Negotiable Instruments Act Hub › Chapter II - Of Notes, Bills and Cheques

NEGOTIABLE INSTRUMENTS ACT PROFESSIONAL CORPUS - BATCH 02

Chapter II - Of Notes, Bills and Cheques

Classify the instrument, parties, amount, maturity, stamp and negotiation route before relying on payment or enforcement rights.

Source review: 2026-07-18 | Act 26 of 1881 | Authors: CA Nikhil Gupta - Kajri Singh

Source status: The complete section architecture is mapped to India Code and the operational layer includes identified RBI cheque/CTS directions. India Code does not list standalone central Rules or Act-specific circulars in its repository tables. The official Act/Gazette, binding judgments and current RBI directions prevail. Exact local line-by-line statutory text is not claimed until source-hash certification is complete.

Dedicated Finin2min Summary - Chapter in 2 Minutes

- Classify the instrument, parties, amount, maturity, stamp and negotiation route before relying on payment or enforcement rights.
- Primary control: instrument-validity gate.
- Test writing, signature, unconditional promise/order, certainty, banker/drawee, payee, amount, stamp and maturity.
- Apply the exact current section text, amendment history and transaction evidence together.
- Do not confuse a negotiable instrument remedy with automatic proof of the underlying transaction.

Section-by-section provision map

Provision / control	Subject	Legal effect / rule	Implementation	Evidence
Section 4		A promissory note is a written unconditional	Do not treat an acknowledgement, IOU,	Keep the executed original,

Provision / control	Subject	Legal effect / rule	Implementation	Evidence
	Promissory note.	undertaking signed by the maker to pay a certain sum to or to the order of a certain person, or to bearer, subject to the statutory exclusions.	contingent promise or unsigned ledger as a promissory note without testing every element.	stamp evidence, consideration trail, delivery and maturity calculation.
Section 5	Bill of exchange.	A bill of exchange is a written unconditional order signed by the drawer directing a certain person to pay a certain sum to or to the order of a certain person or bearer.	Verify drawer, drawee, payee, acceptance, amount certainty, consideration, delivery and maturity.	Keep the original, acceptance, endorsement chain and presentment/ protest record.
Section 6	Cheque.	A cheque is a bill of exchange drawn on a specified banker and payable on demand; the statutory definition includes electronic and truncated cheque concepts.	Reconcile physical/ electronic image, date, payee, words/figures, crossing, signature mandate, account and bank-presentment channel.	Keep cheque/ image, deposit proof, return memo, Positive Pay confirmation if used and account statement.
Section 7	Drawer.	Section 7 addresses drawer.	Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.	Keep the current source, instrument, authority, commercial records, notices and outcome evidence.
Section 8	Holder.	Section 8 addresses holder.	Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.	Keep the current source, instrument, authority, commercial records, notices

Provision / control	Subject	Legal effect / rule	Implementation	Evidence
				and outcome evidence.
Section 9	Holder in due course.	Holder in due course status depends on taking the instrument for consideration before it became payable and without sufficient cause to believe that title was defective.	Document acquisition date, value given, transferor identity, due-diligence and absence of notice of defect.	Preserve purchase/ discount agreement, payment proof and endorsement chain.
Section 10	Payment in due course.	Section 10 addresses payment in due course.	Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.	Keep the current source, instrument, authority, commercial records, notices and outcome evidence.
Section 11	Inland instrument.	Section 11 addresses inland instrument.	Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.	Keep the current source, instrument, authority, commercial records, notices and outcome evidence.
Section 12	Foreign instrument.	Section 12 addresses foreign instrument.	Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.	Keep the current source, instrument, authority, commercial records, notices and outcome evidence.
Section 13	Negotiable instrument.		Trace physical/ electronic custody,	Keep original/ image, transfer

