

Chapter VI - Of Payment and Interest

Pay only the legally entitled person, calculate interest using the operative instrument/ statute and secure discharge or indemnity evidence.

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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

- Pay only the legally entitled person, calculate interest using the operative instrument/statute and secure discharge or indemnity evidence.
- Primary control: payment and calculation gate.
- Pay the lawful holder, calculate interest transparently and obtain discharge.
- 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 78	To whom payment		Identify trigger, parties, conditions, exceptions, consequence and linked	Keep the current source, instrument, authority,

Provision / control	Subject	Legal effect / rule	Implementation	Evidence
	should be made.	Section 78 addresses to whom payment should be made.	sections before execution.	commercial records, notices and outcome evidence.
Section 79	Interest when rate specified.	Where the instrument specifies interest, calculate it according to the instrument subject to law and contract controls.	Use principal outstanding, agreed rate, start date, payment allocation and day-count convention; check penal interest/enforceability.	Maintain a transparent interest worksheet and contract/ source link.
Section 80	Interest when no rate specified.	Where no rate is specified, the statutory rate and start/end rules apply; verify the current consolidated wording before calculation.	Separate pre-maturity, post-due and litigation interest and avoid double recovery.	Keep date calculations, principal movements and court-award treatment.
Section 81	Delivery of instrument on payment or indemnity in case of loss.	Section 81 controls transfer/title through delivery of instrument on payment or indemnity in case of loss.	Trace physical/electronic custody, endorsement wording, value, date and title defects.	Keep original/ image, transfer agreement, payment proof and custody log.

Finin2min clause-by-clause decode

Section 78 - To whom payment should be made.

Decode: Section 78 addresses to whom payment should be made.

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 79 - Interest when rate specified.

Decode: Where the instrument specifies interest, calculate it according to the instrument subject to law and contract controls.

Implementation: Use principal outstanding, agreed rate, start date, payment allocation and day-count convention; check penal interest/enforceability.

Evidence: Maintain a transparent interest worksheet and contract/source link.

Section 80 - Interest when no rate specified.

Decode: Where no rate is specified, the statutory rate and start/end rules apply; verify the current consolidated wording before calculation.

Implementation: Separate pre-maturity, post-due and litigation interest and avoid double recovery.

Evidence: Keep date calculations, principal movements and court-award treatment.

Section 81 - Delivery of instrument on payment or indemnity in case of loss.

Decode: Section 81 controls transfer/title through delivery of instrument on payment or indemnity in case of loss.

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

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

Finin2min implementation explanation

Use a payment and calculation gate. Pay the lawful holder, calculate interest transparently and obtain discharge. 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 78 illustration

Example control: before relying on section 78, prepare a one-page fact matrix for to whom payment should be made, identify the document and date that proves each condition, and quantify principal, interest, fees or loss only from source records.

Section 79 illustration

Principal Rs 10,00,000 at 12% p.a. for 75 days: simple illustration = $10,00,000 \times 12\% \times 75/365 = \text{Rs } 24,658$, before checking the instrument, payments, tax and judicial interest rules.

Section 80 illustration

No contractual rate is printed. The team must use the current statutory wording and identify the correct start date; it should not insert a commercial lending rate by assumption.

Section 81 illustration

Example control: before relying on section 81, prepare a one-page fact matrix for delivery of instrument on payment or indemnity in case of loss, 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

