonoured. 'F' sues 'G' for the recovery of the money. With reference to the provisions of the Negotiable Instrument Act 1881, explain whether 'F' will succeed in this case.

**Solution**

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|---|---|
| **S cannot recover the money from T** | - Since S was himself a party to the fraud.<br>- Since S shall not have the same rights as that of 'U' from whom he (i.e. S) obtained the bill.<br>- Since as per Sec. 53, a holder who derives his title from HDC has the same rights as that of HDC only if he himself was not party to the fraud or illegality which affected the bill in some stage of its journey. |

## Concept Problem 15 [May 2007] *[Sec 130]*

Referring to the provision of the Negotiable Instrument Act, 1881, examine the validity of the following
A cheque marked 'Not Negotiable' is not transferable.

**Solution**

**A cheque marked 'not negotiable' is transferrable** – but, no transferee shall have a title better than of the transferor, even though he acquired the cheque in good faith and without negligence (Sec.130)

## Concept Problem 16 [Nov. 2002] *[Sec. 85 and 131]*

The drawer, 'D' is induced by 'A' to draw a cheque in favour of P, who is an existing person. 'A', instead of sending the cheque to 'P' endorsed the cheque in his favour by forging the signature of P and gets it encashed by D's banker. Explain whether D's banker is liable to P.

**Solution**

| | |
|---|---|
| **D's banker is not liable** | Since a paying banker is not liable even if it is subsequently found that any endorsement on the cheque has been forged;<br>Provided the paying banker made the payment in due course (Sec. 85) |
| **A's banker is not liable** | Since a collecting banker is not liable for any loss caused to the true owner due to defective title of the holder;<br>Provided the collecting banker acted in good faith and without negligence while collecting the amount of the crossed cheque as an agent (Sec.131). |

## Concept Problem 17 [Nov. 2004] *[Sec. 85 and 131]*

A induced B by fraud to draw a cheque payable to C or order. A obtained the cheque, forged C's endorsement and collected proceed to the cheque through his broken B, the drawer, wants to recover the amount from C's banker.
Decide in the light of the provisions of Negotiable Instruments Act, 1881:
(i) Whether B, the drawer, can recover the amount of the cheque from bankers?
(ii) Whether C is the fictitious payee?
(iii) Would your answer be still the same in case C is a fictitious person?

**Solution**

| | |
|---|---|
| **B's banker is not liable** | - Since a paying banker is not liable even if it is subsequently found that any endorsement on the cheque has been forged.<br>- Provided the paying banker made the payment in due course (Sec. 85). |
| **A's Banker is not liable** | - Since a collecting banker is not liable for any loss caused to the true owner due to defective title of the holder;<br>- Provides the collecting banker acted in good faith and without negligence while collecting the amount of the crossed cheque as an agent (Sec. 131). |
| **(i) C's banker is not liable** | - Since it has neither collected nor paid the cheque |
| **(ii) C is not the fictitious payee** | - Since C, in fact, exists. |

| | |
|---|---|
| **(iii) If C were a fictitious payee, the answer would have been same** | - Since protection is available to a collecting banker u/s 131 and paying banker u/s 85, irrespective of the fact that payee is a fictitious person or not;<br>- Since C's banker would have neither collected nor paid the cheque. |

**Concept Problem 18** **[May 2003, May 2005, May 2008, May 2014] *[Sec 84]***

A issues a cheque for Rs. 25,000 in favour of B. A has sufficient amount in his account with the Bank. The cheque was not presented within reasonable time to the Bank for payment and the Bank, in the meantime, became bankrupt. Decide under the provisions of the Negotiable Instruments Act, whether B can recover the money from A?

A draws a cheque for Rs. 50,000. When the cheque ought to be presented to the drawee bank, the drawer has sufficient funds to make payment of the cheque. The bank fails before the cheque is presented. The payee demands payment from the drawer. What is the liability of the drawer?

B issued a cheque for INR 1,25,000 in favour of S. B had sufficient amount in his account with the bank. The cheque was not presented within reasonable time for payment and the bank in the meantime become insolvent. Decide under the provisions of the Negotiable Instruments Act, 1881, whether S can recover the money from B.

A issued a cheque for INR 5,000 to B. B did not present the cheque for payment within reasonable period and the bank fails. However, when the cheque was ought to be presented to the bank, there was sufficient fund to make payment of the cheque. Now B demands payment from A under the Negotiable Instruments Act, 1881.

**Solution**

| | |
|---|---|
| **The drawer is discharged** | Since the drawer has sufficient balance when the cheque ought to be presented for payment. |
| | The holder has defaulted in presenting the cheque for payment within a reasonable time. |
| | The drawer has suffered actual damages due to the failure of the bank after issue of cheque but before presentation of the cheque. |

**Concept Problem 19** **[Nov 2006] *[Sec 138 and 141]***

J, a shareholder of a company purchased for his personal use certain goods from a Mall (Departments store) on credit. He sent a cheque drawn on the company's account to the mall (department store) towards the full payment of the bills. The cheque was dishonoured by the company's bank. J, the shareholder of the company was neither a director nor a person in charge of the company. Examining the provisions of the Negotiable Instruments Act, 1881, state whether J has committed an offence under sec. 138 of the Act and decide whether he (J) can be held liable for the payment for the goods purchased from the mall (departmental store).