Provision / control	Subject	Legal effect / rule	Implementation	Evidence
		Section 13 controls transfer/title through negotiable instrument.	endorsement wording, value, date and title defects.	agreement, payment proof and custody log.
Section 14	Negotiation.	Section 14 controls transfer/title through negotiation.	Trace physical/ electronic custody, endorsement wording, value, date and title defects.	Keep original/ image, transfer agreement, payment proof and custody log.
Section 15	Indorsement.	Section 15 controls transfer/title through indorsement.	Trace physical/ electronic custody, endorsement wording, value, date and title defects.	Keep original/ image, transfer agreement, payment proof and custody log.
Section 16	Indorsement in blank and in full.	Section 16 controls transfer/title through indorsement in blank and in full.	Trace physical/ electronic custody, endorsement wording, value, date and title defects.	Keep original/ image, transfer agreement, payment proof and custody log.
Section 17	Ambiguous instruments.	Section 17 addresses ambiguous instruments.	Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.	Keep the current source, instrument, authority, commercial records, notices and outcome evidence.
Section 18	Where amount is stated differently in figures and words.	Section 18 addresses where amount is stated differently in figures and words.	Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.	Keep the current source, instrument, authority, commercial records, notices and outcome evidence.
Section 19			Identify trigger, parties, conditions, exceptions,	Keep the current source,

Provision / control	Subject	Legal effect / rule	Implementation	Evidence
	Instruments payable on demand.	Section 19 addresses instruments payable on demand.	consequence and linked sections before execution.	instrument, authority, commercial records, notices and outcome evidence.
Section 20	Inchoate stamped instruments.	A signed and stamped but incomplete instrument can confer prima facie authority to complete it within the stamp-covered amount; liability limits and holder-in-due-course issues remain critical.	Never accept blank signed instruments as routine security; define completion authority, cap, trigger and notice.	Keep the authority letter, stamp, custody log, completion record and underlying debt calculation.
Section 21	At sight.	Section 21 addresses at sight.	Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.	Keep the current source, instrument, authority, commercial records, notices and outcome evidence.
Section 22	Maturity.	Section 22 addresses maturity.	Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.	Keep the current source, instrument, authority, commercial records, notices and outcome evidence.
Section 23	Calculating maturity of bill or note payable so many months after date or sight.	Section 23 addresses calculating maturity of bill or note payable so many months after date or sight.	Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.	Keep the current source, instrument, authority, commercial records, notices

Provision / control	Subject	Legal effect / rule	Implementation	Evidence
				and outcome evidence.
Section 24	Calculating maturity of bill or note payable so many days after date or sight.	Section 24 addresses calculating maturity of bill or note payable so many days after date or sight.	Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.	Keep the current source, instrument, authority, commercial records, notices and outcome evidence.
Section 25	When day of maturity is a holiday.	Section 25 addresses when day of maturity is a holiday.	Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.	Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Finin2min clause-by-clause decode

Section 4 - Promissory note.

Decode: A promissory note is a written unconditional undertaking signed by the maker to pay a certain sum to or to the order of a certain person, or to bearer, subject to the statutory exclusions.

Implementation: Do not treat an acknowledgement, IOU, contingent promise or unsigned ledger as a promissory note without testing every element.

Evidence: Keep the executed original, stamp evidence, consideration trail, delivery and maturity calculation.

Section 5 - Bill of exchange.

Decode: A bill of exchange is a written unconditional order signed by the drawer directing a certain person to pay a certain sum to or to the order of a certain person or bearer.

Implementation: Verify drawer, drawee, payee, acceptance, amount certainty, consideration, delivery and maturity.

Evidence: Keep the original, acceptance, endorsement chain and presentment/protest record.

Section 6 - Cheque.

Decode: A cheque is a bill of exchange drawn on a specified banker and payable on demand; the statutory definition includes electronic and truncated cheque concepts.

Implementation: Reconcile physical/electronic image, date, payee, words/figures, crossing, signature mandate, account and bank-presentment channel.

Evidence: Keep cheque/image, deposit proof, return memo, Positive Pay confirmation if used and account statement.

Section 7 - Drawer.

Decode: Section 7 addresses drawer.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Section 8 - Holder.

Decode: Section 8 addresses holder.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Section 9 - Holder in due course.

Decode: Holder in due course status depends on taking the instrument for consideration before it became payable and without sufficient cause to believe that title was defective.

Implementation: Document acquisition date, value given, transferor identity, due-diligence and absence of notice of defect.

Evidence: Preserve purchase/discount agreement, payment proof and endorsement chain.

Section 10 - Payment in due course.

