

Business law

Lecture-22

➤ Promissory Note – Section 4

✚ Meaning –

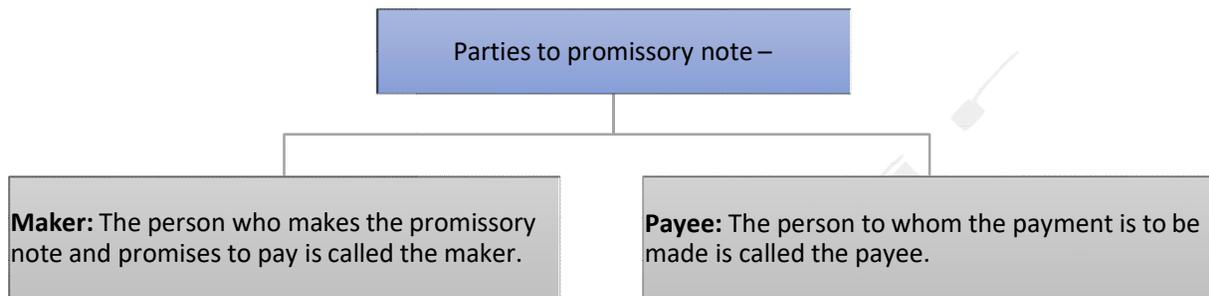
A Promissory Note is a legal financial instrument issued by one party, promising to pay the debt owed to another party



✚ Definition –

“A Promissory note is an instrument in writing containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument”.

Note – Bank note or currency note is not a promissory note.



✚ Requisites (Essentials) of a Promissory Note –

- The promissory note must be in writing.
- It **must** contain an undertaking to pay
- There must be an express promise to pay.
- The promise to pay should be unconditional
- The promissory note must be signed by the maker.
- The sum payable must be certain
- The instrument must contain a promise to pay money and money only



Other important points –

- a) The maker and payee must be certain.
- b) Stamping of Promissory Note is essential under The Indian Stamp Act, 1899.
- c) An unstamped promissory note is not admissible in evidence and no suit can be maintained.
- d) It must contain date
- e) The **limitation period** for a promissory note to file a suit is **3 years** from the date of execution or from the date of acknowledgement

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➤ Bills of Exchange – Section 5

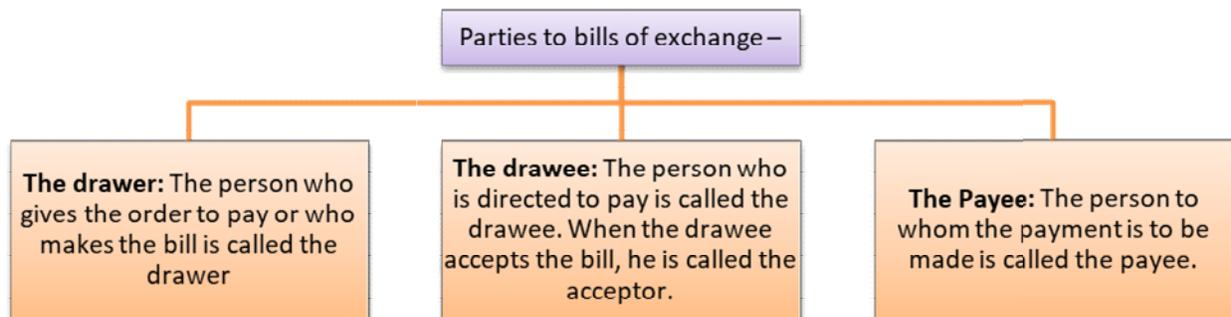
✚ Meaning –

Bill of Exchange can be understood as a written negotiable instrument, that carries an unconditional order to pay a specified sum of money to a person or the holder of the instrument, as directed in the instrument by the maker. The bill of exchange is either payable on demand, or after a specified term.



✚ Definition –

“A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument”.



✚ Requisites (Essentials) of a Bill of Exchange –

- Parties should be certain
- Every Bill of Exchange must be stamped according to the provisions of The Indian Stamp Act, 1899.
- It should specifically mention the date and place the payment or the place where it is drawn.
- Order to pay. Order in this section does not mean a command, but a request or a direction.
- The time of payment must be indicated in the bill with certainty.
- The amount payable must be certain
- The consideration of a bill of exchange should be paid only by way of money only.



Other important points –

- 1) A bill of Exchange must be drawn unconditionally, though the acceptor, or the indorser may make his liability conditional, direction of payment by the drawer must not be made to depend upon a contingency. Therefore, it is the essence of a bill of exchange that it should be payable at all events and it must appear so on its face
- 2) It is essential that a bill of exchange should point out with certainty the party who enters into the contract imported by its terms. Thus, the signature of the drawee is necessary and there cannot be a bill, even if the instrument is accepted without the signature of the drawee
- 3) It must indicate a drawee who should be called on to accept or pay it. The drawee must be named or otherwise indicated in the bill with reasonable certainty.