

## Articles of Association

### Document containing-

1. Rules, regulations or bye-laws of a company
2. Form in which business to be carried on.
3. Powers of directors & officers of the company

### Doctrine of Constructive Notice

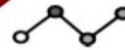
1. MOA & AOA are public documents open & accessible to all.
2. Any person dealing with Co. is presumed to have read MOA & AOA irrespective- of whether he reads it or not.
3. Not only read these documents but have also understood their proper meaning.

### Doctrine of Indoor Management

1. Exception to doctrine of Constructive Notice.
2. Protects outsiders against company, acted in good faith.
3. Persons dealing with Company are presumed to have read the registered documents and to see that the proposed dealing is not inconsistent therewith, but they need not enquire into the regularity of internal proceedings as required by MOA & AOA

## CHAPTER

# 7



# THE NEGOTIABLE INSTRUMENTS ACT, 1881



# The Negotiable Instruments Act, 1881

## Meaning of NI (Sec.13)

P/N, BOE, Cheque -  
**payable** either to order; or to bearer

**Characteristics of NI:** 1. in writing, 2. Signed, 3. Freely transferable, 4. Title free from defects, 5. Can be transferred any number of times, 6. Unconditional promise or order to pay money, 7. Certainty of sum payable, time of payment & payee, 8. Delivery

## Negotiable Instruments

### Promissory Note [Sec. 4]

#### Meaning

An instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking signed by the maker 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.

#### Characteristics

(a) In Writing, (b) Express Promise to pay, (c) Definite and unconditional promise, (d) Signed by maker, (e) Promise to pay money only, (f) Promise to pay a certain sum, (g) Payee must be certain, (h) Stamped

### Bill of Exchange [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 instrument.

**Note:** BOE cannot be made payable to bearer on demand.

#### Characteristics

(a) In Writing, (b) Express Order to pay, (c) Definite and unconditional order, (d) Signed by drawer, (e) Order to pay money only, (f) Certain sum, (g) Drawer, Drawee & Payee must be certain, (h) Stamped

### Cheque [Sec. 6]

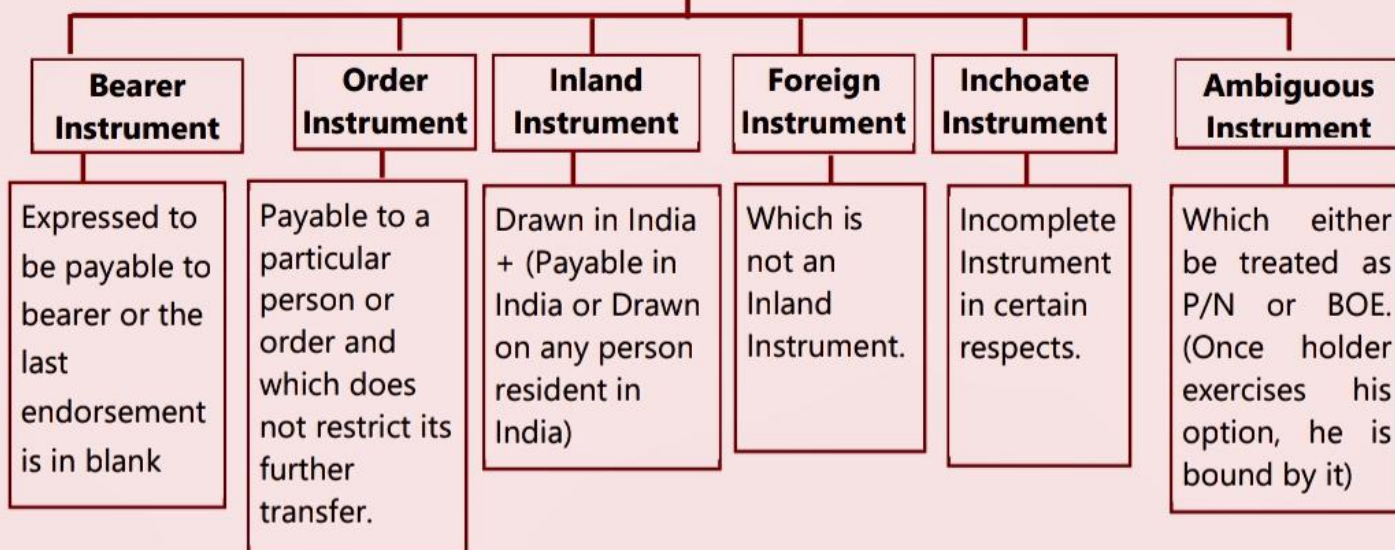
A Cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand (i.e., it is always payable on demand) and it includes – 'the electronic image of truncated cheque'; and 'a cheque in electronic form'

