

**Options with Drawer against a bill of exchange**

**Option - 1 :** Hold the bill till Maturity

**Option - 2 :** Discount with banker

**Option - 3 :** Endorsing the bill

**Option - 1 :** Hold the bill till Maturity

Drawer holds the bill till maturity date and collects the money from drawee

Drawer / Seller (Can be Payee)		Drawee / Buyer / Payer	
<b>On sale / purchase</b>			
Drawee A/C	Dr.	Purchase A/C	Dr.
To Sales A/C		To Drawer A/C	
<b>Bill drawn &amp; acceptance received</b>			
Bills Receivable A/C	Dr.	Drawer A/C	Dr.
To Drawee A/C		To Bills Payable A/C	
<b>On maturity date</b>			
<i>if Bill honoured</i>			
Cash A/C	Dr.	Bills Payable A/C	Dr.
To Bills Receivable A/C		To Cash A/C	
<i>if Bill dishonoured</i>			
<i>Noting charges (if any)</i>			
Noting Charges A/C	Dr.		NC
To Cash A/C			NC
Drawee A/C	Dr.	Bill Amt + NC	
To Bills Receivable A/C		Bill Amt	
To Noting Charges A/C		NC	
		Bills Payable A/C	Dr.
		Noting Charges A/C	Dr.
		To Drawer A/C	
			Bill Amt + NC
		P & L A/C	Dr.
		To Noting Charges A/C	
			NC

**Noting Charges :** Charges paid to Notary to get the bill notarised and sue drawee for bill amount.

These charges are paid by holder of the bill (drawer in this case) on maturity date & it is recoverable from drawee.

**Option - 2 : Discount with banker**

Drawer wants money immediately and cant wait till maturity date.

Drawer goes to banker seeking money against bills receivable.

Banker deducts a small % of the bill as his commission / discounting charges and pay money to drawer immediately

On maturity date drawer has nothing to do, as banker will collect money from drawee.

Drawer / Seller (Can be Payee)				Drawee / Buyer / Payer			
<b>On sale / purchase</b>							
Drawee A/C	Dr.			Purchase A/C	Dr.		
To Sales A/C				To Drawer A/C			
<b>Bill drawn &amp; acceptance received</b>							
Bills Receivable A/C	Dr.			Drawer A/C	Dr.		
To Drawee A/C				To Bills Payable A/C			
<b>Bill discounted with banker</b>							
Bank A/C	Dr.	Bill Amt - Discounting Chrgs		No Entry			
Discounting Charges A/C	Dr.	Disc Charges					
To Bills Receivable A/C		Bill Amt					
<b>On maturity date</b>							
<i>if Bill honoured</i>							
No Entry				Bills Payable A/C	Dr.		
				To Cash A/C			
<i>if Bill dishonoured</i>							
Bills Receivable A/C	Dr.	Bill Amt		No Entry			
To Bank A/C			Bill Amt				
<b>Noting charges (if any)</b>							
Noting Charges A/C	Dr.	NC					
To Cash A/C			NC				
Drawee A/C	Dr.	Bill Amt + NC					
To Bills Receivable A/C			Bill Amt	Noting Charges A/C	Dr.	NC	
To Noting Charges A/C			NC	To Drawer A/C			Bill Amt + NC
				P & L A/C	Dr.	NC	
				To Noting Charges A/C			NC

**Option - 3 : Endorsing the bill**

Drawer is supposed to receive money from his customer & pay money to his supplier

Drawer will raise a bill on customer (drawee) and passes this bill to supplier

Basically we are adjusting debtors against creditors

On maturity date drawer has nothing to do, as supplier (endorsee) will collect money from customer.

