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No Receipts, No Problem: Supreme Court Clarifies Enforceability of Cash in Promissory Notes

AUTHOR Ritika Dedhia, Rahul Sundaram

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Introduction

In recovery suits, one recurring problem is the treatment of cash components in financial transactions. While bank transfers leave a clear trail, cash payments often rely only on trust and acknowledgment. Courts are then faced with the dilemma: should such payments be disregarded for lack of independent proof, or enforced when acknowledged in a written instrument like a promissory note? The Supreme Court recently addressed this tension, providing clarity on how such disputes should be resolved.

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The Central Issue

The key challenge in recovery disputes lies in determining how to treat debts when part of the amount was advanced in cash. While banking transactions are easily verifiable, cash dealings often lack independent documentation such as receipts. This raises a fundamental legal question: Should courts enforce the full amount acknowledged in a written instrument, even if a portion was paid in cash, or should they discount the cash element for lack of corroboration? The issue strikes at the balance between protecting lenders from unfair denial of debt and ensuring borrowers are not burdened by unsubstantiated claims.

Case Law

In Georgekutty Chacko v. M.N. Saji[1] the dispute centered on a promissory note acknowledging a loan of ?30,80,000. The Trial Court decreed recovery of ?35,29,680 (with interest), but the Kerala High Court reduced the amount to ?22,00,000, accepting only the bank transfers and rejecting the cash component.

Supreme Court's Ruling: The Court set aside the High Court's reduction and restored the Trial Court's full decree. It held that a promissory note is sufficient acknowledgment of the entire debt, and the absence of receipts for cash payments does not invalidate the claim. Importantly, the Court clarified that the presumption under the Negotiable Instruments Act applies, and once liability is acknowledged in writing, the burden shifts to the borrower to disprove it.

Judicial Approach

Courts have consistently emphasized that written instruments acknowledging debt, such as promissory notes, carry strong evidentiary weight. Once such a document is signed, the law presumes the liability is genuine and enforceable. Cash payments, though less traceable, are a recognized part of financial dealings and cannot be dismissed outright merely because they lack receipts or banking records. The principle is that the borrower who has acknowledged receipt must disprove the debt if they contest it.

At the same time, the judiciary adopts a balanced approach in cases involving mixed modes of payment. On one hand, a promissory note is treated as strong proof of liability unless convincingly challenged; on the other, courts are mindful that borrowers should not be unfairly burdened by inflated or fictitious claims. The guiding principles are therefore twofold:

1. **Credibility of the Instrument:** Promissory notes or written acknowledgments are given substantial weight and enforceability unless effectively rebutted.
2. **Treatment of Cash Components:** Lack of receipts does not automatically nullify cash payments if the debt is otherwise acknowledged in writing and supported by credible testimony.

By applying this framework, courts preserve the sanctity of financial instruments while also safeguarding against misuse. This ensures fairness in recovery suits and provides greater certainty to both lenders and borrowers.

Broader Significance and Practical Implications

The wider importance of this issue lies in preserving confidence in financial dealings. If courts were to disregard cash components simply because they lack receipts, it would undermine the reliability of promissory notes and other written acknowledgments. By treating these instruments as credible proof of debt, while still allowing borrowers to present valid defences, the judiciary strikes a balance between enforceability and fairness.

- **For lenders:** Written instruments such as promissory notes provide reliable legal backing, even when part of the loan is advanced in cash. Maintaining such documentation strengthens enforceability in court.
- **For borrowers:** Signing a promissory note creates a presumption of liability. If they dispute the debt, the burden is on them to provide evidence that the cash component was never received.
- **For courts:** Recovery suits must balance enforceability of acknowledged debts with protection against exaggerated claims. Cash elements should not be rejected outright but assessed in light of the written acknowledgment and the credibility of supporting testimony.

This framework promotes trust in financial transactions, encourages proper documentation, and ensures fairness to both lenders and borrowers. It safeguards lenders from unjust denial of dues while protecting borrowers from misuse, thereby strengthening commercial certainty and reinforcing trust in written instruments for financial dealings.

Author's View

The ruling highlights a key principle in recovery suits: once a debt is acknowledged in writing, especially in a promissory note, the law presumes its validity unless convincingly rebutted. Courts must ensure that genuine lenders are not penalized simply because part of the payment was in cash. This strengthens financial discipline and reinforces trust in written instruments.

At the same time, the judgment provides much needed clarity on the treatment of cash components. By reaffirming the evidentiary strength of promissory notes, the Court has struck a careful balance protecting lenders' rights while ensuring borrowers are not exposed to false claims. In practice, this approach will encourage reliance on written instruments, promote responsible lending, and allow genuine disputes to be tested through evidence.

The decision strengthens commercial certainty and re-establishes trust in promissory notes as dependable legal instruments. It sends a clear message: courts will uphold the sanctity of written acknowledgments of debt, even when transactions involve cash, reflecting a pragmatic approach that aligns with real-world business practices.

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[1] Civil Appeal No. 11309 of 2025 (arising out of SLP(Civil) No. 10362 of 2024)

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