

## **Types of Negotiable Instruments**

### **1. Promissory Notes**

Promissory Note is a instrument in writing with an unconditional promise to pay certain amount of money to, or to the order of, certain person or to the bearer and signed by the maker. It creates a debt on the maker of promissory note.

### **Essentials of Promissory Notes**

Following are the essentials of Promissory Note:

1. Must be in writing.
2. Promise to pay in future.
3. Maker of the note should sign it.
4. Unconditional promise.
5. Must be in good faith.
6. Maker and payee must be certain.
7. Amount must also be certain.

### **Illustrations:**

1. I promise to pay Mr. A or order Rs.500.
2. I promise to pay B Rs. 1500 and all other sums which shall be due to him.
3. I promise to pay B Rs. 500 first deducting there out any money which he may owe me.

### **2.Bills Of Exchange**

Bills of exchange is a instrument in writing and also signed by the maker. There is a unconditional promise to pay certain sum of money only to, or to the order of, a certain person or to the holder of instrument.

### **Essentials of Bill of exchange**

Following are some of the essentials for Bill of exchange

1. It must be in writing.
2. There must be also Unconditional order or promise to pay.

3. The maker must sign it.
4. The parties to the instrument must be certain.
5. The amount payable must be certain.
6. The promise must be to pay certain sum of money.
7. It should comply with the formalities (eg. Date, Consideration, Stamp etc)

### **Illustration:**

1. Please pay Rs. 1500 to the order of A
2. Please pay the bearer rs 500 and oblige.

## **Classification of bills**

Further bills are classified into three categories:

1. Inland and foreign Bill.
2. Time and Demand Bill.
3. Trade and Accommodation Bill.

### **1. Inland Bill :**

A bill is Inland bill if :

1. it is drawn in India on Person residing in India, whether payable in India or outside India, or
2. it is drawn in India On person residing outside India but payable in India.

### **2. Foreign Bill**

A bill is Foreign Bill if it is drawn:

1. Outside India but payable in India
2. Outside India on any person residing outside India.
3. In India on any person residing outside India and aslo payable outside India.
4. Outside India on person residing in India.
5. Outside India and payable outside India.

### **3. Time Bill:**

A Bill payable on a fixed date or payable after a fixed period of time is therefore termed as a Time bill.

### **4. Demand Bill:**

A Bill which generated or payable on demand is therefore termed as a Demand Bill.

## **5. Trade Bill:**

A Bill made or drawn for trade related transactions are therefore termed as a Trade Bill.

## **6. Accommodation Bill:**

A bill generated only to provide financial help to a person and for any trade transaction is therefore termed as an Accommodation Bill.

## **Cheque**

A cheque is a bill of exchange drawn on a specified banker and payable on demand and it can be in electronic form also.

## **Essentials of Cheque**

following are some of the essentials of cheque

1. It must be in writing.
2. The drawee of the cheque should be banker.
3. There must be an unconditional promise to pay.
4. The cheque must promise to pay certain amount.
5. Payable on demand.
6. It must not be stale cheque.
7. Drawee is only liable to drawer.
8. It does not require acceptance.

## **Types of Cheques**

Following are the types of cheques

1. Order Cheque – It is only payable to drawer.
2. Bearer Cheque – It is payable to person who holds the bill.
3. Blank Cheque – It contains only signature of banker or Drawee.
4. Counter Cheque – It is similar to Blank Cheque.
5. Stale Cheque – It is presented in the bank after a period of 6 months.
6. Mutilated Cheque – It is torn into two pieces.
7. Post-dated Cheque – It bears a date later than the date of issue.
8. Open Cheque – It is not crossed cheque.
9. Crossed Cheque – It is cross cheque when two parallel line are drawn on it.
10. Traveller's Cheque – Banks issues it for remittance.