Decode: Section 10 addresses payment in due course.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Section 11 - Inland instrument.

Decode: Section 11 addresses inland instrument.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Section 12 - Foreign instrument.

Decode: Section 12 addresses foreign instrument.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Section 13 - Negotiable instrument.

Decode: Section 13 controls transfer/title through negotiable instrument.

Implementation: Trace physical/electronic custody, endorsement wording, value, date and title defects.

Evidence: Keep original/image, transfer agreement, payment proof and custody log.

Section 14 - Negotiation.

Decode: Section 14 controls transfer/title through negotiation.

Implementation: Trace physical/electronic custody, endorsement wording, value, date and title defects.

Evidence: Keep original/image, transfer agreement, payment proof and custody log.

Section 15 - Indorsement.

Decode: Section 15 controls transfer/title through indorsement.

Implementation: Trace physical/electronic custody, endorsement wording, value, date and title defects.

Evidence: Keep original/image, transfer agreement, payment proof and custody log.

Section 16 - Indorsement in blank and in full.

Decode: Section 16 controls transfer/title through indorsement in blank and in full.

Implementation: Trace physical/electronic custody, endorsement wording, value, date and title defects.

Evidence: Keep original/image, transfer agreement, payment proof and custody log.

Section 17 - Ambiguous instruments.

Decode: Section 17 addresses ambiguous instruments.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Section 18 - Where amount is stated differently in figures and words.

Decode: Section 18 addresses where amount is stated differently in figures and words.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Section 19 - Instruments payable on demand.

Decode: Section 19 addresses instruments payable on demand.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Section 20 - Inchoate stamped instruments.

Decode: A signed and stamped but incomplete instrument can confer prima facie authority to complete it within the stamp-covered amount; liability limits and holder-in-due-course issues remain critical.

Implementation: Never accept blank signed instruments as routine security; define completion authority, cap, trigger and notice.

Evidence: Keep the authority letter, stamp, custody log, completion record and underlying debt calculation.

Section 21 - At sight.

Decode: Section 21 addresses at sight.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Section 22 - Maturity.

Decode: Section 22 addresses maturity.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Section 23 - Calculating maturity of bill or note payable so many months after date or sight.

Decode: Section 23 addresses calculating maturity of bill or note payable so many months after date or sight.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Section 24 - Calculating maturity of bill or note payable so many days after date or sight.

Decode: Section 24 addresses calculating maturity of bill or note payable so many days after date or sight.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Section 25 - When day of maturity is a holiday.

Decode: Section 25 addresses when day of maturity is a holiday.

Implementation: Identify trigger, parties, conditions, exceptions, consequence and linked sections before execution.

Evidence: Keep the current source, instrument, authority, commercial records, notices and outcome evidence.

Finin2min implementation explanation

Use a instrument-validity gate. Test writing, signature, unconditional promise/order, certainty, banker/drawee, payee, amount, stamp and maturity. Assign an owner, due date, reviewer, source version and exception approver. No step is complete merely because a cheque exists.

Practical examples and calculations

Section 4 illustration

Example control: before relying on section 4, prepare a one-page fact matrix for promissory note, identify the document and date that proves each condition, and quantify principal, interest, fees or loss only from source records.

Section 5 illustration

Example control: before relying on section 5, prepare a one-page fact matrix for bill of exchange, identify the document and date that proves each condition, and quantify principal, interest, fees or loss only from source records.

Section 6 illustration

Example control: before relying on section 6, prepare a one-page fact matrix for cheque, identify the document and date that proves each condition, and quantify principal, interest, fees or loss only from source records.

Section 7 illustration

Example control: before relying on section 7, prepare a one-page fact matrix for drawer, identify the document and date that proves each condition, and quantify principal, interest, fees or loss only from source records.

Section 8 illustration

Example control: before relying on section 8, prepare a one-page fact matrix for holder, identify the document and date that proves each condition, and quantify principal, interest, fees or loss only from source records.

Section 9 illustration

Example control: before relying on section 9, prepare a one-page fact matrix for holder in due course, identify the document and date that proves each condition, and quantify principal, interest, fees or loss only from source records.

