

QB365 Question Bank Software Study Materials

The Negotiable Instruments Act, 1881 Important 2,3 & 5 Marks Questions With Answers (Book Back and Creative)

12th Standard

Commerce

Total Marks : 75

2 Marks

10 x 2 = 20

1) What is meant by Negotiable Instrument?

Answer : (i) The word "Negotiable" means transferable from one person to another in return for consideration.
(ii) The word 'Instrument' means a written document by which a right is created in favour of certain person.
(iii) A negotiable instrument is a document which entitles a person to a certain sum of money and which is transferable from one person to another by mere delivery or by endorsement and delivery.

2) List three characteristics of a Promissory Note.

Answer : Characteristics of a promissory note:
(i) A promissory note must be in writing.
(ii) The promise to pay must be unconditional.
(iii) It must be signed by the maker.

3) What is a meant by Cheque?

Answer : According to section 6 of the Negotiable Instruments Act, 1881 defines a cheque as "a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand"

4) Define Bill of Exchange.

Answer : According to section 5 of the Negotiable Instruments Act, "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".

5) Define "Negotiable Instrument".

Answer : In the words of Justice K.C. Wills, a negotiable instrument is one, the property in which is acquired by anyone who takes it bonafide and for value, and withstanding any defect to title in the person from whom he took it.

6) Definition of promissory note.

Answer : According to Section 4 of the Negotiable Instruments Act, "a promissory note is 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 or to the order of, a certain person or to the bearer of the instrument".

7) What do you mean by crossing a cheque?

Answer : (i) Crossing a cheque refers to the practice of drawing two parallel transverse lines across the face of a cheque with or without the words and Co
(ii) The effect of this crossing is that the drawee bank will pay the amount of a cheque only to the banker.

8) What are the Significance of general crossing?

Answer : (i) When a cheque is crossed generally the banker should not pay the amount across the counter.
(ii) The receiver of the amount of the cheque can be easily traced in case the cheque is lost or stolen and collected. Thus the crossing assures safety.

9) Its one kind of endorsement restricts or prohibits further negotiability of the instrument. Name it.

Answer : **Restrictive Endorsement.** When an endorsement restricts or prohibits further negotiability of the instrument, it is

called Restrictive Endorsement.

- 10) Mr. Brajith writing his name and sign in back side of cheque. Why he is doing like that? Name the activity?

Answer : Cash Payment of Bearer Cheques The banks are obligated to pay the individual whose name is written on the cheque. As a result, banks require the bearer to sign the back of the cheque as **proof that the amount printed on the cheque has been received.**

3 Marks

10 x 3 = 30

- 11) Distinguish between Negotiability and Assignability.

Answer :

SI.NO	BASIS OF DIFFERENCE	NEGOTIABILITY	ASSIGNABILITY
1.	Legal ownership	It passes to the transferee by mere endorsement in the case of a bearer instrument and by endorsement and delivery in the case of an order instrument.	An assignment can be made by observing certain formalities. For instance, an instrument is to be made in writing, duly stamped and signed by the transferor or his agent.
2.	Notice	Notice is not necessary for the holder of negotiable instrument to claim the payment from the debtor.	In case of actionable claim, notice of the assignment by the transferee regarding the transfer of debt to the debtor is necessary.
3.	Nature of title	Holder of negotiable instrument in due course gets a better title than even the transferor.	The transferee's title to the instrument is subject to the defects of the transferor's title.
4.	Consideration	Consideration is presumed	The assignee has to prove the consideration for the transfer.

- 12) What are the characteristics of a bill of exchange?

Answer : Characteristics of a bill of exchange

- (i) A bill of exchange is a document in writing.
- (ii) The document must contain an order to pay.
- (iii) The order must be unconditional.
- (iv) The instrument must be signed by the person who draws it.
- (v) The name of the person on whom the bill is drawn must be specified in the bill itself.
- (vi) The amount that is required to be paid must also be specified in the bill.