**Solution**

**Company has committed on offence u/s 138** – since a company is held liable for dishonour of a cheque issued to discharged the debt or liability of any other person (Sec. 138)

**Person liable where offence u/s 138 is committed by a company** – in case of dishonour of a cheque issued by a company, the company as well as every officer in charge of the company is liable u/s 138 (Sec. 141)

**J has not committed any offence u/s 138** since J is not a director or an officer in charge of the company (***HNB Mulla* firaze C Y somaya julu)**

**J is liable for the payment of goods purchased** – since J purchased the goods on credit and contracted to pay the price of the goods to the mall (departmental store).

**Concept Problem 20** **[May 2016] *[Sec 138 and 141]***

Mr. Bean is a promoter who has taken a loan on behalf of Company but he is neither a director nor a person-in-charge of the Company. He sent a cheque from the Company's account to discharge its legal liability. Subsequently, the cheque was dishonoured and a complaint was ledged against him. Can he be held liable for an offence under section 138 of the Negotiable Instruments Act, 1881?

**Solution**

**Company has committed on offence u/s 138 –** Since a Company is held liable for dishonour of a cheque issued to discharge the debt or liability (Sec. 138)

**Person liable where offence u/s 138 is committed by a Company** – In case of dishonour of a cheque issued by a Company, the Company as well as every officer in charge of the Company is liable u/s 138 (Sec. 141).

**J has not committed any offence u/s 138 since J is not a director or an officer in charge of the company** (HNB Mulla firaze C Y somaya julu)

| **Concept Problem 21** | **[May 2007] [May 2008] [May 2017] [May 2018] *[Sec. 138]*** |
|---|---|
| Examine whether there is an offence under the Negotiable Instruments Act, 1881 if a drawer of a cheque after having issued the cheque informs the drawee not be present the cheque as well as informs the bank to stop the payment. | |
| X draws a cheque in favour of Y and after having issued the cheque, he informs Y not to present the cheque for payment. He also informs the bank to stop payment. Decide under provisions of the Negotiable Instruments Act, 1881 whether the said acts of X constitute an offence against him? | |
| A drawer of a cheque after having issued the cheque, informs the drawee not to present the cheque as well as informs the Bank to stop the payment. Decide whether it constitutes an offence against the drawer under provisions of the Negotiable Instruments Act, 1881? | |
| Bholenath drew a cheque in favour of Surendar. After having issued the cheque; Bholenath requested Surendar not to present the cheque for payment and gave a stop payment request to the bank in respect of the cheque issued to Surendar. Decide, under the provisions of the Negotiable Instruments Act, 1881 whether the said acts of Bholenath constitute an offence? | |
| **Solution** | |
| **Drawer has committed an offence u/s 138 –** since the words 'the cheque is returned by the bank unpaid due to insufficiency of funds in the account of drawer' have to be given a wide interpretation to include dishonour of cheque due to issue of stop payment order given by the drawer to the bank and also where the drawer asks the holder not to present the cheque *(Modi Cements Ltd. V kuchil kumar nandi)*. | |

| **Concept Problem 22** | **[June 2009] *[Sec 138 and 139]*** |
|---|---|
| V makes a gift of INR 10,000 to W through a cheque issued in favour of W. Later, he (V) informs W not to present the cheque for payment and informs the bank also to stop payment. Examining the provisions of the Negotiable Instrument Act, 1881, decide whether V's above acts constitute an offence. | |
| **Solution** | |
| **V is not liable for an offence u/s 138 –** since the drawer of a cheque is liable u/s 138 only if a cheque is issued to discharge a legally enforceable debt or other liability. | |
| Since in the present case, the cheque has been issued by V as a gift to W and not for discharge of a legally enforceable debt or other liability (sec. 138). | |
| **Presumption of consideration is not applicable -** Since it can be proved that the cheque was given as a gift (sec. 139). | |

| **Concept Problem 23** | **[Nov 2007] *[Sec 87]*** |
|---|---|
| State whether the following alterations are material alteration under the Negotiable Instruments Act, 1881?<br>i) The holder of the bill inserts the word "or order" in the bill.<br>ii) The holder of the bearer cheque converts it into account payee cheque.<br>iii) A bill payable to X is converted into a bill payable to X and Y. | |
| **Solution** | |
| **i) It is not a material alteration** | - Since even after insertion of the words "or order", the negotiable instruments continues to be an order instrument. |
| **ii) It is a material alteration** | - Since it restricts the right of the holder to obtain the payment of the cheque in cash and to negotiate it further.<br>But such alteration authorised by the Act and so no party is discharged. |
| **iii) It is a material alteration** | - Since the right to receive the payment has been altered (before alteration, right to receive was with X but after alteration, the right is with X and Y jointly). |

| **Concept Problem 24** | **[June 2009] *[Sec 87 and 125]*** |
|---|---|
| A issues an open bearer cheque for INR 10,000 in favour of B who strikes out the word "Bearer" and puts crossing across the cheque. The cheque is thereafter negotiated to C and D. when it is finally presented by D's banker, it is returned with remarks "Payment countermanded by drawer". In response to legal notice from D, A pleads that the cheque was altered after it had been issued and therefore, he is not bound to pay cheque. Referring to the provisions of the Negotiable Instruments Act, 1881, decide whether A's argument is valid or not? | |
| **Solution** | |
| **Effects of striking off the word bearer** | - It amounts to a material alteration.<br>- However, such material alteration is authorised by the Act. |

