

**PAPER-3**

## **NEGOTIABLE INSTRUMENTS ACT 1881**

**BANK PROMOTIONAL EXAM**

**PART-5**



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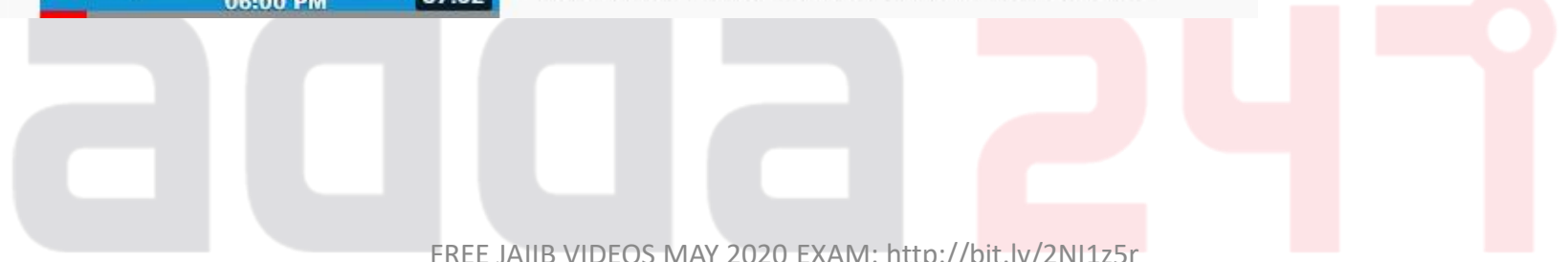
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# Section 31- Liability of drawee of cheque

- Drawee of a cheque having sufficient funds of the drawer in his hands properly applicable to the payment of such cheque must pay the cheque
- Must pay the cheque when duly required
- In default of such payment, must compensate the drawer for any loss or damage caused by such default.

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# Sec. 47 Negotiation by delivery

- NI payable to bearer is negotiable by its delivery.

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# Sec 85(1) Protection in case of Order cheque

Paying banker is protected by payment in due course of an order cheque which is properly endorsed by payee or its agent.

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# Sec 85(2) Protection to paying banker in case of Bearer Cheque

Paying banker is protected by payment in due course of a bearer cheque which is properly endorsed by payee or its agent.

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## Sec. 89-

- Cheque with material alteration which is not visible even after careful checking of the cheque

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# Sec 131- Protection available for collecting banker

- Banker who in good faith, without negligence received payment for customer of crossed cheque, shall not incur any liability to the true owner of the cheque in case the title to the cheque proves defective.

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# When Bank should not make payment of cheque

- **Death of Drawer**
- **Company in liquidation**
- **Insane customers**
- **Insolvent drawers**
- **Countermanding-Valid stop payment**
- **Others-** Post dated, insufficient funds, materially alerted, stale etc

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# Sec 123- General Crossing

- Where a cheque bears across its face parallel transverse lines with or with crossing & the cheque is said to be crossed.

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# Sec 124- Special crossing

- Where cheque bears across its face addition of name of banker with/without words “not negotiable” this addition specially.

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## Q. Stale cheque means:

- 1) Crossing the date of 31 March in every year
- 2) Crossing the date of bank last working day in the month
- 3) Cheque written with red pen
- 4) Cheque validity period over from the writing date



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## Q. Crossed cheque means:

- a) Two lines put across the cheque to invalidate it
- b) Ordering the bank to pay cash to anybody
- c) Putting two lines across the top left of the cheque asking the bank to pay cash to payee through account only
- d) The Cheque issued by RBI in favour of State governments and Central governments



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**Q.** When bank pays a forged cheque, it does not get a discharge, since a forged instrument is not a mandate of the customer. Where the bank debits such cheques, It has to restore the amount, even if the forgery is done cleverly. The burden to prove forgery, lies with the drawer. Which of the following bank will get protection under section 131 for crossed cheque?

- a) Collecting Bank
- b) Paying Bank
- c) Both collection bank and paying bank
- d) Neither collecting bank nor paying bank



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**Q.** Bank get protection for payment of order cheques with forged endorsements a bank should ensure that-

- a) Payment is made in due course
- b) Endorsement is not forged
- c) Drawer has attested signatures of the payee
- d) Both (1) and (2)



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**Q.** A cheque has been deposited by a customer with his bank for collection. The bank allows overdraft against the security thereof. The bank becomes:

- a) Holder of the cheque
- b) Holder in due course
- c) Holder for value
- d) Drawer of the cheque



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**Q.** X issued a cheque in favor of life insurance corporation on India for Rs. 12456 being annual premium payment. The balance in the account is Rs. 12008. Bank made the payment by creating OD without any request from X, conserving that X has been maintaining the account for along period in that was a important payment. When the notice has to sent X to pay the balance in overdraft along with the interest, he thanks the bank for payment of cheque but refuses to pay, as he has never given his consent to create an overdraft

- a) Bank created the OD on its own due to which it has no right to demand the money for customer
- b) Bank acted negligently by making the payment without sufficient balance
- c) Bank can recover the amount along with the interest since the customer has accepted the payment of the cheque by thanking the bank for payment
- d) Bank can recover the amount of overdraft because that money become payable to bank on demand

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