**LEB-620-Legal Environment of Business**

**Answer of the question n. 1**

**Negotiable instrument:**

A negotiable instrument promises a payment to a specified person or assignee. It is transferable, so it allows the holder to take the funds as cash, then use the money as they see fit.

It is a signed document that promises a payment to a specified person or assignee. Negotiable instruments are transferable, which allows the recipient to take the funds as cash, then use them as preferred. Examples of negotiable instruments include checks, money orders, and promissory notes.

A negotiable instrument is a signed document that promises a payment to a specified person or assignee. In other words, it is a formalized type of [IOU](https://www.investopedia.com/terms/i/iou.asp): A transferable, signed document that promises to pay the bearer a sum of money at a future date or on-demand.

Examples of negotiable instruments include personal checks, [cashier's checks](https://www.investopedia.com/best-ways-to-get-a-cashier-s-check-4590106), money orders, [certificates of deposit (CDs)](https://www.investopedia.com/terms/c/certificateofdeposit.asp), [promissory notes](https://www.investopedia.com/terms/p/promissorynote.asp), and traveler's checks. The person receiving the payment, known as the [payee](https://www.investopedia.com/terms/p/payee.asp), must be named or otherwise indicated on the instrument. Because they are transferable and assignable, some negotiable instruments may trade on a [secondary market](https://www.investopedia.com/terms/s/secondarymarket.asp).

[Negotiable](https://www.investopedia.com/terms/n/negotiable.asp) instruments are transferable, so the holder can take the funds as cash or use them for a transaction or other way as they wish. The fund amount listed on the document includes the specific amount promised, and must be paid in full either on-demand or at a specified time. A negotiable instrument can be transferred from one person to another. Once the instrument is transferred, the holder gains full legal title to the instrument.

These documents provide no other promise on the part of the entity issuing the instrument. In addition, no other instructions or conditions can be made for the [bearer](https://www.investopedia.com/terms/p/pay-to-bearer.asp) to receive the amount listed on the negotiable instrument.

For an instrument to be negotiable, [it must be signed](https://www.investopedia.com/terms/a/allonge.asp), with a mark or signature, by the maker of the instrument—the one issuing the draft. This entity or person is known as the drawer of funds.

One of the more well-known negotiable instruments is the personal check. It serves as a draft, payable by the payer’s [financial institution](https://www.investopedia.com/terms/f/financialinstitution.asp) once it's received, in the exact amount specified. Similarly, a cashier’s check serves the same function but it requires the funds to be allocated, or set aside, for the payee prior to the check being issued.

A negotiable instrument is easily transferable. There are no formalities and limited paperwork involved in making such a transfer. The instrument's ownership can be shifted simply by delivery or by a valid endorsement.

**Negotiable instrument’s characteristics:**

The Negotiable Instruments Act, 1881 contains important provisions relating to the negotiable instruments which are dealt by banks. The popular and main negotiable instruments are promissory notes, bills of exchange and cheques. This Act came into force from March 1, 1882 and the Act is divided into 17 chapters and contains 137 sections. The words "negotiable" and "instrument" refer transferability by delivery and any written document by which there is a creation of a right in favour of certain individual some person. The terms negotiable instrument is understood as a document transferable by delivery. The three instruments, promissory note, bill of exchange and cheque are regarded as negotiable instruments. The characteristics of a negotiable instrument is that it is a transferable document and passes on freely from one person to another. The three instruments expressed above are negotiable instruments by statute. Apart from these instruments, there are also certain negotiable instruments by the custom of trade. For example in India, government promissory notes, hundies, railway receipts and delivery order have been regarded negotiable by usage or custom or trade.

Following are the important characteristics of negotiable instruments:

(1) The holder of the instrument is presumed to be the owner of the property contained in it.

(2) They are freely transferable.

(3) A holder in due course gets the instrument free from all defects of title of any previous holder.

(4) The holder in due course is entitled to sue on the instrument in his own name.

(5) The instrument is transferable till maturity and in case of cheques till it becomes stale (on the expiry

of 6 months from the date of issue).

(6) Certain equal presumptions are applicable to all negotiable instruments unless the contrary is proved.

A signed document containing a written promise to pay a stated sum to a specified person or the bearer at a specified date or on demand.

This work examined the meaning, nature and different forms of negotiable instrument which are majorly, Bills of Exchange, Cheques and promissory notes. It appraised the legal nature of these negotiable instruments, their relevance to commercial activities and the banking industry.This work relied on information which is both primary and secondary.