Practical transaction application

At transaction inception, document the underlying obligation, consideration, invoice/delivery/acceptance, payment terms, instrument purpose, signatory mandate, crossing, custody and alternative payment/return consequences. Reconcile books, GST/tax records and bank entries.

Authority, consent and execution controls

For a company/LLP/firm, verify board/partner authority, bank mandate, delegated limits, specimen signatures, signing capacity and complaint/settlement authority. Avoid ambiguous signatures and preserve appointment/resignation dates.

Stamp duty and registration alerts

Promissory notes and bills may attract the Indian Stamp Act and applicable State/territorial stamp framework. Cheque, agreement, guarantee, settlement and security documents can have distinct treatment. Verify current place of execution, instrument character, rate, timing and admissibility consequences before signing.

Evidence and document-retention checklist

- Current official Act and amendment source
- Original instrument / bank image and custody log
- Underlying contract, invoice, delivery and acceptance
- Authority, mandate and signatory records
- Consideration, ledger, bank and tax/GST reconciliation
- Presentation proof and bank return memo
- Notice, dispatch, tracking, service and response
- Interest, part-payment, credit-note and loss calculation
- Settlement, compounding and court orders
- Electronic record export, metadata and certification
- Case-law/limitation/jurisdiction research note
- Exception, mitigation and closure log

Use a legal-hold folder with immutable scans, originals register, metadata/export logs, bank-certified records, emails, delivery/acceptance, notices, service proofs, court filings and source-version records. Define retention beyond ordinary finance policy while litigation or limitation remains open.

Performance, delivery and payment controls

Link payment obligation to objective delivery/acceptance milestones. Record disputed quantity/quality, credit notes, set-off, part payment, interest and extension. Do not issue replacement cheques without cancelling and accounting for the earlier instrument.

Breach, loss, mitigation and remedy framework

Stop continuing loss, preserve evidence, verify the legally enforceable amount, issue contract/statutory notice, offer cure where appropriate, mitigate, quantify recoverable loss and select civil, criminal, insolvency or negotiated remedies without double recovery.

Limitation and forum controls

Maintain separate clocks for instrument maturity/presentation, notice, payment window, complaint, civil recovery, arbitration and appeal. Confirm territorial and subject-matter jurisdiction, filing authority, court holiday rules, service and condonation.

Arbitration and mediation interface

Arbitration/mediation can resolve the underlying commercial dispute and settlement terms, but cannot privately override mandatory criminal-court procedure. Coordinate compounding/withdrawal/disposal orders and default consequences.

Company, partnership, GST and tax overlays

Company/LLP law governs authority and officer responsibility; partnership law affects firm/partner exposure; GST and income-tax records help evidence supply, consideration and write-offs; IBC may alter recovery/proceeding strategy; FEMA applies to cross-border instruments; accounting standards govern recognition and impairment.

Finin2min Q&A

Does possession of a cheque alone prove the entire claim?

No. Statutory presumptions may assist, but the transaction, authority, amount, presentation, notice and other conditions should be evidenced.

Can a contract arbitration clause eliminate section 138 procedure?

No. It may govern the underlying civil dispute, while statutory criminal-court and compounding procedure continues to require proper handling.

Should altered cheques be manually corrected?

Ordinarily use a fresh instrument and preserve the cancelled instrument; CTS and material-alteration controls make overwriting high risk.

What is the first control after a cheque is returned?

Obtain and verify the bank memo, freeze the timeline, preserve the underlying debt file and assign notice/settlement/litigation owners.

How should entity liability be assessed?

Identify the drawer entity, signatory and persons in charge/responsible at the relevant time, plus any consent, connivance or neglect route and statutory defence evidence.

Is the cheque amount always the recoverable commercial amount?

Not necessarily. Reconcile part payments, credit notes, set-off, interest, tax, settlement and the legally enforceable balance.

Can the case be settled?

Section 147 permits compounding, but payment terms, default, court disposal and parallel civil remedies must be documented.

What source prevails?

The current official Act/Gazette, binding court law, applicable RBI direction and fact-specific court order prevail over the educational explanation.

Chapter-specific decision flowchart

FININ2MIN DECISION FLOW - Chapter II - Of Notes, Bills and Cheques