BLOGS

MCQs on Negotiable Instruments Act for CLAT PG 2026

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1. Which of the following is NOT considered a negotiable instrument under the Negotiable Instruments Act, 1881?

A. Cheque
B. Promissory Note
C. Bill of Exchange
D. Fixed Deposit Receipt

Answer: D. Fixed Deposit Receipt
Explanation: The Act recognizes only promissory notes, bills of exchange, and cheques as negotiable instruments. A fixed deposit receipt does not fall within this statutory definition.

2. Which statement correctly distinguishes a promissory note from a bill of exchange?

A. A promissory note requires three parties, whereas a bill of exchange requires only two.
B. A promissory note must be accepted by the drawee; a bill of exchange need not be accepted.
C. A promissory note is an unconditional promise to pay; a bill of exchange is an unconditional order to pay.
D. A promissory note is drawn on a bank; a bill of exchange can only be drawn on a person.

Answer: C. A promissory note is an unconditional promise to pay; a bill of exchange is an unconditional order to pay.
Explanation: The promissory note involves a promise by the maker to pay. A bill of exchange, on the other hand, involves an order by the drawer to the drawee to pay a third party.

3. What is the minimum number of parties required in a bill of exchange?

A. One
B. Two
C. Three
D. Four

Answer: C. Three

Explanation: A bill of exchange involves three parties: the drawer (who gives the order), the drawee (on whom the bill is drawn), and the payee (to whom payment is to be made).

4. Which of the following is TRUE about an endorsement in blank?

A. It specifies a particular person as endorsee.

B. It makes the instrument payable to bearer.

C. It automatically discharges the liability of the endorser.

D. It prevents further negotiation of the instrument.

Answer: B. It makes the instrument payable to bearer.

Explanation: An endorsement in blank does not specify the endorsee, thereby making the instrument transferable by mere delivery.

5. Which situation would make someone a “holder in due course” under the Act?

A. Receiving the bill after its due date for full consideration.

B. Acquiring a promissory note before maturity, for value, and without notice of any defect.

C. Holding a cheque without giving any consideration.

D. Being the original payee of a negotiable instrument.

Answer: B. Acquiring a promissory note before maturity, for value, and without notice of any defect.

Explanation: A holder in due course must receive the instrument in good faith, before maturity, and for consideration, with no notice of defect in title.

6. Under Section 138 (dishonour of cheque), which of the following is a necessary condition for criminal liability to arise?

A. The cheque must be presented within 3 months of its date.

B. The payee must give written notice to the drawer within 30 days of dishonour.

C. The drawer must have intended to defraud the payee.

D. The payee must have prior knowledge of the insufficiency of funds.

Answer: B. The payee must give written notice to the drawer within 30 days of dishonour.

Explanation: Serving notice within the specified time frame is a mandatory procedural requirement for criminal prosecution under Section 138.

7. A cheque is crossed generally. What is the effect of a general crossing?

A. The banker can only pay the cheque into a bank account.

B. The cheque becomes non-negotiable.

C. The cheque can only be endorsed once.

D. The drawer’s liability is discharged.

Answer: A. The banker can only pay the cheque into a bank account.

Explanation: A general crossing restricts payment in cash and ensures it is processed through a bank account only, adding a layer of safety.

8. What does “payment in due course” mean under the Act?

A. Payment made before the maturity date of a negotiable instrument.

B. Payment made without endorsing the instrument.

C. Payment made in good faith and in accordance with the apparent tenor to the rightful holder.

D. Payment made despite knowledge of a forged endorsement.

Answer: C. Payment made in good faith and in accordance with the apparent tenor to the rightful holder.

Explanation: The concept ensures that the payer who follows the rules in good faith is protected from future claims.

9. In which of the following scenarios is notice of dishonour NOT required?

A. The drawer has countermanded payment.

B. The payee is also the drawer.

C. The payee delays presenting the instrument.

D. The maker of the note is illiterate.

Answer: A. The drawer has countermanded payment.

Explanation: When payment has been countermanded (stopped) by the drawer, giving notice of dishonour is not mandatory.

10. If the drawee of a bill refuses to accept it when properly presented, the bill is:

A. Dishonoured by non-payment

B. Dishonoured by non-acceptance

C. Discharged

D. Not enforceable

Answer: B. Dishonoured by non-acceptance

Explanation: When the drawee refuses to accept the bill, it is considered dishonoured by non-acceptance, giving rise to the drawer's liability.