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B.COM- BANKING TECHNOLOGY (20UCO4AC7)

What is a Cheque?

A cheque is a piece of document/paper which orders the bank to transfer money from the bank account of an individual or an organisation to another bank account.

The person who writes the cheque is called the “*drawer*” and the person in whose name the cheque has been issued is called the “*payee*”. The amount of money that needs to be transferred, payee’s name, date and signature of the drawer are all mentioned in a cheque.

There are certain **points to remember regarding cheques** which are mentioned below:

1. A cheque can only be issued against a current or savings bank account
2. A cheque without date shall be considered invalid
3. Only the payee, in whose name the cheque has been issued, can encash it
4. A cheque is only valid 3 months from the date it has been issued
5. A 9-digit MICR (Magnetic Ink Character Recognition) code is mentioned at the bottom of the cheque. This makes the clearance of cheques easier for the banks.

ESSENTIAL FEATURES OF A CHEQUE

1. Instrument in writing : A cheque must be in writing. An oral order to pay does not constitute a cheque.

2. It should be drawn on banker: It is always drawn on a specified banker. A cheque can be drawn on a bank where the drawer has an account, saving bank, or current.

3. unconditional : A cheque is an order to pay and it is not a request .The order must be unconditional.

4. The check must have an order to pay a certain sum: The cheque should contain an order to pay a certain sum of money only. If a cheque is drawn to do something in addition to, or other than to pay money, it cannot be a cheque.

5. **It should be signed by the drawer and should be dated:** A cheque does not carry any validity unless signed by the original drawer. It should be dated as well.
6. **It is payable on demand:** A cheque must be an order to pay a certain sum of money on demand but it is not necessary to the word ‘on demand’ or equivalent words.
7. **Validity:** A cheque is normally valid for six months from the date it bears. Thereafter it is termed as stale cheque. A post-dated or antedated cheque will not be invalid. In both cases, the validity of the cheque is presumed to commence from the date mentioned on it.
8. **It may be payable to the drawer himself:** Cheques may be payable to the drawer himself/herself. It may be drawn payable to bearer on demand unlike a bill or a promissory note.
9. **Specific banker only :** A cheque is always drawn only on a particular banker. Usually, the name & address of the banker is clearly printed on the cheque leaf itself.
10. **It does not require acceptance and stamp:** Unlike a bill of exchange, a cheque does not require acceptance on part of the drawee. There is, however, a custom among banks to mark cheques as ‘good’ for the purpose of clearance. But this marking is not an acceptance. Similarly, no revenue stamp is required to be affixed on cheques.

TYPES OF CHEQUES

Bearer Cheque

The bearer cheque is a type of cheque in which the bearer is authorised to get the cheque encashed. This means the person who carries the cheque to the bank has the authority to ask the bank for encashment.

This type of cheque can be used for cash withdrawal. This kind of cheque is endorsable. No kind of identification is required for the bearer of the cheque.

For example: A cheque has been signed by Arjun (drawer) and the payee for the cheque is Varun. Varun can either go to the bank himself or can send a third person to get encashment for the cheque. No identification shall be required for the bearer’s name.

PAY [REDACTED]

या धारक को **OR BEARER**

रुपये RUPEES *Size Thousand four hundred & ninety three only*

अदा करें **₹.Rs. 6493/-**

ब. व. खा. सं. S. B. A/c. No. [REDACTED] ब. प. LF. [REDACTED] ब. उ. INTLS. [REDACTED]

यूको बैंक UCO Bank 02380100011938

सेलाईयूर, तमिलनाडु - 600 059.
Selaiyur, TAMILNADU - 600 059.
ICBA0000238

For KRISHNA APARTMENTS OWNERS WELFARE ASSOCIATION

[REDACTED] [REDACTED]
TREASURER SECRETARY

If a person does not want their cheque to be endorsable, they can strike off the “OR BEARER” option mentioned in the cheque.

Order Cheque

This type of cheque cannot be endorsed, i.e., only the payee, whose name has been mentioned in the cheque is liable to get cash for that amount. The drawer needs to strike the “OR BEARER” mark as mentioned on the cheque so that the cheque can only be encashed to the payee.

For Example: If a cheque has been signed with the name of Varun, then only the payee can visit the bank to get an encashment for the same for a order cheque.

PAY [REDACTED]

या धारक को ~~OR BEARER~~

रुपये RUPEES *Size Thousand four hundred & ninety three only*

अदा करें **₹.Rs. 6493/-**

ब. व. खा. सं. S. B. A/c. No. [REDACTED] ब. प. LF. [REDACTED] ब. उ. INTLS. [REDACTED]

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The payee’s identity may be cross-checked by the bank before encashing the sum of money.