The primary sources include the Bills of Exchange Act 1882, Banks and other financial Institutions Act, Bills of Exchange Act 1917, judicial decisions, Statutes and the Cheques Act, 1957. The secondary sources are materials and updates from the internet, law journals, Articles, Books, Newspaper and paper works delivered by scholars. Findings showed inadequate usage of the instrument especially by the uneducated public which at length.

When considering all the above facts, a vast idea about negotiable instruments, its functions, characteristics elements and how it becomes differ from transferability can be acquired. Moreover, one could argue that, by developing this concept, we can put a foundation to a cashless society which deals with cashless business practices.

The payment must be made on demand or at a definite time; The instrument must not require the person promising payment to perform any act other than paying the money specified; The instrument must be payable to bearer or to order.

Transactions are a very important part of businesses. There are many documents which are required for these transactions. These documents are used for transactions as well as transferring from one person to the other. Thus, these documents in business terms are called the negotiable instrument. Cheques, bill of exchange, bank draft, etc are some of the examples of these instruments.

The negotiable instruments guarantee the payment of an amount done on demand or on a set time with the name of the paper usually on the document. In banking, the banknotes are termed as the promissory notes. Thus, this note is made by the bank and is payable to the bearer of this demand.

As discussed above, there are many types of negotiable instruments in the market. They are as given below:

Commercial bill

This deals in commercial markets. They are drawn either by the seller or the drawer and it is drawn by the drawer of the goods of the buyer in place of the value for the goods delivered.

They are also called trade bills. When these bills are accepted by the commercial banks, they are called commercial bills.

Promissory note

This is considered as a legal document between the borrower and the lender. Through this document, the lender agrees to certain conditions regarding the money which is borrowed.

Whenever someone borrows the money from commercial banks then they have to sign a promissory note. Thus, these notes can also be bought and sold. This only happens in some countries and it is issued by large companies.

Cheque

There are many forms of cheque available as the negotiable instruments in the market. The cheque is also known as the bill of exchange.

It orders the bank to pay a specified amount to a person’s account from a person who has issued the cheque. Blank cheque, order cheque, bearer cheque, etc are the different types of the cheque.

Commercial paper

Commercial paper is also issued in the form of promissory note. It can be sold directly by the issuer to the investors. It can also be transferred to the borrowers through agents.

These instruments can only be issued in multiples of 5 lakhs and thereafter. The maturity period varies from one week until one year.

Treasury bills

Treasury bills are also known as T-bills. It is a short-term instrument for borrowing for the government. For these bills, the tender is issued in the money market and various government departments.

Thus, for this, tenders are invited weekly from brokers and bankers. It provides the government a very cheap way to borrow the money in the times of fluctuating cash and further it also provides the security for the transaction. Furthermore, the RBI which is the banker for government provides these bills at a discount rate.

Bank draft

These are also the bills of exchange. So, in this, the bank’s orders one its branch to repay the money to a person or to his order. For this, the banks charge a nominal fee.

In the world of [business](https://www.toppr.com/guides/business-studies/nature-and-purpose-of-business/concept-and-characteristics-of-business/) and finance, negotiable instruments are a very important tool. They provide the parties with an ease of doing business. And they can also be a source of [finance](https://www.toppr.com/guides/business-studies/sources-of-business-finance/meaning-nature-and-significance-of-business-finance/) when in need of funds. Let us learn more about negotiable instruments and their advantages.

A negotiable instrument, such as a personal check, is a signed document that promises an amount to be paid to a specified person or assignee. Non-negotiable can refer to a price or part of a contract that cannot be adjusted, or a financial product that cannot be transferred to a new owner.

**Answer of the question n. 2**

**Promissory notes:**

A promissory note is a legal, financial tool declared by a party, promising another party to pay the debt on a particular day. It is a written agreement signed by drawer with a promise to pay the money on a specific date or whenever demanded.

A promissory note is a written promise to pay a sum of money, to a specified individual or organization, at a specified time in the future, and that is not always supported by a guarantee.

A simple promissory note might be for a lump sum repayment on a certain date. For example, lending friend $1,000 and he agrees to repay by December 1. The full amount is due on that date, and there is no payment schedule involved.

Maker or Drawer is the person who makes or draws the promissory note to pay a certain amount as specified in the promissory note. He is also called the promisor.

A Promissory Note must always be written by hand. It must include all the mandatory elements such as the legal names of the payee and maker's name, amount being loaned / to be repaid, full terms of the agreement and the full amount of liability, beside other elements.

