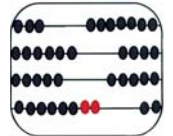


AccountAbleTM

ASIA

Using Cheques Safely

Issue 13; Released: Jan '09



AccountAid

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cheque from his office. He wrote his account number, bank and branch details on the reverse of the cheque. He then went to his bank (IDFC) and deposited the cheque in the drop-box.

When the cheque was not credited to his account for several days, he spoke to his office.

The office called up its bank (Vitibank). They said that the cheque had been already cleared by them three days ago. Later, on request, they gave the details of the bank (NIB) which had collected the cheque.

Kumar then followed up with the concerned branch of NIB. There he found that someone had opened an account in his name, collected the cheque and withdrawn the money. He then visited the address of the account holder with the branch manager. The address turned out to be fake.

Fortunately, the branch manager was a decent fellow. He admitted having opened the account without physically verifying the address. He then reimbursed the full amount to Kumar. It is clear that the cheque had been stolen from IDFC bank's drop box. Most

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In the previous AccountAble, we had a look at the risks that arise when you use cheques. Here we continue the discussion, now looking at the ways to protect ourselves.

En Garde!

How do you defend yourself when the thieves are after your money and the police is not always able to help?

Add bank account number

One simple precaution can be to add the account number and name of the bank to the cheque, as shown below:

Pay ARASHI'S A/c no. 03268897068
with HSBC x----x---x or bearer

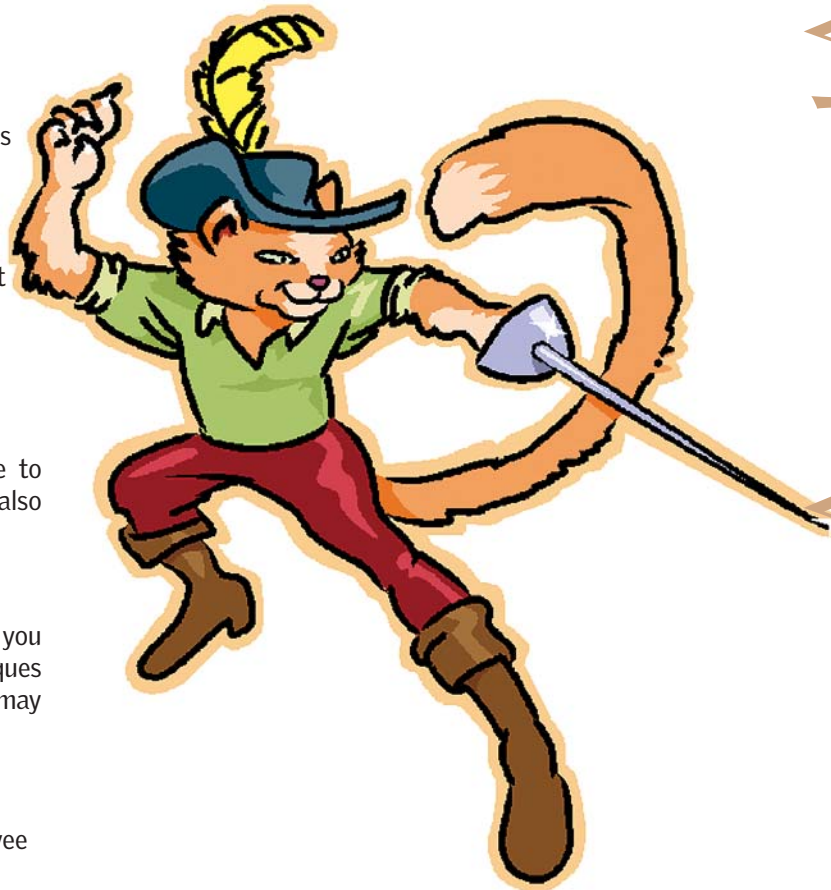
This will make it very difficult for anyone else to encash or collect the cheque. The cheque must also be crossed as 'A/c Payee Only, Not Negotiable'.

