

Al-Saudia Virtual academy
Pakistan Online Tuition – Online Tutor Pakistan

PROMISSORY NOTE:

Definition:

According to Sec. 4 of the negotiable instruments act:

“A promissory note is an instrument in writing (not been a bank note or currency note)

Containing an unconditional undertaking, signed by the make, to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instruments...

Example:

A purchased goods from “B” instead of paying him cash or cheque he gives him a promissory note in which he write “Five days after date, I promise to pay “B” or order Rs.5,000 for value receipt. On the face the note will appear as follows:

Specimen:

Rs. 5000

Lahore 30-4-2001

Five days after date, I promise to pay to Mr. “B” or order the sum of Rs. 5000 for value receipt.

Signature of “A”

Stamp.

In the illustration “A” is the maker debtor of the note. B is the creditor or payee.

Parties to a promissory Note:

Following parties are involved in a promissory note:

Maker:

He is also a debtor, he is the person who makes the note and signs it.

Payee:

He is the creditor. He is the person to whom payment is to be made.

Essential of a promissory Note:

Following are the essential features of promissory note:

- **In writing:** The promissory note must be in proper writing. A verbal agreement or promise to pay any amount cannot be treated as a promissory note.
- **Clear Promise:** The note must contain clearly a promise to pay. The word promise must be used in it or there must be an expressed and explicit undertaking to pay. For example if someone write promissory note in a following way.

“I am liable to pay “B” Rs.5000” then this is not a valid promissory note as it does not contain a promise to pay.

- **Definite Promise:** The promise to pay must be definite and unconditional. In case any condition or terms are attached to the promise then it will not be valid promissory note. Following is an example of such a note.

..I Promise to pay you Rs.5000 if you purchase my shares.”

- **Signature of Maker:** The maker of note must sign it. If the maker does not sign it then it will not be a valid promissory note.
- **Certain Maker:** The maker must be certain and definite person. There must a clear statement that who is a maker or the payer. If in a promissory note is not clear that who is the maker than it no longer remains valid.
- **Certain Payee:** Like maker the payee must be certain and definite person. The promissory note must clearly state that who is the promissory or payee.
- **Certain Amount:** The amount to be paid must be written a definite way.
- **Promise to pay money:** In promissory note there must be a promise to pay money only. If a person writes a promissory note in the following say.

“I promise to pay you Rs.7, 000 and one car”

Mise Legal matters that are essential for other legal documents also apply to the promissory note such as it shall be properly and clearly written, date should be mentioned, amount should be stated in both words and figures and it should be properly stamped.