#### Characteristics

(a) All the essentials of a BOE  
(b) Drawn on a specified banker.  
(c) Payable on demand.  
**A cheque does not require:**  
(a) Stamping; or (b) acceptance;



## Classification of Negotiable Instruments



### Presentment for acceptance (Only for BOE)

<b>BOE payable after sight must</b>	Must be presented within a reasonable time & in business hours on a business day. ( <b>Note:</b> 48 hours, excluding public holidays, are given to drawee for acceptance)	
<b>In default of such presentment</b>	no party liable thereto	If Drawee not found after reasonable search, BOE is dishonored.
<b>If BOE is directed to drawee at a particular place</b>	must be presented at that place	

### Presentment of Promissory Note for sight

<b>P/N payable at a certain period after sight</b>	Must be presented within a reasonable time & in business hours on a business day.	
<b>In default of such presentment</b>	no party liable thereto	

### Rules regarding presentment for payment (P/N, BOE, CH)

<b>To whom</b>	Maker (P/N), Acceptor (BOE), Drawee (CH)
<b>If default in presentment</b>	no party liable thereto
<b>Exception</b>	If P/N is payable on demand and is not payable at a specified place, no presentment is necessary.
<b>Time</b>	During usual business hours
<b>If instrument payable after date or sight</b>	must be presented for payment at maturity
<b>P/N payable by instalments</b>	must be presented for payment on 3 <sup>rd</sup> day after date fixed for payment of each instalment
<b>instrument payable at specified place</b>	Must be presented for payment at that place.
<b>where no exclusive place specified</b>	must be presented for payment at the place of business (if any) or at the usual residence
<b>no known place of business or residence</b>	presentment may be made to him in person wherever he can be found
<b>Instrument payable on demand</b>	Must be presented for payment within a reasonable time after it is received by the holder.
<b>Note:</b> Delay in presentment for acceptance or payment is excused if the delay is caused by circumstances beyond the control of the holder	

### When Presentment Unnecessary

1. Maker, drawee or acceptor prevents the presentment,
2. Payable at business place & that's closed on business day during usual business hours,
3. Payable at specified place & liable party doesn't attend place,
4. Not payable at specified place & liable party not found after due search,
5. Liable party engaged to pay notwithstanding non-presentment,
6. Liable party makes part payment,
7. Liable party waives off his right to take advantage.
8. If drawer could not suffer damage from want of such presentment.

### Rules as to Compensation (Sec.117)

In case of dishonour of NI, holder can claim:

1. Amount due on NI
2. Expenses incurred in presenting, noting & protesting.
3. Interest 18% p.a. from due date of payment to date of realisation.

**Note:** In case of foreign currency, current rate of exchange.

### Dishonour of Cheques for Insufficiency of Funds in the Accounts [Section 138 to 142]

**Debt** - Cheque was issued to discharge a legally enforceable debt

**Reason for dishonour** - insufficiency of funds

**Presentment of cheque** - Within 3 months

**Demand made from drawer** - Within 30 days of dishonour

**Default by drawer to pay** - within 15 days of demand made