| **Concept Problem 24** | **[June 2009] *[Sec 87 and 125]*** |
|---|---|
| | - Therefore, the cheque is not discharged it remains valid. |
| **Effects of crossing the cheque** | - It amounts to a material alteration.<br>- However, such material alteration is authorised by the Act.<br>- Therefore, the cheque is not discharged it remains valid. |
| **A's argument is not valid** | - Since the reason for dishonour of cheque is not material alteration but payment countermanded by drawer.<br>- Therefore, A is liable for the payment of the cheque and he shall also be liable for dishonour of cheque is accordance with the provisions of sec 138. |

**Concept Problem 25** **[May 2003] *[Sec 86]***

An acceptor accepts a bill of exchange but writes on it "Accepted but payments will be made when goods delivered to me is sold." Decide the validity.

**Solution**

**The acceptance is valid and the acceptor is liable**

- But it amounts to qualified acceptance (since the acceptance is subject to some qualification or condition i.e. payment will be made when goods are sold)
- But no other party shall be liable on the bill unless it has given its consent to the qualified acceptance.
- However, the holder is entitled to object to qualified acceptance and treat the bill as dishonoured by non-acceptance and in such a case all the prior parties shall be liable towards the holder (Sec 86).

**Concept Problem 26** **[May 2003] *[Sec 7]***

Examine the validity of the following in the light of the provisions of the negotiable Instruments Act, 1881.

i. An oral acceptance.
ii. An acceptance by mere signature without writing the word accepted.

**Solution**

**i. The acceptance is not valid** – Since it is not given in writing and is not signed.

**ii. The acceptance is valid** – Since the drawee has signed the bill.
- Since writing the word 'accepted' is not a statutory requirement.

**Concept Problem 27** **[May 2007] *[Sec 86]***

Referring to the provisions of the Negotiable Instruments Act, 1881, examine the validity of the following
"A bill of exchange originally drawn by M for a sum of INR 10,000 but acceptance by R only for INR 7,000."

**Solution**

**The acceptance is valid and the acceptor is liable for INR 7,000**

- But it amounts to qualified acceptance (since the acceptance is given for a part of the sum mentioned in the bill).
- But no other party shall be liable on the bill unless it has given its consent to the qualified acceptance.
- However, the holder is entitled to object to qualified acceptance and treat the bill as dishonoured by non-acceptance and in such a case all the prior parties shall be liable towards the holder (sec 86).

**Concept Problem 28** **[June 2009] *[Sec 86]***

Referring to the provisions of the Negotiable Instruments Act, 1881, examine whether acceptance of a bill of exchange in the following situations shall be treated as qualified acceptance where the acceptor

i. Undertakes to pay INR 2,000 for a bill drawn for INR 5,000.
ii. Declares the payment to be independent of any other event.
iii. Writes: Accepted payable at ABC bank.

**Solution**

**The acceptance is qualified -** Since the acceptance is given for a part of the sum mentioned in the bill.

**The acceptance is not qualified -** Since the acceptance is given without any condition or qualification.

**The acceptance is not qualified -** Since an acceptance to pay at a particular place amounts to general acceptance (but if it is expressly stated that the bill shall be paid at the specified place only and not elsewhere, it amounts to qualified acceptance).

| **Concept Problem 29** | **[Nov 2008][May 2017] *[Sec 42]*** |
|---|---|
| X draws a bill on Y but signs it in the fictitious name of Z. The bill is payable to the order of Z. The bill is duty accepted by Y. M obtains the bill from X, thus becoming its holder in due course. Can Y avoid payment of the bill? Decide in the light of the provisions of the Negotiable Instruments Act, 1881. | |
| **Solution** | |
| **Y is liable to M for the payment of the bill** | |
| - Since where a bill is signed by the drawer in a fictitious name, the acceptor cannot allege against a holder in due course that the drawer is fictitious.<br>- Since it can be proved that the signatures of the person signing in the capacity of drawer and that of the person singing in the capacity of the endorser are in same handwriting. | |

| **Concept Problem 30** | **[Nov 2009][Nov 2017]*[Sec 40]*** |
|---|---|
| N is the holder of a bill of exchange made payable to the order of P. The bill of exchange contains the following endorsements in blank.<br>First endorsement 'P'<br>Second endorsement 'Q'<br>Third endorsement 'R'<br>Fourth endorsement 'S'<br>'N' strikes out, without 'S's consent, the endorsement by Q and R. Decide with reasons whether N is entitled to recover anything from S under the provisions of Negotiable Instrument Act, 1881.<br>**Or**<br>'E' is the holder of a bill of exchange made payable to the order of 'F'. The bill of exchange contains the following endorsements in blank:<br>First endorsement 'F'<br>Second endorsement 'G'.<br>Third endorsement 'H'<br>and Fourth endorsement 'I'<br>'E' strikes out, without I's consent, the endorsements by 'G' and 'H'. Decide with reasons whether 'E' is entitled to recover anything from 'I' under the provisions of Negotiable Instruments Act, 1881 | |
| **Solution** | |
| **Effects of striking off the name of an endorser -** Where the holder cancels the name of any party liable on the negotiable instruments, such a party and all parties subsequent to him are discharged | |
| **S is Discharged -** Since the holder N has struck off the name of Q and R and S is the party subsequent to Q and R. | |
| **N is not entitled to recover anything from S -** Since S has been discharged due to cancellation of endorsement of Q and R. | |

