

Chapter-6

Bills of Exchange

1. Promissory Note and Bill of Exchange –Features 2. Meaning and Features of Bills of Exchange 3. Foreign Bills 4. Identify whether the following are Inland or Foreign Instruments 5. Possible ways a Drawer can deal with a bills of Exchange 6. Calculating Maturity Date 7. Dishonour of B/E and payment of Nothing Changes	8. Renewal of B/E 9. Retirement of B/E 10. Accommodation Bills 11. Insolvency of Drawee 12. Journal Entries in books of Drawer 13. Journal Entries in books of Drawee 14. Bills Receivable Book and Bills Payable Book
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CHAPTER OVERVIEW

4. Bills of Exchange

Goods supplied on Credit, and Invoice is raised by Seller on Buyer

4.1 Promissory Note – Definition and Features

- Meaning** : As per Sec. 4 of the Negotiable Instruments Act,1881 a Promissory Note (P/N or Pro-Note) is –
 - an instrument in **writing** (not being a Bank Note a or a Currency Note),
 - Containing an **unconditional undertaking**,
 - **Signed** by the Maker,
 - to pay a certain sum of **money** only,
 - to, or to the order of a certain person or to the **Bearer** of the instrument. (see **Note** below)

Note: A Promissory Note cannot be made payable to **Bearer**. Sec. 31 of the RBI Act, 1934, permits only RBI and Central government to make a P/N payable to Bearer no demand.

- Features of a promissory Note :**
 - P/N must be in **writing**.
 - Generally, the consideration, place and date of making **need not** be mentioned on the P/N.
 - A P/N must contain an undertaking / promise to pay. Mere acknowledgement of debt is not sufficient.
 - The undertaking/promise to pay should be **unconditional** and **definite** (and not vague).
 - P/N should be **signed** by the Marker himself.
 - P/N should **specify the Payee** in clear terms i.e. by name, son of and resident of, etc. The Payee can also be identified by description, e.g. a Promissory Note shall be made payable to the Managing Director of Ram Industries Ltd.
 - Sum payable must be certain or capable of being made certain. Along with principal, interest rate can also be specified.
 - There must be a promise to pay only money and not other consideration.
 - P/N must be duly stamped and dated. If the P/N is not dated, is the presumed to have been made on the date of its delivery.

Format of a Promissory Note

Rs.	1,00,000	Only
Krishnakumar,		34, New
Street, Chennai		
Three months after date, I promise to pay Ramkumar or his order, a sum of Rs. 1,00,000 only, for value received.		
To	Stamp	Signature of Krishnakumar
Sri.Ramkumar		Date : 15th February 2018
43, Old Street, Madurai.		

Note : here, **maker** = Krishnakumar **Payee** = Ramkumar.

4.2 Bills of Exchange – meaning and Features

1. **Meaning :** As per Sec. 5 of the negotiable Instruments Act, 1881, a **Bill of Exchange** (B/E) is –

- an instrument in **writing**,
- containing an unconditional **order**,
- **signed** by the maker,
- **direction** a certain person,
- to pay a certain sum of **money only**,
- to, or to the order of a certain **person** or to the **Bearer** of the instrument.

Note : When prepared by the **Maker** (i.e. Seller of Goods), it is called **Draft**. Once it is accepted by the **Acceptor** (i.e. Buyer of Goods), it becomes a valid Bill of Exchange.

2. **Features of Bill of Exchange :**

- (a) It must be in **writing**.
- (b) It must contain an order to pay. Order must be **unconditional**.
- (c) It must be dated.
- (d) The instrument must be to pay **money only** and the amount of money payable must be **certain**.
- (e) The party must **sign** the instrument.
- (f) It must be properly **stamped** and all the three parties to a bill (i.e. Drawer, Drawee and Payee) must be specified with reasonable **certainty**.

3. **Parties involved :**

- (a) The person who **makes** the order is known as the **Drawer** (or Maker), i.e. Seller of goods.
- (b) The person who **accepts** the order is known as the **Acceptor / Drawee**, i.e. Buyer of Goods.
- (c) The person to whom the amount is payable is known as the **Payee**.