Supplier / Endorsee / Payee	Drawer / Seller / Endorsor	Drawee / Buyer / Payer
<p><b>On Sale</b></p> <p>Drawer A/C      Dr.</p> <p>    To Sales A/C</p>	<p><b>On Purchase</b></p> <p>Purchase A/C      Dr.</p> <p>    To Supplier A/C</p> <p><b>On sale</b></p> <p>Drawee A/C      Dr.</p> <p>    To Sales A/C</p>	<p><b>On Purchase</b></p> <p>Purchase A/C      Dr.</p> <p>    To Drawer A/C</p>
<p>No Entry</p>	<p><b>Bill drawn &amp; acceptance received</b></p> <p>Bills Receivable A/C      Dr.</p> <p>    To Drawee A/C</p>	<p>Drawer A/C      Dr.</p> <p>    To Bills Payable A/C</p>
<p><b>Bills received on endorsement</b></p> <p>Bills Receivable A/C      Dr.</p> <p>    To Drawer A/C</p>	<p><b>Bill endorsed to Supplier</b></p> <p>Supplier A/C      Dr.</p> <p>    To Bills Receivable A/C</p>	<p>No Entry</p>
<p><b>On maturity date</b></p> <p><i>if Bill honoured</i></p> <p>Cash A/C      Dr.</p> <p>    To Bills Receivable</p> <p><i>if Bill dishonoured</i></p> <p><b>Noting charges (if any)</b></p> <p>Noting Charges A/C      Dr.      NC</p> <p>    To Cash A/C                              NC</p> <p>Drawer A/C      Dr.      Bill Amt + NC</p> <p>    To Bills Receivable A/C              Bill Amt</p> <p>    To Noting Charges A/C              NC</p>	<p><b>On maturity date</b></p> <p><i>if Bill honoured</i></p> <p>No Entry</p> <p><i>if Bill dishonoured</i></p> <p>Bills Receivable A/C      Dr.      Bill Amt</p> <p>Noting Charges A/C      Dr.      NC</p> <p>    To Supplier A/C                              Bill Amt + NC</p> <p>Drawee A/C      Dr.</p> <p>    To Bills Receivable A/C              Bill Amt</p> <p>    To Noting Charges A/C              NC</p>	<p>Bills Payable A/C      Dr.</p> <p>    To Cash A/C</p> <p><i>if Bill dishonoured</i></p> <p>Bills Payable A/C      Dr.      Bill Amt</p> <p>Noting Charges A/C      Dr.      NC</p> <p>    To Drawer A/C                              Bill Amt + NC</p>

**Settlement of the bill other than on Maturity Date****Settlement before Maturity Date - Retirement of the bill****Settlement after Maturity Date - Renewal of the bill****Settlement before Maturity Date - Retirement of the bill**

As the bill is settled before maturity date,  
 Drawer is happy & will allow discount to Drawee

$$\text{Discount} = \text{Bill Amount} \times \text{Period} \times \text{Disc \%}$$

*Period will be time between date of retirement & maturity date*

$$\text{Settlement Amt} = \text{Bills Amt} - \text{Discount}$$

In the books of Drawer				In the books of Drawee			
<u>On Retirement of the bill</u>							
Cash A/C	Dr.	Bill Amt - Disc		Bills Payable A/C	Dr.	Bill Amt	
Disc Allowed A/C	Dr.	Disc		To Disc Received A/C			Disc
To Bills Receivable A/C			Bill Amt	To Cash A/C			Bill Amt - Disc

**Settlement after Maturity Date - Renewal of the bill**

As the bill is settled after maturity date,  
 Drawer is unhappy & will charge interest on Drawee

$$\text{Interest} = \text{Bill Amount} \times \text{Period} \times \text{Int \%}$$

*Period will be time between maturity date & new due date i.e, period of extension*

$$\text{Settlement Amt} = \text{Bills Amt} + \text{Int}$$

In the books of Drawer				In the books of Drawee			
<u>On Renewal of the bill</u>							
Drawee A/C	Dr.	Bill Amt + Int		Bills Payable A/C	Dr.	Bill Amt	
To Interest A/C			Int	Interest A/C	Dr.	Int	
To Bills Receivable A/C			Bill Amt	To Drawer A/C			Bill Amt + Int
Cash A/C	Dr.			Drawer A/C	Dr.		
Bills Receivable A/C	Dr.			To Cash A/C			
To Drawee A/C				To Bills Payable A/C			

**Drawee doesn't have money to pay :(**

It is called as insolvency of Drawee, when he cannot pay money to drawer

Drawer has to treat such insolvency as bad debts (exp)

Drawee will account for it as deficiency

i.e, assets are not sufficient to pay off liabilities

In the books of Drawer				In the books of Drawee			
<b>On Insolvency</b>							
Cash A/C	Dr.	Amt recovered		Drawer A/C	Dr.	Total Amt	
Bad Debts A/C	Dr.	Amt not recoverable		To Cash A/C			Amt paid
To Drawee A/C			Total Amt	To Deficiency A/C			Amt cannot pay

**Solution to illn 2 from page 190 of YSM**

In the books of A				In the books of B			
<b>On sale / purchase</b>							
B's A/C	Dr.	10,000		Purchase A/C	Dr.	10,000	
To Sales A/C			10,000	To A's A/C			10,000
<b>Bill drawn &amp; acceptance receiv</b>							
Bills Receivable A/C	Dr.	10,000		A's A/C	Dr.	10,000	
To B's A/C			10,000	To Bills Payable A/C			10,000
<b>On maturity date</b>							
<i>if Bill honoured</i>							
Cash A/C	Dr.	10,000		Bills Payable A/C	Dr.	10,000	
To Bills Receivable A/C			10,000	To Cash A/C			10,000