**Concept Problem 31**

'K' is an employee of 'Summit'. He fraudulently obtains from Summit a cheque crossed 'not negotiable'. He later transfers the cheque to 'D' who gets the cheque encashed from XYZ Bank, which is not the drawee bank. Summit comes to know about the fraudulent act of 'K', sues XYZ Bank for the recovery of money.

Examine with reference to the relevant provisions of the Negotiable Instruments Act, 1881, whether Summit will be successful in his claim? Would your answer be still the same in case 'K' does not transfer the cheque and gets the cheque encashed from XYZ Bank himself?

**Solution**

According to Section 130 of the Negotiable Instruments Act, 1881 a person taking cheque crossed generally or specially bearing in either case the words 'Not Negotiable' shall not have or shall not be able to give a better title to the cheque than the title the person from whom he took it had. In consequence, if the title of the transferor is defective, the title of the transferee would be vitiated by the defect.

Thus, based on the above provisions, it can be concluded that if the holder has a good title, he can still transfer it with a good title, but if the transferor has a defective title, the transferee is affected by such defects, and he cannot claim the right of a holder in due course by proving that he purchased the instrument in good faith and for value.

Since 'K' in the given case, had obtained the cheque fraudulently, he had no title to it and cannot give to the bank any title to the cheque or money; and the bank would be liable for the amount of the cheque for encashment. (Great Western Railway Co. v. London and Country Banking Co.)

The answer in the second case would not change and shall remain the same for the reasons given above. Thus, 'Summit' in both the cases shall be successful in his claim from XYZ Bank.

**Concept Problem 32 *[RTP May 2018]***

'E' is the holder of a bill of exchange made payable to the order of 'F'. The bill of exchange contains the following endorsements in blank:

First endorsement 'F'
Second endorsement 'G'.
Third endorsement 'H' and
Fourth endorsement 'I'

'E' strikes out, without I's consent, the endorsements by 'G' and 'H'. Decide with reasons whether 'E' is entitled to recover anything from 'I' under the provisions of Negotiable Instruments Act, 1881.

**Answer**

According to section 40 of the Negotiable Instruments Act, 1881, where the holder of a negotiable instrument, without the consent of the endorser, destroys or impairs the endorser's remedy against a prior party, the endorser is discharged from liability to the holder to the same extent as if the instrument had been paid at maturity. Any party liable on the instrument may be discharged by the intentional cancellation of his signature by the holder.

In the given question, E is the holder of a bill of exchange of which F is the payee and it contains the following endorsement in blank:

First endorsement, 'F'
Second endorsement, 'G'
Third endorsement, 'H'
Fourth endorsement, 'I'

'E', the holder, may intentionally strike out the endorsement by 'G' and 'H'; in that case the liability of 'G' and 'H' upon the bill will come to an end. But if the endorsements of 'G' and 'H' are struck out without the consent of 'I', 'E' will not be entitled to recover anything from 'I'. The reason being that as between 'H' and 'I', 'H' is the principal debtor and 'I' is surety.

If 'H' is released by the holder under Section 39 of the Act, 'I', being surety, will be discharged. Hence, when the holder without the consent of the endorser impairs the endorser's remedy against a prior party, the endorser is discharged from liability to the holder.

Thus, if 'E' strikes out, without I's consent, the endorsements by 'G' and 'H', 'I' will also be discharged.

**Concept Problem 33 *[RTP Nov 2018]***

A bill of exchange has been dishonoured by non- payment. Now, Mr. Sandip, the holder wants a certificate of protest for such a dishonoured bill. Advise, Mr. Sandip whether he can get the certificate of protest. Also, advise him regarding the provisions of Protest for better security.

**Answer**

**Protest:** According to section 100 of the Negotiable Instruments Act,1881, when a promissory note or bill of exchange has been dishonoured by non-acceptance or non- payment, the holder may, within a reasonable time, cause such dishonour to be noted and certified by a notary public. Such certificate is called a protest.

**Protest for better security:** When the acceptor of a bill of exchange has become insolvent, or his credit has been publicly impeached, before the maturity of the bill, the holder may, within a reasonable time, cause a notary public to demand better security of the acceptor, and on its being refused may, with a reasonable time, cause such facts to be noted and certified as aforesaid. Such certificate is called a protest for better security.

Thus, Mr. Sandip can get the certificate of protest by following the above provisions.

**Concept Problem 34**

Give the answer of the following as per the provisions of the Negotiable Instruments Act, 1881:

**a)** A draws a cheque in favour of M, a minor. M endorses the same in favour of X. The cheque is dishonoured by the bank on grounds of inadequate funds. Discuss the rights of X.