Crossed Cheque

In this type of cheque, no cash withdrawal can be done. The amount can only be transferred from the drawer’s account to the payee’s account. Any third party can visit the bank to submit the cheque.

In case of a crossed cheque, the drawer must draw two lines at the left top corner of the cheque.

Account Payee Cheque

This is the same as the account payee cheque but no third party involvement is required. The amount shall be transferred directly to the payee's account number.

To ensure that it is an account payee cheque, two lines are made on the left top corner of the cheque, labelling it for "A/C PAYEE".

DATE : 13/05/13

PAY [REDACTED]

रुपये RUPEES Six thousand four hundred & ninety three only

अदा करें ₹.Rs. 6493/-

या धारक को OR BEARER

ब. व. खा. सं. S. B. A/c. No. [REDACTED]

ब. प. L.F. [REDACTED]

ब. उ. INTLS. [REDACTED]

यूको बैंक UCO Bank 02380100011938

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TREASURER [REDACTED]

SECRETARY [REDACTED]

Stale Cheque

In India, any cheque is valid only until 3 months from the date of issue. So if a payee moves to the bank to get withdrawal for a cheque which was signed 3 months ago, the cheque shall be declared a stale cheque.

For example: If a cheque is dated January 1, 2021, and the payee visits the bank for withdrawal on May 1, 2021, his/her request shall be denied and the cheque is declared stale.

Post Dated Cheque

If a drawer wants the payee to apply for withdrawal or transfer of money after the present date, then he/she can fill a post dated cheque.

For example: If the date on which the drawer is filling the cheque is May 10, 2021, but he wants the payment to be done later, he/she can fill the cheque dates as May 30, 2021. It shall be called a post-dated cheque.

Ante Dated Cheque

If the drawer mentions a date prior to the current date on the cheque, it is called ante dated cheque.

For example: If the current date is January 30, 2021, and the drawer dates the cheque as January 1, 2021. It shall be considered as an ante-dated cheque.

Self Cheque

If the drawer wishes cash for himself he can issue a cheque where in place of the Payee's name he can write "SELF" and get encashment from the branch where he owns an account.

For example: If a person wants Rs.1,00,000/- in cash, he can issue a self cheque and visit his bank branch where he owns an account and get encashment in place of a cheque.

Traveller's Cheque

As the name suggests, the Traveler's cheque can be used when a person is travelling abroad where the Indian currency is not used.

If a person is travelling abroad, he can carry the traveller's cheque and get encashment for the same in abroad countries.

Mutilated Cheque

If a cheque reaches the bank in a torn condition, it is called a mutilated cheque. If the cheque is torn into two or more pieces and the relevant information is torn, the bank shall reject the cheque and declare it invalid, until the drawer confirms its validation.

If the cheque is torn from the corners and all the important data on the cheque is intact, then the bank may process the cheque further.

Blank Cheque

When a cheque only has a drawer's signature and all the other fields are left empty, then such a type of a cheque is called a blank cheque.

The above-mentioned types of cheques are the most commonly known and used in the Indian banking industry. Let us now know the parties associated with a cheque.

NUMBER OF PARTIES INVOLVED WITH A CHEQUE

There are **three parties** involved with a cheque.

1. **Drawer or Maker** – Drawer of the cheque is the customer or account holder who issues the cheque.
2. **Drawee** – Drawee is basically the bank on which the cheque is drawn. Remember that a cheque is always drawn on a particular banker.
3. **Payee** – This is the person who is named in the cheque and gets the payment for the amount mentioned in the cheque. In particular cases (when the drawer writes a self-cheque), the drawer and the payee can be the same individual.

Apart from these three, there are two more parties involved with a cheque –

1. **Endorser:** When a party i.e. payee transfers his right to take the payment to another party, he/she is called endorser.
2. **Endorsee:** The party in whose favour, the right is transferred, is called endorsee.

Importance of Crossing a Cheque:

- A crossed **cheque can't be encashed** by the holder or bearer at bank counter. Therefore, it protects both the parties.
- A crossed cheque can only be **realized in the payee's account** in case of A/c Payee Crossing.
- Crossing a cheque provides **protection to issuer of cheque** against fraud.
- Unlike *open cheque, it can easily be detected who encashed the cheque in case of crossed cheque.
- A crossed cheque **avoid the fraud** which can take place in case said cheque is lost or stolen.

In case, if a bank fails to comply with the crossing it amounts to a breach of contract of the bank with its customer. A bank can't debit drawer's account without compliance with crossing on the cheque. Bank will be liable to pay for any losses arising out to the drawer or payee.

Who can cancel the crossing of Cheque?

Crossing on a cheque can be cancelled by the drawer or issuer of the cheque, writing that **"Crossing is cancelled"** and putting full signature verifying the crossing cancellation.

