Difference between Cheque and Demand Draft

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Introduction:

Both the Cheque and Demand Draft are used for the purpose of payments because it is not always possible to give the money in cash.

Cheque:

A cheque is a negotiable instrument instructing a bank to pay a specific amount from a specified account held in the issuer of the cheque/depositor's name with that bank.
A cheque is also termed as a bill of exchange drawn on a specified bank and payable on demand. It is the written order from the maker/issuer of the cheque directing a bank to pay certain specified amount of money to a specified individual or a firm. A cheque is written by an individual either from his/her own account or as an authorized signatory of the account of the institution.

Demand Draft:

A demand draft, also commonly known as DD, is a kind of a pre-paid negotiable instrument used for effecting the transfer of money. It is almost equal to a banker's cheque that is used to make payments. When a bank gets a request for the issue of a Demand Draft from any Saving

Bank Account holder or the party maintaining Current Account with a particular bank, it deducts the money from the bank account of that individual or the party along with the normal commission being charged by the bank concerned. However, anyone can get the draft made in lieu of cash provided the amount of the draft is under Rs.50000. A cheque may be dishonoured for lack of funds but a Demand Draft cannot be returned because it is a pre-paid instrument. Demand Draft is signed by the authorized officer/officers of the bank and so it is considered as 100% trustable.

Differentiation between a Cheque and a Demand Draft

Cheque	Demand Draft
A cheque is issued by an individual.	A Demand Draft is issued by a bank.
A cheque is an order of payment from an account holder to the bank.	A Demand Draft is an order of payment by a bank to another bank.
Payment is made of the cheque issued after the presentation of a cheque for encashment.	Payment is to be made to the Drawer Bank before the issuance of a draft.
There are three parties involved in the case of a cheque: Drawer of the cheque, Drawee of the cheque, and the Payee.	In the case of a draft, two parties are involved: Drawer and the Payee.
Drawer and Payee may be two different persons – if the payment is to be made to any third party. Drawer and the Payee may be the same person if the cheque is drawn on "Self".	Drawer and Drawee are two different branches but of the same bank. The payee is the third party to whom the payment is to be made.

The drawer is the account holder of the bank.	Drawer is bank itself issuing the draft for a specific customer.
A cheque may be dishonoured for lack of sufficient funds in the account of the drawer of the cheque.	A Demand Draft cannot be returned because it is a pre-paid instrument.
A cheque can be paid either to the bearer (who presents the cheque to the bank) or order (whose name is specified on the cheque).	A Demand Draft is always payable to a specified party.
A cheque is defined in the Negotiable Instrument Act, 1881.	Although a Demand Draft is also a type of negotiable instrument, it is not defined in the N.I. Act, 1881.
A cheque requires a sign of the issuing individual or the authorized official of the firm.	It requires the stamp of the authorized officer/officers of the bank along with the rubber stamp of the bank.
No bank charges are levied while issuing a cheque.	Bank commission is charged to the account of the account holder for issuing of a draft or it is charged in cash.
Individual/firm issuing cheque must have a Savings Bank A/c or Current Account in the bank.	Individual/Party getting issued a Demand Draft may not necessarily be having a bank account in the bank. Demand Draft can be made in cash if the amount does not exceed Rs.50, 000/-