Pros of a promissory note include clear loan terms, legal enforceability, and flexibility in structuring agreements. However, cons may include potential strain on personal relationships, complexity in legal language, and the need for proper documentation.

A promissory note typically contains all the terms pertaining to the indebtedness, such as the principal amount, interest rate, maturity date, date and place of issuance, and issuer's signature.

A promissory note is essential in any transaction where money is being lent by a person, bank, company, or other organization to another entity. This document is a contract that protects the lender from the risk of the borrower not paying the full amount agreed to by both parties.

Promissory estoppel is the legal principle that a promise is enforceable by law, even if made without formal consideration when a promisor has made a promise to a promisee who then relies on that promise to his subsequent detriment.

To draft a simple promissory note, include the full legal names, addresses, and contact numbers of both the borrower and lender. If applicable, include any co-signer information. Specify the amount borrowed, repayment terms (including any applicable interest rate), and the due date or schedule of payments.

Unlike a secured loan that comes with collateral, a promissory note is often unsecured. If the issuer defaults, the payee may face difficulty recovering their money. The payee may need to pursue legal action, which can be expensive and time-consuming.

There must be a clear and definite promise. The promisee reasonably relied on the promise. The promisee acted or refrained from some act. Enforcement of the promise is necessary to avoid injustice.

The purpose of a Promissory Note is to provide a written record of the loan agreement and to establish the legal obligations of both parties.

Promissory estoppel is a legal doctrine that states that if someone reasonably relies on a promise and acts (or fails to act) in a way that causes them financial harm because of that promise, the promise can be enforced.

There are 2 types of promissory notes, guaranteed and unsecured. A secured note is an agreement for borrowed money on the condition that if it is not repaid to the lender, the collateral, which is usually an asset or property, is given to the lender.

A promissory note must be in writing and signed by the maker of the promise. A frequent type of promissory note used by banks is a certificate of deposit. Promissory notes are considered a type of commercial paper and are often regulated under contract law.

**Bills of exchange:**

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

Promissory notes and bills of exchange are debt instruments that create a legal obligation to pay.

A bill of exchange is a written order used primarily in international trade that binds one party to pay a fixed sum of money to another party on demand or at a predetermined date. Bills of exchange are similar to checks and promissory notes—they can be drawn by individuals or banks and are generally transferable by [endorsements](https://www.investopedia.com/terms/e/endorsement.asp).

A bill of exchange transaction can involve up to three parties. The [drawee](https://www.investopedia.com/terms/d/drawee.asp) is the party that pays the sum specified by the bill of exchange. The [payee](https://www.investopedia.com/terms/p/payee.asp) is the one who receives that sum. The drawer is the party that obliges the drawee to pay the payee. The drawer and the payee are the same entity unless the drawer transfers the bill of exchange to a third-party payee.

Unlike a check, however, a bill of exchange is a written document outlining a debtor's indebtedness to a creditor. It's frequently [used in international trade](https://www.investopedia.com/ask/answers/040315/who-uses-bills-exchange.asp) to pay for goods or services. While a bill of exchange is not a contract itself, the involved parties can [use it and the attached forms](https://www.investopedia.com/terms/a/allonge.asp) to fulfill the terms of a contract.

It can specify that payment is due on demand or at a specified future date. The period between billing and payment is [called the usance](https://www.investopedia.com/terms/u/usance.asp). It's often extended with credit terms, such as 90 days. As well, a bill of exchange must be accepted by the drawee to be valid.

Bills of exchange generally do not pay [interest](https://www.investopedia.com/articles/investing/020614/learn-simple-and-compound-interest.asp), making them, in essence, [post-dated checks](https://www.investopedia.com/terms/p/postdated.asp). They may accrue interest if not paid by a certain date, however, in which case the rate must be specified on the instrument. They can, conversely, be transferred at a discount before the date specified for payment. A bill of exchange must clearly detail the amount of money, the date, and the parties involved, including the drawer and drawee.

Say Company ABC purchases auto parts from Car Supply XYZ for $25,000. Car Supply XYZ draws a bill of exchange, becoming the drawer and payee in this case. The bill of exchange stipulates that Company ABC will pay Car Supply XYZ $25,000 in 90 days.

