

# Cheque Transaction Due-Diligence Master

Before accepting or issuing a cheque: authority, debt, mandate, crossing, Positive Pay, custody, presentment and audit trail.

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Act 26 of 1881

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**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

- Before accepting or issuing a cheque: authority, debt, mandate, crossing, Positive Pay, custody, presentment and audit trail.
- Use one controlled file with owner, reviewer, source, deadline and evidence.
- Separate statutory offence, civil recovery, bank complaint, tax/accounting and ADR tracks.
- Reconcile entity authority and personal responsibility.
- Close only after payment/order, accounting, tax and retention controls are completed.

## Section-by-section provision map

| Provision / control | Subject                      | Legal effect / rule                                 | Implementation                                       | Evidence               |
|---------------------|------------------------------|-----------------------------------------------------|------------------------------------------------------|------------------------|
| Gate 1              | Underlying debt/ transaction | Prove a legally enforceable, quantified obligation. | Contract-invoice-delivery-ledger-tax reconciliation. | Executed documents and |

| Provision / control | Subject                   | Legal effect / rule                                                                  | Implementation                            | Evidence                                           |
|---------------------|---------------------------|--------------------------------------------------------------------------------------|-------------------------------------------|----------------------------------------------------|
|                     |                           |                                                                                      |                                           | contemporaneous books.                             |
| Gate 2              | Cheque and mandate        | Verify drawer/entity, signatory, account, date, amount, payee, crossing and purpose. | Authority check before issue/ acceptance. | Cheque/image, board/partner and bank mandate.      |
| Gate 3              | Presentation/ return      | Present within validity and capture return reason/date.                              | Calendar and bank-evidence control.       | Deposit proof, return memo and statement.          |
| Gate 4              | Notice/service            | Use correct addressee, amount, demand and provable service.                          | Dual-review notice and service tracker.   | Notice, dispatch, tracking, delivery and response. |
| Gate 5              | Forum/ limitation         | File in correct court/ forum within time with authority.                             | Jurisdiction and limitation memo.         | Complaint, authorisation and filing receipt.       |
| Gate 6              | Trial/ settlement/ appeal | Manage affidavit, originals, interim compensation, compounding and deposit.          | Single litigation ledger.                 | Orders, receipts, settlement and appeal record.    |

## Finin2min clause-by-clause decode

### Gate 1 - Underlying debt/transaction

**Decode:** Prove a legally enforceable, quantified obligation.

**Implementation:** Contract-invoice-delivery-ledger-tax reconciliation.

**Evidence:** Executed documents and contemporaneous books.

## **Gate 2 - Cheque and mandate**

**Decode:** Verify drawer/entity, signatory, account, date, amount, payee, crossing and purpose.

**Implementation:** Authority check before issue/acceptance.

**Evidence:** Cheque/image, board/partner and bank mandate.

## **Gate 3 - Presentation/return**

**Decode:** Present within validity and capture return reason/date.

**Implementation:** Calendar and bank-evidence control.

**Evidence:** Deposit proof, return memo and statement.

## **Gate 4 - Notice/service**

**Decode:** Use correct addressee, amount, demand and provable service.

**Implementation:** Dual-review notice and service tracker.

**Evidence:** Notice, dispatch, tracking, delivery and response.

## **Gate 5 - Forum/limitation**

**Decode:** File in correct court/forum within time with authority.

**Implementation:** Jurisdiction and limitation memo.

**Evidence:** Complaint, authorisation and filing receipt.

## Gate 6 - Trial/settlement/appeal

**Decode:** Manage affidavit, originals, interim compensation, compounding and deposit.

**Implementation:** Single litigation ledger.

**Evidence:** Orders, receipts, settlement and appeal record.

## Finin2min implementation explanation

Use a current-law and evidence gate. Apply the current official source, transaction facts, authority, evidence and forum rules. Assign an owner, due date, reviewer, source version and exception approver. No step is complete merely because a cheque exists.

## Practical examples and calculations

### Operational illustration

A finance team receives a return alert. It immediately locks the source documents, verifies the legally enforceable balance, validates bank memo and service addresses, calculates every statutory/civil deadline, and places payment, settlement and filing options before the authorised decision-maker.

### Calculation control

Principal Rs 5,00,000, recorded part payment Rs 75,000 and accepted credit note Rs 25,000 produce a provisional balance of Rs 4,00,000 before interest/cost. The cheque face value must not replace the reconciled legally enforceable amount analysis.

## Practical transaction application

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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

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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

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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

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- 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

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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

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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

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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

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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

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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

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### **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