[**Note :** The Drawer and Payee may be the same person. Sometimes, the Drawer may order the payment to a third party, i.e. **Payee**.]

4. **Example :** Ram sold goods to Laxman on credit for Rs. 50,000 on 1st January, payable after credit period of three months. On the same date, Ram draws a B/E to be paid 3 months after date and sends the draft to Laxman for acceptance. After Ram’s acceptance, this draft becomes a

valid B/E Bills receivable for Ram, and bills Payable for Laxman). In the following B/E, Ram is the **Drawer**, Laxman is the **Acceptor**, and Krishna is the **Payee**.

Format of a Bill of Exchange

<p>Rs. 1,00,000 Only 15th February 2018</p> <p>Three months after date, pay to Sri. Krishna or his order, a sum of Rs. 1,00,000 only, for value received.</p> <p>To Sri. Laxman of Ram 43, Old Street, Madurai.</p>	<p>Chennai,</p> <div style="border: 1px solid black; width: 80px; height: 30px; margin: 10px auto;"></div> <p>Stamp</p> <p>Signature</p>
<p style="text-align: center;">_____ Accepted by me. _____ Signature of Laxman</p>	

4.3 foreign Bill

An instrument which is **not** an Inland Instrument, is deemed to be a Foreign Instrument. So, the following are examples of

Foreign Bills –

1. B/E Drawn in India on a person resident **outside** India and made payable **outside** India.
2. B/E drawn **outside** India on a person resident **outside** India.
3. B/E drawn **outside** India and made payable in India.
4. B/E drawn **outside** India and made payable **outside** India.

4.4 Identify whether the following are Inland or Foreign Instruments

Description	Type	Reason
A bill drawn in Pune on a business in Chennai and accepted payable in California.	Inland	It is drawn in India plus drawn upon a person resident in India.
A bill drawn in London on a trader in Chennai and Accepted payable in Chennai.	Foreign	Drawn outside India.
A bill drawn in Lucknow on a trader in London and accepted payable in Chennai.	Inland	It is drawn in India plus Accepted Payable in India.
A bill drawn in Chennai on trader in America made payable in America.	Foreign	Drawn in India but neither it is made payable in India nor it is drawn upon a person Resident in India.

4.5 Possible ways a Drawer can deal with a Bill of Exchange

After is acceptance, the Drawer of the Bill of Exchange, has the following options –

	Treatment	Explanation
1.	Retention till Maturity	Drawer may retain the bill upto the date of maturity with him. The B/E will be presented on due Date by the Drawer himself.
2.	Discounting With Bank	<ul style="list-style-type: none"> • Drawer may discount the Bill with his Bank, to get funds immediately. • B/E for Rs. 1,00,000 payable after 3 months is discounted with Bank at 18%. Here, Discount Charges deducted by Bank = $1,00,000 \times 18\% \times 3/12 = \text{Rs. } 4,500$. So, Drawer will get Rs. $1,00,000 - \text{Rs. } 4,500 = \text{Rs. } 95,500$, as funds immediately. This money can be circulated in his business.
3.	Endorsement	Drawer may endorse the B/E in favour of a Third Party (i.e. his own Creditor), by signing on the back of the instrument. The person who endorses is called as the Endorser , and the person so entitled to payment is called Endorsee.
4.	Sent for Collection	<ul style="list-style-type: none"> • For safety purposes, the Drawer may deposit the B/E with his Bank with clear instruction that the B/E should be retained till maturity, and should be realized on the due date. • Here, there is no discounting, only deposit of the bill with Bank. If the B/E is sent to bank with such instructions, it is called “Bills sent for Collection.”
5.	Pledge	Drawer may pledge the B/E with any Bank or Other Party for taking a Loan.

TERM OF A BILL

The term of bill of exchange may be of any duration .Usually the term **does not exceed 90 days** from the date of the bill.

1. When a bill is drawn **after sight**, the term of the bill begins to run from the date of sighting (when the bill is accepted.)
2. When a bill is drawn **after date**, the term of the bills begins to run from the date of drawing the bill.