Company ABC becomes the drawee and accepts the bill of exchange and the goods are shipped. In 90 days, Car Supply XYZ will present the bill of exchange to Company ABC for payment. The bill of exchange was an acknowledgment created by Car Supply XYZ, which was also the [creditor](https://www.investopedia.com/terms/c/creditor.asp) in this case, to show the indebtedness of Company ABC, the debtor.

The difference between a promissory note and a bill of exchange is that the latter is transferable and can bind one party to pay a third party that was not involved in its creation. Banknotes are common forms of promissory notes.

A bill of exchange is issued by the creditor and orders a debtor to pay a particular amount within a given period of time. The promissory note, on the other hand, is issued by the debtor and is a promise to pay a particular amount of money in a given period.

**Answer of the question n. 3**

**Cheque:**

A cheque is a document that orders the bank to pay the amount specified to the recipient's account. The person who writes the cheque must have an account from which the funds will be drawn. A business cheque is a cheque that is written against a business cheque account rather than a personal account.

It is a bill of exchange in which one party orders the bank to transfer the money to the bank account of another party. It is a negotiable instrument that is covered under the Negotiable Instruments Act, 1881.

A cheque is an official piece of paper from bank that can use to pay with, a bit like an IOU. Once the person or company pays in cheque, their bank asks bank to transfer over the money. This process usually takes one or two working days.

The person writing the cheque, known as the drawer, instructs the bank to transfer a certain amount of money to the payee, the person receiving the money. When the payee deposits the cheque, the bank will withdraw the specified amount from the drawer's account and transfer it to the payee's account.

A chequing account is used to store daily spending money. It's designed for everyday transactions, such as depositing paycheques, paying bills, debiting purchases, transferring money online or making ABM withdrawals. A chequing account typically comes with a debit card and a chequebook.

**Different type of cheque crossing:**

General Crossing – cheque bears across its face an addition of two parallel transverse lines. Special Crossing – cheque bears across its face an addition of the banker's name. Restrictive Crossing – It directs the collecting banker that he needs to credit the amount of cheque only to the account of the payee.

A cheque can be defined as a financial instrument that allows for the transfer of money from one person/ institution to the designated recipient. There are several types of cheques, like bearer cheques, blank cheques, traveller cheques, crossed cheques and more.

The bearer cheque does not contain the name of the payee and is payable to the person who presents it at the bank…… In case of crossed cheque, the name of the individual is already mentioned on the cheque. So, the money is paid to the specified person only.

always check that the traffic has stopped before you start to cross or push a pram onto the crossing.

always cross between the studs or over the zebra markings, do not cross at the side of the crossing or on the zigzag lines, as it can be dangerous.

There are four types of cheque crossings are: General Crossing, Special Crossing, Account Payee Crossing, and Not Negotiable Crossing.

In contrast to a non-crossed cheque, a crossed cheque makes it easy to determine who cashed the check. As a result, Crossing safeguards both the payer and the payee of the check. Bearer and order cheques can also be crossed.

heque crossing has several disadvantages. One of the main drawbacks is the risk of signature forgery, where individuals misuse the signature of the actual person and provide self-cheques themselves. This fraudulent activity is more prevalent in the manual cheque clearing process.

Crossing a cheque is a security measure to ensure that the funds are deposited directly into a bank account. General crossing allows the cheque to be deposited into any bank account, while special crossing restricts the deposit to a specific bank account mentioned in the crossing.

A cross cheque is safer as compared to a bearer cheque as it is crossed, has two parallel lines either on the whole cheque or top left which tells the banker that it cannot be encashed over the counter. It has to be directly deposited in the bank account of the person who's name is written on the cheque.

A crossed check is any check that is crossed with two parallel lines, either across the whole check or through the top left-hand corner of the check. This double-line notation signifies that the check may only be deposited directly into a bank account.

“Where a cheque is crossed specially to more than one banker except when crossed to an agent for the purpose of collection, the banker on whom it is drawn shall refuse payment thereof.”

Crossed cheques are usually identified by drawing either two parallel transverse lines either vertically across the cheque or on the top left-hand corner of the cheque. Two or more words like 'and company' or 'not negotiable' may be placed between the lines.

Benefits of crossing a cheque are as follows: 1) Reduced chances of error: crossing of a cheque makes it difficult for a wrong person to get the amount or the payment of the cheque. 2) Protection to both the parties: A crossed cheque cannot be encashed by the holder or the bearer at the bank .

Adding a crossing to a cheque increases its security in that it cannot be cashed at a bank counter but must be paid into an account in exactly the same name as the payee or endorsee indicated on the check.