- 13) Draw the two different types of crossing.

Answer : Crossing is of two types: General crossing and special crossing

General Crossing:

1. It is according to section 123 of the Negotiable Instruments Act, 1881.
2. "Where a cheque bears across its face with 'and company' or any abbreviation between two parallel transverse lines with or without the words 'not negotiable, the cheque shall be deemed to be crossed generally':

Special Crossing:

1. It is according to section 124 of the Negotiable Instruments Act, 1881.
2. "Where a cheque bears across its face an addition of the name of a banker with or without the words 'not negotiable, the cheque shall be deemed to be crossed specially and to be crossed to the bankers".



14) Explain the nature of a Negotiable Instrument.

- Answer :**
- (i) The word 'Negotiable' means transferable from one person to another in return for consideration
 - (ii) The word 'Instrument' means a written document by which a right is created in favour of certain person.
 - (iii) A negotiable instrument is a document which entitles a person to a certain . sum of money and which is transferable from one person to another by mere delivery or by endorsement and delivery.
 - (iv) The law relating to negotiable instruments is dealt in the Negotiable Instruments Act 1881.
 - (v) This Act speaks about promissory note, bills of exchange and cheques.

15) Distinguish between Bill of Exchange & Promissory Note.

Answer :

SI.NO.	BASIS OF DIFFERENCE	BILL OF EXCHANGE	PROMISSORY NOTE
1.	Nature of Undertaking	A bill of exchange contains an unconditional order to pay money.	A promissory note contains an unconditional undertaking to pay money.
2.	No. of Parties	There are three parties in a bill of exchange drawer, drawee and payee.	In a promissory note, there are only two parties the maker and the payee.
3.	Drawer of the instrument	A creditor draws a bill on a debtor.	A debtor executes a promissory note in favour of a creditor.
4.	Conditionality	A bill may be accepted conditionally.	A note cannot be made conditional.

16) Write a short note on

- (i) Negotiability
- (ii) Assignability

Answer : **(i) Negotiability:** Negotiability refers to the transferability of all the rights and titles on an instrument by delivery or by endorsement and delivery, vesting with the bonafide transferee for value even better title than what the transferor had. This is the unique characteristics of a negotiable instrument.

(ii) Assignability: Assignability refers to the transferability of personal properties and rights from one person to another as a gift or sale or as security. In short, transferability of ownership of any goods other than negotiable instruments is called Assignability.

17) what do you mean by significance of special crossing?

- Answer :**
- (i) Here the paying banker should make payment only to the particular banker named as a part of special crossing or to his agent for collection.
 - (ii) Thus special crossing is safer than general crossing.

18) Write a note on MICR.

Answer : (i) MICR code is a character - recognition technology used mainly by the banking industry to ease processing and clearance of cheques and other documents.

(ii) It is found at the bottom of the cheque. It includes bank code, bank account number, cheque number, cheque amount and a control indicator.

(iii) The MICR code helps the banker to ensure the legitimacy or originality of paper documents.

(iv) The special ink used in the MICR code is sensitive to magnetic fields.

(v) It prevents the crime of printing counterfeit cheques or documents using technology.

(vi) The magnetic ink will help discover fake documents.

19) What are characteristics of a Negotiable Instruments?

- Answer :** 1. Transferability
2. Title of the holder free from all defects
3. Right of the transferee to sue

20) What is Negotiability?

Answer : Negotiability refers to the transferability of all the rights and titles on an instrument by delivery or by endorsement and delivery, vesting with the bonafide transferee for value even better title than what the transferor had.