**b)** A promissory note was made without mentioning any time for payment. The holder added the words "on demand" on the face of the instrument. Does this amount to material alteration?

**c)** A draws a cheque for Rs. 1000 and hands it over to B by way of gift. Is B a holder in due course? Explain whether he has right to receive the proceeds of the cheque. [ICAI May 2018]

**d)** A cheque is drawn payable to "B or order". It is stolen and the thief forges B's endorsement and endorses it to C. The banker pays the cheque in due course. Whether B can recover the money from the banker.

**Answer**

**a)** As per Section 26 of the Negotiable Instruments Act, 1881, a minor may draw, endorse, deliver and negotiate the instrument so as to bind all parties except himself. Therefore, M is not liable. X can, thus, proceed against

**b)** As per the provision of the Negotiable Instruments Act,1881 this is not a material alteration as a promissory note where no date of payment is specified will be treated as payable on demand. Hence adding the words "on demand" does not alter the business effect of the instrument.

**c)** B is a holder but not a holder in due course as he does not get the cheque for value and consideration. His title is good and bonafide. As a holder he is entitled to receive Rs. 1000 from the bank on whom the cheque is drawn.

**d)** According to Section 85 of the Negotiable Instruments Act, 1881, the drawee banker is discharged when he pays a cheque payable to order when it is purported to be endorsed by or on behalf of the payee. Even though the endorsement of Mr. B is forged, the banker is protected and he is discharged. The true owner, B, cannot recover the money from the drawee bank.

**Concept Problem 35** ***[MTP Nov 2018]***

Explain the power of court for trial of cases summarily, as per the provisions of the Negotiable Instruments Act, 1881.

**Answer**

According to section 143 of the Negotiable Instruments Act, 1881,

**1)** **Trial of Offence:** Notwithstanding anything contained in the Code of Criminal Procedure, 1973, all offences under this Chapter shall be tried by a Judicial Magistrate of the first class or by a Metropolitan Magistrate and the provisions of sections 262 to 265 (both inclusive) of the said Code shall, as far as may be, apply to such trials:

**In case of summary trial:** Provided that in the case of any conviction in a summary trial under this section, it shall be lawful for the Magistrate to pass a sentence of imprisonment for a term not exceeding one year and an amount of fine exceeding five thousand rupees:

**In case where no summary trial can be made:** Provided further that when at the commencement of, or in the course of, a summary trial under this section, it appears to the Magistrate that the nature of the case is such that a sentence of imprisonment for a term exceeding one year may have to be passed or that it is, for any other reason, undesirable to try the case summarily, the Magistrate shall after hearing the parties, record an order to that effect and thereafter recall any witness who may have been examined and proceed to hear or rehear the case in the manner provided by the said Code.

2) **Speedy Trial:** The trial of a case under this section shall, so far as practicable, consistently with the interests of justice, be continued from day to day until its conclusion, unless the Court finds the adjournment of the trial beyond the following day to be necessary for reasons to be recorded in writing.

3) **Speedy and efficient Disposal:** Every trial under this section shall be conducted as expeditiously as possible and an endeavour shall be made to conclude the trial within six months from the date of filing of the complaint.

**Concept Problem 36 *[ICAI SM]***

State briefly the rules laid down under the Negotiable Instruments Act for determining the date of maturity of a bill of exchange. Ascertain the date of maturity of a bill payable hundred days after sight and which is presented for sight on 4$^{th}$ May, 2017.

**Solution**

**Calculation of maturity of a Bill of Exchange:** The maturity of a bill, not payable on demand, at sight, or on presentment, is at maturity on the third day after the day on which it is expressed to be payable (Section 22, of Negotiable Instruments Act, 1881). Three days are allowed as days of grace. No days of grace are allowed in the case of bill payable on demand, at sight, or presentment.

When a bill is made payable at stated number of months after date, the period stated terminates on the day of the month which corresponds with the day on which the instrument is dated.

When it is made payable after a stated number of months after sight, the period terminates on the day of the month which corresponds with the day on which it is presented for acceptance or sight or noted for non-acceptance or protested for non-acceptance.

When it is payable a stated number of months after a certain event, the period terminates on the day of the month which corresponds with the day on which the event happens (Section 23).

When a bill is made payable a stated number of months after sight and has been accepted for honour, the period terminates with the day of the month which corresponds with the day on which it was so accepted.

If the month in which the period would terminate has no corresponding day, the period terminates on the last day of such month (Section 23).

In calculating the date, a bill made payable a certain number of days after date or after sight or after a certain event is at maturity, the day of the date, or the day of presentment for acceptance or sight or the day of protest for non-acceptance, or the day on which the event happens shall be excluded (Section 24).

Three days of grace are allowed to these instruments after the day on which they are expressed to be payable.

When the last day of grace falls on a day which is public holiday, the instrument is due and payable on the next preceding business day (Section 25).

**Answer to Problem:** In this case, the day of presentment for sight is to be excluded i.e. 4$^{th}$ May, 2017. The period of 100 days ends on 12$^{th}$ August, 2017 (May 27 days + June 30 days + July 31 days + August 12 days). Three days of grace are to be added. It falls due on 15$^{th}$ August, 2017 which happens to be a public holiday. As such, it will fall due on 14$^{th}$ August, 2000 i.e. the next preceding business day.

