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(M. Com Sem II)

CORPORATE LEGAL FRAMEWORK

Deepa Kumari, PG Dept of Commerce & Bussiness Mgt
H.D. Jain college, Ara

Topic - Types of Negotiable Instruments

⇒ There are following three types of Negotiable Instruments -

1. Promissory Note
2. Bill of Exchange
3. Cheque.

Promissory Note -

A promissory note is an instrument that contains the written and signed promise by the maker (the debtor) to pay a certain amount to the creditor on the specific date or on-demand.

"A promissory Note is writing (not being a bank note or currency note), containing an unconditional undertaking, signed by the maker to pay a certain sum of money only to or to the order of a certain person or the bearer of the instrument".

— Section 4 of India's Negotiable Instruments Act, 1881

- ## Features of the Promissory note :

1. It is in writing.
2. An unconditional promise to pay a certain sum of an amount.
3. An amount should be described in it.
4. It must be signed by the maker or issuer.
5. The document must be dated and properly stamped.
6. The amount must be payable to either a certain person or on his/her behalf.
7. It clearly mentions the date of payment.

Bills of Exchange :-

A bill of exchange is an instrument that contains a promise to pay some amount of money to a certain person after a certain period of time. It is generally drawn by the creditor (maker or drawer) on his debtor (acceptor or drawee) and the debtor gives the acceptance to that he will pay the money to the maker (drawer) after a certain period or a specific date. It should be accepted by the person to whom it is created or by another person on his/her behalf. Without acceptance, this document doesn't have any value.

"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, or to the order of, a certain person, or to the bearer of the instrument."

— Section 5 of India's Negotiable Instruments Act, 1881

- Features of the Bill of Exchange :-

1. It should be in writing.
2. In order to make a payment on the specific date or after a certain period.
3. An unconditional order of payment, it does not contain any condition of payment.
4. A certain amould should be described in it.
5. It must be signed by both parties Drawer (maker) and Drawee.
6. The amound must be payable to either a certain person or on his/her behalf.
7. It should be paid on the date of maturity or on-demand or on mutual understanding.

- Cheque :-

"A cheque is a bill of Exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form."

— Section 6 of India's Negotiable Instruments Act, 1881