

AccountAble™

More about Cheques

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In this issue

Overview.....	1
What is a cheque.....	1
Depositing a Cheque.....	1
Clearing	1
Clearing time	1
At the Clearing House	2
Manual clearing.....	2
Collection Charges	2
Types of cheques.....	2
Self cheque	2
Bearer cheque	2
Crossed cheque.....	2
Endorsing a cheque	3
The Payee	3
Pen or Pencil.....	3
Dating the cheque	3
Amount in words	3
Living Dangerously	4
Bounced Cheques.....	4
Kiting.....	4
Float.....	4
Stop Payment.....	4

Overview

Cheques were first used in the 1600's. At that time, people used coins as money. Paper currency had not been introduced. Cheques were therefore very convenient and safe.

When paper currency was introduced, most people did not trust it. Laws were passed to force people to accept paper notes instead of coins. Today, people have forgotten what real money was like.

Times keep changing. There are now laws¹ which will punish you for using currency notes, instead of cheques.

What are cheques? How does the banking systems treat cheques?

What is a cheque

When you keep money in a bank, you can draw and spend it yourself. But, suppose you have to pay someone (called the payee). You can go to the bank, draw the money and give it to them. You will have to spend time and money to do this.

Banks give you an option. You can order them to pay someone, on your behalf. You can do this by giving a cheque to the payee. A cheque is like an order to the bank.

When the payee shows it to your bank, the bank will pay the money. This is called honoring a cheque.

Depositing a Cheque

You have received a cheque from the donor. The donor has a bank account in Citibank, Chowringee in Calcutta. You live in 15 kms. away at Behala. What do you do now? Go to Chowringee and collect the money?

Not really. Your account is with SBI, Behala. You can request your bank to collect the money on your behalf. You do this by simply depositing the cheque in your account with SBI.

Clearing

What does SBI do now? They must collect the money from Citibank, before they can pay you. How will they do this? Remember that SBI would be receiving hundreds of cheques each day from customers like you. These may be payable by dozens of different banks.

In good old days, bankers used to meet in a pub in the evening. Each banker would have some cheques for collection from others. Similarly, other bankers would have claims on them. The bankers used to make lists and settle the cheques by paying the difference.

This is how clearing houses work even today. Except that these are more sophisticated and have cheque processing machines. In big metros, these machines process lacs of cheques each day.

In most cities, the clearing houses are located in one of the SBI branches. Both the banks (your bank and the donor's bank) should be a member of the clearing house.

Clearing time

Local clearing takes two working days. Normally, the bank will send all cheques received till 11 a.m. in same day's clearing. Cheques received after that will go next day. So if you deposit a local cheque on Monday at 10:30 a.m., you can draw the money by around 12 noon on Wednesday.

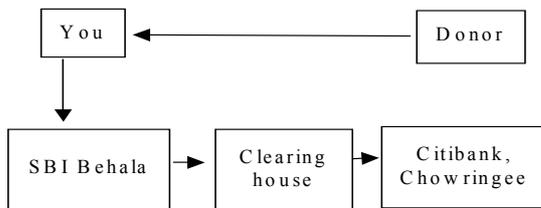


¹ Income Tax Act, 1961

At the Clearing House

All the cheques received on Monday will be sorted. Sorting is done according to branches where these are payable. The cheques are then sent to the concerned branches.

Your cheque will reach Citibank, Chowringhee by Monday evening. Next morning, a bank officer will check your donor's account. Is there enough money? Do the signatures tally? Is there a stop-payment? If everything is all right, they will keep the cheque with them.



Suppose, something is wrong. For example, the signature does not tally. Citibank will send the cheque back on Tuesday to the clearing house. A small slip will be attached, giving the reason for dishonor. The clearing house will return the cheque to SBI, Behala, the same evening.

On Wednesday morning, the SBI officers will see what cheques have come back. These will be returned to the concerned customer's account. Other cheques will be credited² to the respective customer accounts.

Manual clearing

What if the donor's bank is not a member of the local clearing house? Your bank will have to send the cheque for manual clearing. The cheque is sent by registered post or courier.

This means a delay, normally 10-14 days. Most outstation cheques have to be sent for manual clearing.

Collection Charges

Banks don't like manual clearing. It involves a lot of paperwork and some expense. So they may levy collection charges on you. These sometimes depend on the amount of the cheque.