**Concept Problem 37 *[ICAI SM] [RTP May 2019]***

M owes money to N. Therefore, he makes a promissory note for the amount in favour of N. For safety of transmission, he cuts the note in half and posts one half to N. He then changes his mind and calls upon N to return the half of the note which he had sent. N requires M to send the other half of the promissory note. Decide how rights of the parties are to be adjusted.

**Solution**

The question arising in this problem is whether the [making of promissory note is complete when one half of the note was delivered to N.

Under Section 46 of the Negotiable Instrument Act, 1881, the making of a promissory note is completed by delivery, actual or constructive. Delivery refers to the whole of the instrument and not merely a part of it. Delivery of half instrument cannot be treated as constructive delivery of the whole.

So, the claim of N to have the other half of the promissory note sent to him is not maintainable. M is justified in demanding the return of the first half sent by him. He can change his mind and refuse to send the other half of the promissory note.

**Concept Problem 38 *[MTP May 2019]***

Manoj owes money to Umesh. Therefore, he makes a promissory note for the amount in favour of Umesh, for safety of transmission he cuts the note in half and posts one half to Umesh. He then changes his mind and calls upon Umesh to return the half of the note which he had sent. Umesh requires Manoj to send the other half of the promissory note. Decide how rights of the parties are to be adjusted.

Give your answer in reference to the Provisions of Negotiable Instruments Act, 1881.

**Solution**

The question arising in this problem is whether the making of promissory note is complete when one half of the note was delivered to Umesh. Under Section 46 of the Negotiable Instruments Act, 1881, the making of a promissory note is completed by delivery, actual or constructive. Delivery refers to the whole of the instrument and not merely a part of it. Delivery of half instrument cannot be treated as constructive delivery of the whole.

So, the claim of Umesh to have the other half of the promissory note sent to him is not maintainable. Manoj is justified in demanding the return of the first half sent by him. He can change his mind and refuse to send the other half of the promissory note.

**Concept Problem 39 *[MTP May 2019]***

Explain the meaning of 'Negotiation by delivery' with the help of an example. Give your answer as per the provisions of the Negotiable Instruments Act, 1881.

**Solution**

**Negotiation by delivery**

According to section 47 of the Negotiable Instruments Act, 1881, subject to the provisions of section 58, a promissory note, bill of exchange or cheque payable to bearer is negotiable by delivery thereof.

**Exception:** A promissory note, bill of exchange or cheque delivered on condition that it is not to take effect except in a certain event is not negotiable (except in the hands of a holder for value without notice of the condition) unless such event happens.

**Example:** A, the holder of a negotiable instrument payable to bearer, delivers it to B's agent to keep for B. The instrument has been negotiated.

**Concept Problem 40 *[MTP May 2019]***

On a Bill of Exchange for Rs. 1 lakh, X's acceptance to the Bill is forged. 'A' takes the Bill from his customer for value and in good faith before the Bill becomes payable. State with reasons whether 'A' can be considered as a 'Holder in due course' and whether he (A) can receive the amount of the Bill from 'X.

**Solution**

According to section 9 of the Negotiable Instruments Act, 1881 'holder in due course' means any person who for consideration becomes the possessor of a promissory note, bill of exchange or cheque if payable to bearer or the payee or endorsee thereof, if payable to order, before the amount in it became payable and without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title.

As 'A' in this case *prima facie* became a possessor of the bill for value and in good faith before the bill became payable, he can be considered as a holder in due course.

But where a signature on the negotiable instrument is forged, it becomes a nullity. The holder of a forged instrument cannot enforce payment thereon. In the event of the holder being able to obtain payment in spite of forgery, he cannot retain the money. The true owner may sue on tort the person who had received. This principle is universal in character, by reason where of even a holder in due course is not exempt from it.

A holder in due course is protected when there is defect in the title. But he derives no title when there is entire absence of title as in the case of forgery. Hence 'A' cannot receive the amount on the bill.

**Concept Problem 41 *[MTP May 2019]***

Mr. S Venkatesh drew a cheque in favour of M who was sixteen years old. M settled his rental due by endorsing the cheque in favour of Mrs. A, the owner of the house in which he stayed. The cheque was dishonoured when Mrs. A presented it for payment on grounds of inadequacy of funds. Advise Mrs. A how she can proceed to collect her dues.

Give your answer in reference to the Provisions of Negotiable Instruments Ac t, 1881.

**Solution**

**Capacity to make, etc., promissory notes, etc. (Section 26 of the Negotiable Instruments Act, 1881):**

Every person capable of contracting, according to the law to which he is subject, may bind himself and be bound by the making, drawing, acceptance, endorsement, delivery and negotiation of a promissory note, bill of exchange or cheque.

However, a minor may draw, endorse, deliver and negotiate such instruments so as to bind all parties except himself. As per the facts given in the question, Mr. S Venkatesh draws a cheque in favour of M, a minor. M endorses the same in favour of Mrs. A to settle his rental dues. The cheque was dishonoured when it was presented by Mrs. A to the bank on the ground of inadequacy of funds. Here, in this case, M being a minor may draw, endorse, deliver and negotiate the instrument so as to bind all parties except himself. Therefore, M is not liable. Mrs. A can, thus, proceed against Mr. S Venkatesh to collect her dues.