DAYS OF GRACE

Every instrument payable otherwise than on demand is entitled **to three days of grace**.

DATE OF MATURITY OF BILL

The date which comes after adding **three days of grace** to the **expiry /due date** of a bill , is called the date of maturity.

The maturity of a promissory note or bill of exchange is the date at which it falls due. Every promissory note or bills of exchange gets matured on the third day after the day on which it is expressed to be payable , except when it is expressed to be payable.

1. On demand
2. At sight or
3. On presentment

BILL AT SIGHT

Bill at sight means the instruments in which no time for payment is mentioned. A cheque is always payable on demand. A promissory note or bill of exchange is payable on demand –

1. When no time for payment is specified or
2. When it is expressed to be payable on demand or at sight or on presentment.

Notes:

At sight and presentment means **on demand**.

An instrument payable on demand may be presented for payment at any time .

Days of grace is not to be added to calculated maturity for such types of bill.

BILL AFTER DATE

Bill after date means the instruments in which time for payment is mentioned. A promissory note or bill of exchange is a time instrument when it is expressed to be payable-

- a) **After a specified period**
- b) **On a specific day**
- c) **After sight**
- d) **On the happening of event which is certain to happen**

Notes

1. The expression after sight means
 - a) In a promissory note, after presentment for sight
 - b) In a bill of exchange, after acceptance or noting for non acceptance or protest for non acceptance.
2. A cheque **cannot be a time instrument** because the cheque is always **payable on demand**. Though a cheque can be post dated and which can be presented on or after such date. A cheque has validity of 90 days from its date after that it becomes void, normally termed as **stale cheque** as bank will not honour such cheque.

5. HOW TO CALCULATE DUE DATE OF A BILL

The due date of each bill is calculated as follows:

Cash	Due date
(a) When the bill is made payable on a specific date.	(a) That specific date will be the due date.
(b) When the bill is made payable at a stated number of months(s) after date.	(b) That date on which the term of the bill shall expire will be the due date. Note: The term shall expire on that day of the month which corresponds with the day on which the bill is dated. If the month in which the period terminates has no corresponding day, the period shall be deemed to expire on the last day of such a month. For example, a bill signed on January 31 st payable after 3 months will be due on May 3 rd .
(c) When the bill is made payable at a stated number of days after date.	(c) That date which comes after adding stated number of days to the date of bill, shall be the due date. Note: The date of Bill is excluded.
(d) When the due date is a public holiday.	(d) The preceding business day will be the due date.
(e) When the due date is an emergency/unforeseen holiday.	(e) The next following day will be the date.

Note: The term of a **Bill after sight** commences from the date of acceptance of the bill whereas the term of a **Bill after date** commences from the date of drawing of bill.

4.7 Dishonour of B/E and payment of Noting Charges

1. **Dishonour** : Non-payment of Bill of Exchange on the due date is called Dishonour.
2. **Noting** : In case of dishonor on the B/E itself. Otherwise, the Acceptor may prove that the B/E was not properly presented to him on the due date and hence can escape from his liability.
3. **Charges** : Noting charges refers to the fees paid to a Public Official known as “Notary Public”, who records the fact and causes of dishonor of B/E.

4. **Accounting :** Nothing charges is incurred by the person presenting the B/E on the due date, and is recoverable from the person causing the dishonor, i.e. the Acceptor.

4.8 Renewal of B/E

1. Reason for Renewal	2. Accounting for Renewal
<ul style="list-style-type: none"> Sometimes, the Acceptor of a B/E is unable to pay the amount on the due date. In such case, the Acceptor may request the Drawer for an extension of time period. This constitutes Renewal of Bill. 	<ul style="list-style-type: none"> Old B/E will be cancelled. So, the earlier Journal Entry relating to acceptance of Old B/E will be reversed. New B/E will be made out. Journal Entries are passed for recording the New B/E. Sometimes, the value of New B/E = value of Old B/E + Interest, if any.

