R.M.M. Law College, Saharsa

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L.L.B Part- 1st

Subject- Negotiable Instrument Act

Paper- 8th

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Topic- Write short notes on the following:

1. **Promissory note, 2. Bill of exchange, 3. Cheque, 4. Acceptance for honour, 5. Drawee in case of need.**

1. Promissory note

A promissory note is a financial instrument that contains a written promise by one party (the note's issuer or maker) to pay another party (the note's payee) a definite sum of money, either on demand or at a specified future date. A promissory note typically contains all the terms pertaining to the indebtedness, such as the principal amount, interest rate, maturity date, date and place of issuance, and issuer's signature.

Although financial institutions may issue them (see below), promissory notes are debt instruments that allow companies and individuals to get financing from a source other than a bank. This source can be an individual or a company willing to carry the note (and provide the financing) under the agreed-upon terms. In effect, promissory notes can enable anyone to be a lender.

2. Bill of exchange

A bill of exchange is a written order used primarily in international trade that binds one party to pay a fixed sum of money to another party on demand or at a predetermined date. Bills of exchange are similar to checks and promissory notes—they can be drawn by individuals or banks and are generally transferable by endorsements.

A bill of exchange transaction can involve up to three parties. The drawee is the party that pays the sum specified by the bill of exchange. The payee is the one who receives that sum. The drawer is the party that obliges the drawee to pay the payee. The drawer and the payee are the same entity unless the drawer transfers the bill of exchange to a third-party payee.

Unlike a check, however, a bill of exchange is a written document outlining a debtor's indebtedness to a creditor. It's frequently used in international trade to pay for goods or services. While a bill of exchange is not a contract itself, the involved parties can use it to fulfill the terms of a contract. It can specify that payment is due on demand or at a specified future date. It's often extended with credit terms, such as 90 days. As well, a bill of exchange must be accepted by the drawee to be valid.

Bills of exchange generally do not pay interest, making them in essence post-dated checks. They may accrue interest if not paid by a certain date, however, in which case the rate must be specified on the instrument. They can, conversely, be transferred at a discount before the date specified for payment. A bill of exchange must clearly detail the amount of money, the date, and the parties involved including the drawer and drawee.

3. Cheque

A **cheque** is a document that orders a bank to pay a specific amount of money from a person's account to the person in whose name the cheque has been issued. The person writing the cheque, known as the drawer, has a transaction banking account (often called a current, cheque, chequing or checking account) where their money is held. The drawer writes the various details including the monetary amount, date, and a payee on the cheque, and signs it, ordering their bank, known as the drawee, to pay that person or company the amount of money stated.

Definition of a cheque as per The National Provincial Bank circa 1968 was "an unconditional order in writing drawn on a Banker, signed by the drawer, instructing the Banker to pay on demand a sum certain in money to or to the order of a specified person or to Bearer and which does not order any act to be done in addition to the payment of money".

Although forms of cheques have been in use since ancient times and at least since the 9th century, it was during the 20th century that cheques became a highly popular non-cash method for making payments and the usage of cheques peaked. By the second half of the 20th century, as cheque processing became automated, billions of cheques were issued annually; these volumes peaked in or around the early 1990s. Since then cheque usage has fallen, being partly replaced by electronic payment systems. In an increasing number of countries cheques have either become a marginal payment system or have been completely phased out.

4. Acceptance for honour

When a bill of exchange has been noted or protested for non acceptance or for better security, and any person accepts it supra protest for honor of the drawer or of any one of the indorses such person is called the acceptor for honor.

When the holder of a bill presents it to the drawee for acceptance and he does not accept the same i.e. the bill of exchange is dishonored and the same has been noted or protested for dishonor, any third person who accepts it for honor of the drawee or indorser is called an acceptor for honor.

When a bill of exchange has been noted or protested for non acceptance or for better security, any person not being a party already liable thereon may, with the consent of the holder, by writing on the bill, accept the same for honor of any party thereto (Sec 108) A person desiring to accept for honor must, by writing on the bill under his and, declare that he accepts under protest bill for honor of the drawer or of a particular endorser whom the names or generally for honor (Sec 109) Where the acceptance does not express for whose honor it is made it shall be deemed to be made for the honor of the drawer (Sec110).

As general rue, the drawee or any person on whom the bill is drawn can accept e bill and if either of the person refuses to honor the bill, the bill is dishonored immediately. However, where the bill is so dishonored by any of the parties supposed to accept the bill, and the bill has been noted or protested from non acceptance or where better security has been demanded by the notary and the drawee refuses to give security any person may accept the bill for honor or for supra protest. The bill on such acceptance remains alive till maturity. It cannot be treated as dishonored immediately. The holder gets an additional person i.e. an acceptor for honor, which also becomes liable on the bill.

5. <u>Drawee in case of need</u>

When the bill or in any endorsement thereon the name of any person is given in addition to the drawee to be resorted to in case of need, such person is called a "**drawee in case of need**".

The End