**Concept Problem 42 *[MTP May 2019]***

P draws a bill on Q for Rs. 10,000. Q accepts the bill. On maturity, the bill was dishonored by non- payment. P files a suit against Q for payment of Rs. 10,000. Q proved that the bill was accepted for value of Rs. 7,000 and as an accommodation to the plaintiff for the balance amount i.e. Rs. 3,000. Referring to the provisions of the Negotiable Instruments Act, 1881 decide whether P would succeed in recovering the whole amount of the bill? *[Similar question done earlier as well]*

**Solution**

As per Section 44 of the Negotiable Instruments Act, 1881, when the consideration for which a person signed a promissory note, bill of exchange or cheque consisted of money, and was originally absent in part or has subsequently failed in part, the sum which a holder standing in immediate relation with such signer is entitled to receive from him is proportionally reduced.

**Explanation**—The drawer of a bill of exchange stands in immediate relation with the acceptor. The maker of a promissory note, bill of exchange or cheque stands in immediate relation with the payee, and the endorser with his endorsee. Other signers may by agreement stand in immediate relation with a holder.

On the basis of above provision, P would succeed to recover Rs. 7,000 only from Q and not the whole amount of the bill because it was accepted for value as to Rs. 7,000 only and an accommodation to P for Rs. 3,000.

**Concept Problem 43 *[ICAI SM]***

M drew a cheque amounting to INR 2 lakh payable to N and subsequently delivered to him. After receipt of cheque, N endorsed the same to c but kept it in his safe locker. After sometime, N died, and P found the cheque in N's safe locker. Does this amount to indorsement under the negotiable instruments Act ,1881?

**Solution**

No, P does not become the hold of the cheque as the negotiation was not completed by delivery of the cheque to him. (Section 48 of the Negotiable Instruments Act, 1881).

**Concept Problem 44 *[ICAI SM]***

Mr. Muralidharan drew a cheque payable to Mr. Vyas or order. Mr. Vyas lost the cheque and was not aware of the loss of the cheque. The person who found the cheque forged the signature of Mr. Vyas and endorsed it to Mr. Parshwanath as the consideration for goods bought by him from Mr. Parshwanath. Mr. Parshwanath encashed the cheque, on the very same day from the drawee bank. Mr. Vyas intimated the drawee bank about the theft of the cheque after three days. Examine the liability of the drawee bank.

**Solution**

Cheque payable to order [section 85 of the negotiable instruments act ,1881]

a. where a cheque payable to order purports to be indorsed by or on behalf of the payee, the drawee is discharged by payment in due course.

b. where a cheque is originally expressed to be payable to bearer, the drawee is discharged by payment in due course to the bearer thereof, notwithstanding any indorsement whether in full or in blank appearing thereon, and notwithstanding that any such indorsement purports to restrict or exclude further negotiation.

As per the given facts, cheque is drawn payable to "Mr. Vyas or order". It was lost and Mr. Vyas was not aware of the same. The person found the cheque and forged and endorsed it to Mr. Parshwanath, who encashed the cheque from the drawee bank. After few days, Mr. Vyas intimated about the theft of the cheque, to the drawee bank, by which time, the drawee bank had already made the payment.

According to above stated section 85, the drawee banker is discharged when it has made a payment against the cheque payable to order when it is purported to be endorsed by or on behalf of the payee. Even though the signature of Mr. Vyas is forged, the banker is protected and is discharged. The true owner, Mr. Vyas, cannot recover the money from the drawee bank in this situation.

**Concept Problem 45 *[ICAI SM]***

Rama executes a promissory note in the following form, 'I promise to pay a sum of INR 10,000 after three months'. Decide whether the promissory note is a legal promissory note.

**Answer**

The promissory note is an unconditional promise in writing. In the above question, the amount is certain but the date and name of payee is missing make it a bearer instrument. As per RBI Act, a promissory note cannot be made payable to bearer whether on demand or after certain days. Hence, the instrument is illegal as per RBI Act and cannot be legally enforced.

## 2. True or False

State whether the following are True or False and give reasons (1 Mark each):

| | | |
|---|---|---|
| **1** | **Nov. 2010** | A promissory note duly executed in favour of minor is void.<br>**Ans.** The given statement is false.<br>**Reason:** As per sec. 26, where any party to a negotiable instrument is a minor, the negotiable instruments is not void. All the parties except the minor shall be bound on such negotiable instrument. Thus, the minor can recover the payment of the promissory note form all the prior parties. |
| **2** | **May 2011** | A cheque market 'Not Negotiable' is not transferable.<br>**Ans.** The given statement is false. |

| | | |
|---|---|---|
| | | **Reason:** In case of a cheque marked 'not negotiable', the transferee shall not have a better title than the title of the transferor. But the 'not negotiable' crossing does not restrict the transferability of the cheque (sec. 130). |
| 3 | **Nov. 2012** | The validity period of a cheque is three months.<br>**Ans.** The given statement is true<br>**Reason:** The validity period of cheque has been reduced from 6 months to 3 months vide RBI notification No. RBI/2011-12/251 dated 04-11-2011. |
| 4 | **May 2016** | In a promissory note, the promise to pay must be conditional.<br>**Ans.** The given statement is false.<br>**Reason:** As per sec. 4, in order to constitute a value promissory note, the promise must be unconditional. |
| 5 | **May 2016** | A bill of exchange may not be in writing.<br>**Ans.** The given statement is false.<br>**Reason:** As per sec. 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 a certain person or the order of a certain person or the bearer of the instrument. |