5 Marks

5 x 5 = 25

21) Distinguish a cheque and a bill of exchange. (any 5)

Answer :

Sl.No	Basis of Difference	Cheque	Bill of Exchange
1.	Drawn	A cheque can be drawn only on a particular banker.	A bill of exchange can be drawn on any person including a banker
2.	Payability	It is payable on demand only.	It is payable on demand or on the expiry of a certain period.
3.	Validity	A cheque drawn payable to bearer on demand is perfectly valid.	A bill made payable to bearer on demand is void by virtue of section 31 of the RBI Act.
4.	Acceptance	A cheque does not require any acceptance.	In case of time bill, acceptance by the drawee is necessary before he can be made liable on it.
5.	Grace Period	No days of grace are allowed in the case of a cheque for the simple reason that it is always payable on demand.	Three days of grace are allowed while calculating the maturity date in the case of time bill.
6.	Notice	Notice is not necessary for a cheque.	When a bill is dishonoured, notice of dishonour is necessary.

22) Discuss in detail the features of a cheque. (any 5)

Answer : Features of a cheque :

- (i) Instrument in writing :** A cheque or a bill or a promissory note must be an instrument in writing. Though the law does not prohibit a cheque being written in pencil, bankers never accept it because of risks involved.
- (ii) Unconditional order :** The instrument must contain an order to pay money. It is not necessary that the word 'order' or its equivalent must be used to make the document a cheque.
- (iii) Drawn on a Specified Banker Only:** The cheque is always drawn on a specified banker. A cheque vitally differs from a bill in this respect as latter can be drawn on any person including a banker.
- (iv) A Certain Sum of Money Only :** The order must be for payment of only money. If the banker is asked to deliver securities, the document cannot be called a cheque. Further, the sum of money must be certain.
- (v) Payee to be Certain :** The cheque must be made payable to a certain person or to the order of a certain person or to the bearer of the instrument. The word, person includes bodies corporate, local authorities, associations, holders of office of an institution etc.
- (vi) Signed by the Drawer :** The cheque is to be signed by the drawer. Further, it should tally with specimen signature furnished to the bank at the time of opening the account.

23) What are the requisites for a valid endorsement?(any 5)

Answer : If an endorsement is to be valid, it must possess the following requisites:

- (i) Endorsement is to be made on the face of the instrument or on its back.
- (ii) When there is no space for making further endorsements a piece of paper can be attached to the negotiable instrument for this purpose.
- (iii) If the endorsee's name is wrongly spelt, the endorsee should sign the same as spelt in the instrument and write the correct spelling within brackets after his endorsement.
- (iv) Endorsement for only a part of the amount of the instrument is invalid.
- (v) Endorsement is complete only when delivery of the instrument is made.
- (vi) It is presumed that the endorsements appearing on a negotiable instrument were made in the order in which they appear thereon.
- (vii) Signing in block letters does not constitute regular endorsement.

24) Explain the different kinds of endorsements.

Answer : 1. Endorsement in blank or general Endorsement : When the endorser puts his mere signature on the back of an instrument without mentioning the name of the endorsee. (Receiver)

2. Endorsement in full or special Endorsement : In addition to his signature, specifies the person to whom or to whose order the instrument is payable.

3. Conditional or qualified Endorsement : Endorser makes his liability dependent upon the happening of an event which may or may not happen.

4. Restrictive Endorsement : When an endorsement restricts or prohibits further Negotiability of the Instrument.

5. Sans recourse Endorsement : Ordinarily the endorser becomes liable to subsequent parties in the event of dishonour of the instrument.

If he makes it clear that the subsequent holders should not look to him for payment in case it is dishonoured.

6. Facultative Endorsement : To make an endorser liable on the instrument, notice of dishonour must be given to him. But if the endorser waives this right by a writing "Notice of dishonour waived" at the time of endorsing

7. Partial Endorsement : Where the endorsement seeks to transfer only a part of the amount payable under the instrument.

25) What is payee's position when crossing is obliterated?

Answer : (i) Since crossing is a material part of the cheque, crossing cannot be obliterated (removed) by a holder.

(ii) But if the obliteration has been done by dishonest persons so skilfully that its detection is impossible and if payment has been made in due course, though at the counter, the paying banker is discharged from liability.