Cheques that you receive

This trick may protect you (and the payee) when you are issuing a cheque. But, what about the cheques that you receive? The account number may or may not be written on the face of the cheque.

Kumar's alter ego

In a recent case, Kumar received an account payee



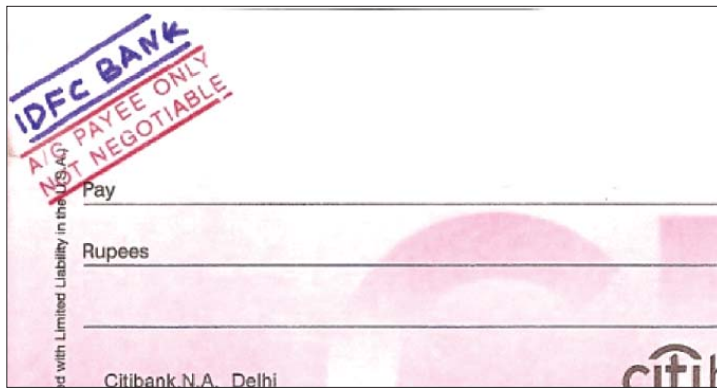
You must always get a proper stamped acknowledgment. Ask a bank employee to put the stamp and their initials also

probably, some staff of IDFC bank (or one of their support agencies) was involved in the theft. However, IDFC bank simply refused to accept that the cheque had been deposited in their bank. This was very easy for them, since there was no proof of deposit.

(All names changed)

Cross it Again

What could Kumar have done to avoid this? One trick is to cross the cheque again to a particular bank. In this particular case, if he had crossed the cheque to IDFC before depositing it, it would have been difficult for the crooks to collect it through NIB. This special crossing is made on the face of the cheque as shown here.



Always Get an Acknowledgement

These days some banks avoid stamping your deposit slip. They ask you to drop the cheque in a box. This helps them save money on overheads. However, as Kumar found out, this can also create a serious problem for you.

You must, therefore, always get a proper stamped acknowledgment. You should ask a bank employee to put the stamp and their initials. Avoid using the stamp yourself, as this can create another loophole for them.

Retain the Deposit Slip

You must always retain the deposit slip. It can be attached to the voucher, or kept in a separate booklet. Some banks have installed

automatic cheque deposit machines. These machines scan the deposit slip and the cheque, and give an acknowledgment slip (with time and date) showing both the images. You should Xerox this slip and attach it to the voucher because the slip is printed on a thermal paper which fades away in 2-6 months.



Figure 1: Cheque Deposit Machine

Un-unused cheques

Fresh cheques can be lost or stolen in several ways. Someone can tear out a cheque leaf if you leave your cheque book lying around. Or you could lose an entire cheque book, without coming to know of it for some time. If you leave unused cheques in an old cheque book, then these can be misused.

These days several banks courier the cheque books to you. Someone may steal a cheque book while it is being sent to you. You should keep track of any requests that you make for cheque books, and make sure that these arrive in a reasonable time.

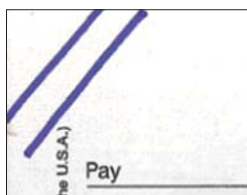
Loan a cheque

There are times when you lend money with only a cheque and no paper work. Now you know it was a loan but what if the person who received the cheque, later says it was a gift. Can you prove that it was given to the person as a loan and was meant to be returned?

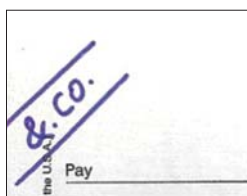
It's simple. Before handing over the cheque, you should write on the back of cheque that this is a loan to 'name of person to whom you are lending it' and get him or her to sign and date it.

Crossing a Cheque

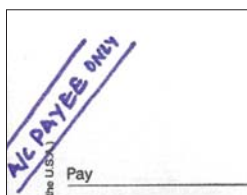
To protect your cheque from being misused, you can cross the cheque in several ways:



The plain crossing, without any words means that the cheque can be paid only through another banker.