## 3. Questions for Practice

1) Define the term 'Cheque' as given in the Negotiable Instruments Act, 1881 as amended by the Negotiable Instruments (Amendment and Miscellaneous Provisions) Act, 2002. **[Nov 2004]**

2) Point out the difference between 'Cheque' and a 'bill of exchange' under the Negotiable Instruments Act, 1881. **[May 2011]**

3) Examining the provisions of the Negotiable Instruments Act, 1881, distinguish between a 'bill of exchange and a 'promissory note'. **[May 2012]**

4) In what way does the Negotiable Instruments Act regulate the determination of the 'date of maturity of bill of exchange? **[Nov 2005]**

5) What is meant by 'Sans Recourse Endorsement' of a bill of exchange? How does it differ from 'Sans frais Endorsement'? **[May 2015]**

6) Explain the concept and different forms of restrictive and qualified endorsement. **[Nov 2015]**

7) What are the differences between 'negotiability' and 'assignability'? **[Nov 2003] [May 2013]**

8) Point out the difference between 'transfer by negotiation' and 'transfer by assignment' under the provisions of the Negotiable Instruments Act, 1881. **[May 2006]**

9) Examine when a holder of a negotiable instrument shall be considered as a holder in due course under the provisions of the Negotiable Instruments Act, 1881. **[Nov 2005]**

10) Describe in brief the advantages and protections available to a holder in due course under the provisions of the Negotiable Instruments Act, 1881. **[Nov 2008]**

11) A draws and B accepts the bill payable to C or order. C endorses the bill to D and D to E who is holder in due course. From whom E can recover the amount? Examining the rights of E, state the privileges of the holder – in-due course provided under the Negotiable Instruments Act, 1881. **[Nov 2012]**

12) What do you understand by crossing of cheques? What is the use of crossing? State the implication of the following crossings:

    a) Restrictive crossing
    b) Not-negotiable crossing **[Nov 2003]**

13) Explain as to why shall the combination of 'not negotiable' with 'account payee crossing' be considered as the safest form of crossing a cheque. **[Nov 2007]**

14) State the grounds on the basis of which a cheque may be dishonoured by a banker inspite of the fact that there is sufficient amount in the account of the drawer. **[Nov 2003]**

15) State the cases in which a banker is justified or bound to dishonour cheques. **[May 2005]**

16) PQR Limited received a cheque for INR 50,000 from its customer Mr. LML. After a week, company come to know that the proceeds were not credited to the account of PQR Limited due to some 'defects' as informed by the banker. What according to you are the possible defects? **[May 2007]**

17) State in brief, the grounds on the basis of which a banker can dishonour a cheque under the provisions of the Negotiable Instruments Act, 1881. **[Nov 2011]**

18) State the circumstances on the basis of which a banker can dishonour a cheque under the provisions of Negotiable Instruments Act, 1881. **[Nov 2013]**

19) Describe in brief the main amendments incorporated by the Negotiable Instruments (Amendment and Miscellaneous Provisions) Act 2002 in sections 138, 141 and 142 of the principal Act, i.e. the Negotiable Instruments Act, 1881. **[May 2004]**

20) State the circumstances under which the drawer of a cheque will be liable for an offence relating to dishonour of the cheque under the Negotiable Instruments Act, 1881. **[May 2007]**

21) Ram has INR 2,000/- in his bank account and he has no authority to overdraw. He issued a cheque for INR 5,000/- to Gopal which was dishonoured by the bank. Point out whether Gopal must necessarily give notice of dishonour to Ram under the Negotiable Instruments Act, 1881? **[May 2014]**

22) When is an alteration in a negotiable instrument deemed to be a material alteration under the Negotiable Instruments Act, 1881? What are the consequences of material alteration in negotiable instrument? **[May 2006]**

23) Define material alteration under the Negotiable Instruments Act, 1881 and give examples. **[May 2013]**

24) Which are the essential elements of a valid acceptance of a bill of exchange? **[May 2003]**

25) When will a bill exchange be dishonoured by non- acceptance and non-payment under the provisions of Negotiable Instruments Act, 1881? **[Nov 2002]**

26) What is meant by presentment of bill of exchange under the Negotiable Instruments Act, 1881? When is such a bill of exchange presented? State when is the presentment not necessary. **[May 2008]**

27) Explain the term 'drawee' in case as used in the Negotiable Instruments Act, 1881. **[Nov 2014]**

28) Explain the term 'acceptance for honour' as used in the Negotiable Instruments Act, 1881. **[Nov 2014]**

29) What are the circumstances under which a bill of exchange can be dishonoured by non-acceptance? Give your answer as per the provisions of the Negotiable Instruments Act, 1881. **[MTP May 2019]**

30) State the rules laid down by the Negotiable Instruments Act, 1881 for ascertaining the date of maturity of a bill of exchange. **[May 2018]**