

Tutorial Notes

Class: B.Com (Prog.) Semester VI (DSE3)

Subject: Banking & Insurance.

Topic: Cheques, types of cheques, crossing of cheques and its mode.

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## **CHEQUES**

Section 6 of the Negotiable Instrument Act defines a cheque as, "A bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand."

*In simple words,*

A cheque is a kind of bill of exchange or an unconditional order in writing, addressed by customer with signature to the bank to pay a certain amount to the bearer or as per order.

\* Bills of Exchange - It is written and signed order directing the person named in it to pay a certain amount of money only to, or to the order of a certain person or to the bearer.

## **PARTIES TO CHEQUE**

- ❖ **DRAWER** - The person who signs the cheque and order for payment
- ❖ **DRAWEE** - It is always bank on which cheque is drawn and is ordered to pay the amount of cheque.
- ❖ **PAYEE** - The person to whom the cheque is payable. ( In many cases, drawer and payee can be the same person.)

## **TYPES OF CHEQUES**

(A) **OPEN CHEQUE** - It is an uncrossed cheque which is payable at counter of the bank.

It can be Bearer Cheque or Order Cheque .

- **BEARER CHEQUE** - When a cheque is payable to a person whose name appears on the cheque or to the bearer i.e. to the person who presents the cheque to the bank for encashment, is called bearer cheque. It can be transferred by mere delivery and do not need endorsement.

- **ORDER CHEQUE** - When a cheque is payable to person named in the cheque or to his order, is called Order Cheque. When the word Bearer is cancelled, the cheque becomes the order cheque. It can be transferred only by endorsement and delivery.

**(B) CROSSED CHEQUE** - It is the cheque on which two parallel transverse lines are drawn across the top left, It cannot be encashed at the counter of the bank, can only be credited to the account of the payee.

**(C) STALE CHEQUE** - The validity of cheque is for three months. If cheque is not presented within the three months, it got expired and becomes the Stale Cheque or Out-dated cheque.

\* Earlier the validity of cheque was for six months, it has been reduced to three months, with effect from April 1, 2012.

**(D) ANTE- DATED CHEQUE** - A cheque contains the date on which it is drawn. If it bears a prior date or back date, it is called Ante-Dated cheque. Bank will honour this cheque until it exceeds the three months, i.e. stale period of cheque.

**(E) POST-DATED CHEQUE** - If the cheque bears the date later than the date on which it is drawn, is called Post-Dated Cheque. This cheque can not be honoured before the date written on it.

## **CROSSING OF CHEQUES**

Crossing of Cheques means to draw two lines transverse parallel on left hand corner of the cheque. It directs the bank to deposit the money directly into the account and not to be paid in cash at the bank counter.

## **MODES OF CROSSING**

Below are the modes of crossing of cheques and the effect of crossing of cheques:

**(1) GENERAL CROSSING** - When a cheque bears two transverse parallel lines at the left hand of its top corner. Words such as 'and company' or any other abbreviation (such as & co.)

may be written between these two parallel lines, either with or without words 'not negotiable', is called General Crossing.

**Effect** - Payment can be paid through bank account only, and should not be made at counter of paying bank.

**(2) SPECIAL CROSSING** - When a cheque bears the name of the bank in between the two parallel lines, with or without the words 'not negotiable' is called Special Crossing.

**Effect** - The bank will pay to the banker whose name is written in between the crossing lines.

**(3) RESTRICTIVE CROSSING / ACCOUNT PAYEE CROSSING** - In this, crossing of cheques is done by writing Account Payee or Account Payee only in between the crossing lines.

**Effect** - Payment will be credited to the account of payee named in the cheque.

**(4) DOUBLE CROSSING** - When a cheque bears two special crossing, is called Double Crossing. In this second bank act as agent of the first collecting banker. It is made when the banker in whose favour the cheque is crossed does not have branch where the cheque is paid.