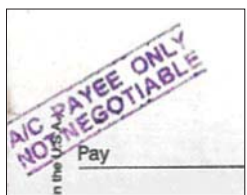


This crossing is similar to the one above. The words '& Co' do not provide additional protection.



The words 'Account Payee' make a big difference. Normally, no banker will credit this cheque into a different bank account. However,

often this cheque remains negotiable and can be endorsed. The bank, in good faith, can legally credit this cheque to another account. You can recover your money only from the person who stole the cheque or received the money.



If you add the words 'Not Negotiable', the cheque cannot be endorsed. If the bank credits this cheque to a different account, you can

recover the money from the bank.



If you add your bank's name across the face of cheque, then this cheque can be collected by that bank only. This is especially useful when you have received a cheque and are depositing it in your bank account.

Prof. Moriarity's Students

Sherlock Holmes, the legendary detective created by Sir Arthur Conan Doyle, met his match in Prof. Moriarity. Prof. Moriarity had an excellent mind (though he turned it towards sophisticated criminal activities). A hundred years later, the Professor's students don't seem to be doing as well.

In January this year, two persons tried to encash a cheque for 355 dollars (-Rs.14,000) in New York. However, they were told that the payee, Mr. Vigilio Clintron, should be present. This created a problem - Mr. Clintron had passed away the previous evening. So they returned to his room, dressed the dead Clintron, put the body in an office chair and wheeled him down the road to encash the cheque. Unfortunately for them, two policemen noticed the pale, stiff-looking body. On asking, the two friends pretended that they did not know that Mr. Clintron was dead. Their reasoning did not help and they were arrested and are facing a trial.

But these 355 dollars could be considered peanuts if compared to Fuller's Folly. Mr. Charles Ray Fuller made world-wide news in April 2008, when he tried to cash a cheque in Fort Worth, USA. The amount? 360 billion dollars! He then said that his girlfriend's mother had given him the cheque. The lady denied it completely. Fortunately or unfortunately, his bail was not as big as his folly - only 3,750 dollars..

Fuller's Folly can easily be attributed to lack of education and finesse among crooks these days. And Mr. Fuller is not alone in this race. In October'07, a man handed over a 1 million dollar note to a cashier in Pittsburgh, USA and asked for change. Unfortunately for him, the note was confiscated, and he was arrested when he became violent.

And three years ago, in March'04, Ms. Alice Pike was arrested when she tried to pay for her groceries with a 1 million dollar note. Obviously she was not aware that the largest denomination ever printed by US Treasury was a 10,000 dollar note which was discontinued in 1969. Since then the 100-dollar note has been the largest denomination bill in circulation.

Prof. Moriarity would surely be very, very upset with his modern-day students.

Source: 'NY police find 'cashback' corpse' (10-Jan-08); 'Texan tries to cash \$360bn cheque' (2-May-08), 'US man seeks change for \$1m note' (9-Oct-07), 'US woman shops with fake \$1m bill', (10-Mar-04). All at www.news.bbc.co.uk



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The forger may get hold of the cheque due to your carelessness, such as from your unlocked drawer

Forged Signatures

No protection is available to the bank in case someone has forged your signatures. This is so because a forged cheque is treated as never been issued. It is also immaterial that the forger got hold of the cheque due to your carelessness, such as from your unlocked drawer.

Suppose you make a cheque but do not sign it. Someone gets hold of this cheque and forges your

signatures. The cheque is cleared. Can you recover the money from the bank?

Yes and no. Theoretically, the bank is liable as you never signed the cheque and the signatures were forged. However, you have to prove that you did not sign the cheque. For this, you will have to get help from handwriting experts. So it would be helpful if you are careful and leave no loopholes.

About AccountAid: AccountAid is a private consulting firm based in New Delhi. It works on accounting and regulatory issues concerning NPOs. For this purpose, it conducts research, workshops, and publishes reference material relevant for NPOs and grant-makers. It also provides advice to donor agencies on grant management systems.

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