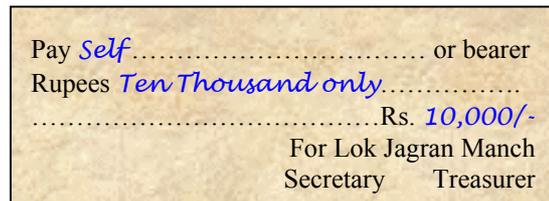
In some cases, banks waive collection charges. This may be because you give them a lot of business or they appreciate your work. This waiver is reviewed by banks' auditors. Therefore, the banks do not do this lightly.

² Actually, the bank records a memorandum credit in your account on the day you deposit the cheque. By a special magic, the bank ensures that you are not able to see it or withdraw the money for another two days!

Types of cheques

Self cheque

When you want to withdraw cash, you make out a cheque to 'Self'. This is known as a self cheque. This means that the cash will be paid



to the account-holder.

In practice, the bank will give cash to the person who brings the cheque. The words '...or bearer' should not be crossed out. Also, you should put the NGO's stamp and sign on the

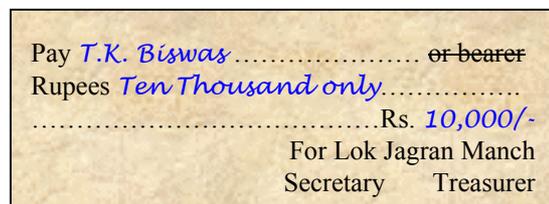


reverse of the cheque.

Bearer cheque

A bearer cheque can be paid to the person who brings the cheque to the bank. For example, the cheque shown below can be paid to Mr. T. K. Biswas or to the person who 'bears' the cheque to the bank.

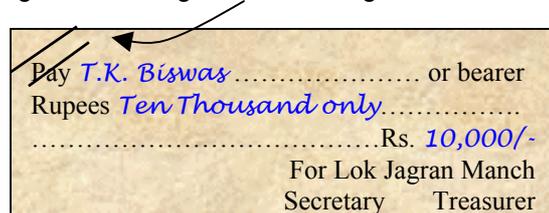
What if you cut out the words 'or bearer' as shown below?



The cheque can now be paid to Mr. T.K. Biswas only. For this, he may have to go personally. Or he can deposit the cheque in his own bank account. If he goes personally, the bank will normally ask for some proof of identity (driving license, identity card, etc.).

Crossed cheque

A cheque with two small parallel lines is a crossed cheque. You cannot encash such a cheque across the counter. It will only be credited to a bank account. Such a cheque has to go through clearing.



There are two types of simple crossing:

Cheques
with
above
type of



crossing can be endorsed (see 'Endorsing a cheque'). The only exception in practice is cheques which are crossed as 'Account Payee'.

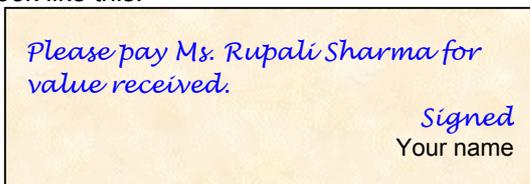
However, in some special cases, banks may honor endorsement of an account-payee cheque also³. To prevent this, the cheque must be crossed as 'Account Payee only, Not Negotiable'.

Endorsing a cheque

Suppose you receive a crossed personal cheque. You can deposit this cheque into your bank and receive payment in 2-3 days. What if you needed the money urgently?

If the cheque is simply crossed, you can endorse the cheque to a friend. The friend can give you cash against the cheque. He / she will then deposit the cheque into their account.

How do you endorse a cheque? Endorsement is done on the reverse of the cheque. It may look like this:



Normally only bearer and simple crossed cheques can be endorsed.

The Payee

A cheque will mostly be paid to the person named as payee. Therefore, try to be as clear as possible. Making out a cheque in the name of 'Mr. Singh' is not a good idea. Say 'Mr. Satbir Singh, Patiala' instead.

Suppose, you want to make a payment to 'Godrej Soaps Limited.' You should then write out the full name. Just saying 'Godrej' is not enough.

When it comes to NGOs, names can be quite a problem. There are at least five organizations named 'Disha', that we know of. Similarly, there must be many organisations named Parivartan, Prayas, Sahyog, Rural Development Centre.