As a result, it safeguards both parties. In the event of account payee crossing, the cross cheque should be transferred only to the payee's account. Crossing a cheque protects the issuer of the cheque from fraud.

A cheque was developed to conduct safe and secure financial transactions. Cheques enable to transfer large amounts of money from one bank account to another without the requirement of a physical transfer.

The system works by checking the account balances of the sender and the receiver, and then transferring the necessary funds. There are three main types of cross cheques in India: inter-bank cheques, overdrafts, and transferable instruments.

Crossing a cheque helps prevent fraud by making it more difficult for unauthorized individuals to cash the cheque. It ensures that the payment goes directly to the intended recipient's bank account. Professionalism: Crossing a cheque is often seen as a more professional way of making payments.

Crossing of a cheque involves drawing two parallel lines, usually across the top left corner, with or without additional wording. It acts as an instruction to the bank (drawee) on how the cheque should be managed. Unlike uncrossed cheques that can be cashed over the counter, crossed cheques can only be deposited into a bank account. This significantly reduces the risk of someone misusing a lost or stolen cheque.

Crossing is a unique feature associated with a cheque affecting to a certain extent the obligation of the paying banker. The crossing is like an instruction to the paying bank not to make payment on the bank counter rather payment shall be made through a bank account only so that no wrong person can take the payment to the said cheque.

The crossing of a cheque is effected by drawing two parallel transverse lines with or without the words ‘and company’ or any abbreviation thereof. This ensures a level of security for the payer since it needs the funds to be handled with a collecting bank. Cheque writers can use crossed cheques to protect the amount transmitted from being cashed by an unauthorised person or stolen, as Crossed Cheques can only be paid through a bank account.

**Answer of the question n. 8**

**Memorandum of association:**

Memorandum of Association is a legal document that explains why the organization was founded. It establishes the company's authority and the terms under which it works. It is a manual that includes all of a company's laws and regulations for its interactions with the outside world.

Memorandum of Association is a legal document that explains why the organization was founded. It establishes the company's authority and the terms under which it works.

The MoA includes the company's name, registered office address, nature of business, authorized share capital, and the names and signatures of the subscribers who are the initial shareholders. It also outlines the company's objectives, powers, and limitations, which the company must operate within.

MOA assists shareholders, creditors, and all other people who interact with the business and understand the capabilities and goals of the business. Additionally, MOA content helps the prospective shareholders to make the right choice when investing in the business.

There are five main types of memorandum of association and they are as follows: Table A - if shares end up limiting a company. Table B - if a guarantee limits a company. Table C - if a guarantee along with share capital limits a company.

The MoA contains six major clauses, namely the name clause, registered office clause, object clause, liability clause, capital clause, and nominee clause. The MoA will be altered once the RoC approves the special resolution filed to amend the MoA.

The Memorandum of Association records basic information when a limited company is set up, such as the names of the initial shareholders. People often think of the Memorandum of Association in conjunction with the Articles of Association.

Memorandum of Association is a legal document which describes the purpose for which the company is formed. It defines the powers of the company and the conditions under which it operates. It is a document that contains all the rules and regulations that govern a company's relations with the outside world.

The memorandum of association must include the following: name shareholders and their subscribed shares share price and the last payment date members of the Board financial year (must be stated in the memorandum of association or the articles of association) possible auditor and deputy auditor possible managing.

The MoA serves as a guiding document for the company's internal governance. It outlines the procedures for appointing directors, holding meetings, and distributing profits. This ensures clarity and structure in decision-making processes.

The Memorandum of Association (MOA) is the company's Constitution, prepared at the time of registration and periodically updated to incorporate changes. It is a legal document that defines the very foundation of the company. Therefore, utmost precision and clarity need to be taken at the time of drafting the MOA.

It contains all the fundamental details about the establishment and its location, the defined scope of business activities and objectives, the extent of authority, the legal rights of the company, and all other information needed to register the company. It is also referred to as the Charter, which needs to be filed as a part of the Registration Compliance.

As per Section 399 of the Companies Act, an MOA is a public document. Hence, any individual or entity entering into a contract with the company is expected to know its MOA.

This document also defines the boundary for the registered company, so any activity overriding the provisions of the MOA will be considered ultra vires by the company and void.

MOA is not just a piece of paper; it's the **foundation** and cornerstone upon which a company is built. It lays out the fundamental framework, defining its very existence and guiding its journey. Understanding and valuing its importance is critical for any entrepreneur or leader aiming to build a successful and sustainable business.