If you are uncomfortable about this, there are at least two ways to tackle the problem:

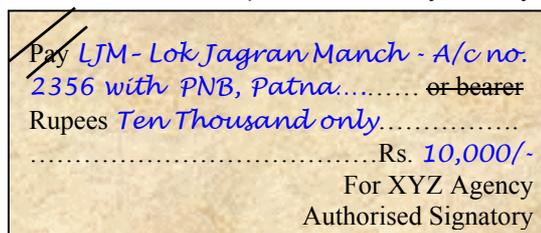
Firstly, always write the full legal name of the organization, in addition to the acronym. For example, you should write 'CRY- Child Relief & You', instead of just CRY.

Second, add the name of the city where the NGO is located.

However, let us suppose that the amount involved is large and you are sending the cheque by mail⁴. What can you do to add more safety?

Ask the NGO for their bank account number and name of the bank. Then make out the cheque as follows:

Also cross the cheque as 'A/c Payee only –



Not Negotiable'.

Pen or Pencil

Unbelievable but true! There are people with cheque books who treat both pen and pencil as equals. So once in a while, these artistic souls will make out a cheque in pencil. Surprisingly, by a special providence, their bank balance continues to grow!

Dating the cheque

A cheque can not be paid before the date which is put on it. Also the cheque is usable only for six months from its date.

In a recent case, a cheque dated 6th March 1998 was deposited in the bank on 5th September 1998. The cheque reached the paying bank on 7th September. By then six months had passed. So the bank returned the cheque. Such cheques are known as stale cheques.

What happens if you put an impossible date on the cheque? For example, 31st November 2000? The bank will treat the date as 1st December 2000.

Amount in words

Why do you have to write the amount in figures (numerals) and in words? To make it difficult for people to alter the amount. Still this is not a foolproof system. For example, a cheque for Rs. Six Thousand can be changed⁵ to Rs. Sixty Thousand, by inserting 'ty'. Therefore,

⁴ Cheques must be sent by registered post or courier.

⁵ Who loses the money if this happens? You. See AccountAble 9: Banking for more on this and forgeries.

³ See AccountAble #12: Filling a cheque safely

write the amount in words clearly. Do not leave spaces. Try to write in an even handwriting.

In most cases, if the amount in words and figures do not match, then the bank will return the cheque. However, if the bank does not suspect an alteration, then the bank can pay the amount in words.

Living Dangerously

When you put a future date on the cheque, it is called a post-dated cheque. Post dated cheques can land you in trouble. How? For example, Satnam issues a cheque for Rs.15,000 today. The date on the cheque is for the next month. Three weeks later Satnam goes to the bank and finds that there is a lot of money there. He withdraws some and spends it. One week later when the post-dated cheque comes for clearing, there may not be money to pay it. It will then 'bounce'⁶.

Bounced Cheques

If Satnam's cheque bounces, the payee will obviously get in touch with him. He should then pay the amount within 15 days.

If he doesn't, then he could be arrested⁷.



Kiting

When a cheque is issued, it takes time for it to appear in the bank. This may be two days to a fortnight. For example, electricity bills, telephone bills often do not show up in the account for two weeks.

People sometimes try to take advantage of this. They issue a cheque, hoping to deposit enough money to cover it. Sometimes it works, sometimes it does not. This is known as kiting and can cause severe embarrassment to say the least.

Float

However, suppose there is already money in the bank. The cheques will not show up for some time. When you are issuing lots of cheques all the time, mostly there will be some money lying 'idle'.

This money is sometimes called a float. It can run into lacs, depending on your transactions.

Large companies find clever ways to use the float. Others should not try it as it can cause loss of goodwill or even criminal proceedings.

⁶ You should use the words 'returned unpaid' in polite company.

⁷ Section 138 of Negotiable Instruments Act, 1881

Stop Payment

Sometimes you may lose a cheque. Or you may find that the supplier has cheated you. If the cheque is not already paid, you can ask the bank to stop payment. For doing this, you should issue the instructions in writing. Take an acknowledgement. Some foreign banks also accept the instructions on phone. Most will first verify that the cheque has not yet been paid. If it has not been paid, then they will accept your instructions. The stop payment remains effective for six months.

If the cheque is paid due to an oversight by the bank, the bank will bear the loss.

For issuing the instructions, you must give the correct cheque number, payee's name, amount and date. The instructions can be issued by anyone who is a signatory. It is not necessary that both signatories (in case of joint operation) should sign. You can even give the instructions by telegram/ telephone and follow it up with a written letter.

Upto what time can you issue stop payment instructions for a bearer cheque? Till the time the cash is actually passed across the counter. If the cheque comes through clearing, your bank can accept 'stop-payment' before the expiry of time for returning unpaid cheques as per clearing house rules.

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