4.9 Retirement of B/E

1. Reason for Retirement	2. Accounting for Retirement
<ul style="list-style-type: none"> Sometimes, the Acceptor of a B/E is ready to pay the amount, even before the due date. So, the Acceptor may request the Payee, for settling the payment before due date. This constitutes Retirement of Bill. 	<ul style="list-style-type: none"> Acceptor is entitled to receive certain Interest or Discount (called Rebate) for making payment before the due date. This Rebate on bills Retired before due date, constitutes Income of Acceptor, and Expense of Payee.

4.10 Accommodation Bills

- Meaning :**
 - Generally B/F is drawn in support of a trade transaction, i.e. credit sales. However, B/F can also be utilized for raising finance (i.e. without a trade transaction).
 - When B/E is used for financing purposes, it is called as Accommodation Bill. (Note: An Accommodation Bill is also referred to as “Kite”.)
- Example :**
 - Assume Abhivan & Balram are in need of funds, say Rs. 3,00,000 and Rs. 2,00,000, temporarily in business (3 months).
 - Both draw a B/E on each other for Rs. 3,00,000 and Rs. 2,00,000 respectively, and discount the same with their respective Bankers. (Sometimes, a single B/E may also be drawn by one party on the other and discounted with the bank, the proceeds will be shared by both parties in agreed ratio)
 - On the respective due dates of the B/E, both parties pay their respective dues to the Bank.

4.11 Dealing with Insolvency of Drawee

- Meaning :** Insolvency of the Drawee means that he will be unable to pay his liabilities. This means that bills accepted by him will be dishonoured on the due date.
- Accounting :** In the books of the Drawer, the following Journal Entries have to be passed –

(a) for dishonor of B/R	Drawee A/c Dr. To Bills Receivable A/c
(b) For recording final amount, if any, received	Cash A/c Dr. (Amt actually received) Bad Debts A/c Dr. (Balancing Figure)

	To Drawee Account (Total Amount due)
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4.12 Journal Entries in the books of the Drawer

Scheme of Journal Entries in the books of Drawer of B/E

	Transaction	Journal Entry
1.	Basic Trade Transaction, if any, i.e. Credit Sales	Acceptor (Sundry Debtors) A/c Dr. To Sales A/c
2.	Bill accepted by Debtor, and received by Seller	Bills Receivable A/c Dr. To Acceptor A/c
3.	(a) If Bill retained till maturity	No further Journal Entry till date of maturity
	(b) if Bill discounted with bank	Bank Account Dr. Discount Account To Bills Receivable A/c
	(c) if Bill endorsed in favour of another party (Creditor)	Sundry Creditor A/c Dr. To Bill Receivable A/c
	(d) If Bill sent to Bank for collection	Sundry Creditor A/c Dr. To Bill Receivable A/c

	Transaction	Journal Entry
4.	Payment received, i.e. Bill honoured on due date	
	(a) If Bill retained till maturity	Cash / Bank A/c Dr To Bills Receivable A/c
	(b) If Bill discounted with Bank (c) if bill endorsed in favour of another party (creditor)	No Entry if bill honoured on maturity, since the Bank /Creditor will receive payment
	(d) If Bill sent to Bank for collection	Bank a/c Dr. To Bills sent for Collection A/c
5.	Payment not received, i.e. Bill dishonoured on due date	
	(a) If Bill retained till maturity	Acceptor A/c (B/E amt + charges) Dr. To Bills Receivable A/c (B/E amt) To Cash / Bank (Noting Charges)
	(b) if bill discounted with Bank	Acceptor A/c (B/E amt + charges) Dr. To Bank (B/E Amt + Noting Charges)
	(c) If Bill endorsed in favour of another party (creditor)	Acceptor A/c (B/E amt + charges) Dr. To Bills sent for collection A/c To Cash / Bank (Noting Charges)
6.	Renewal of Bill before its due date	
	(a) Cancellation of old B/E	Acceptor a/c Dr. To Bills Receivable A/c
	(b) Recording interest Income for renewal / extension	Acceptor a/c Dr. To interest Income
	(c) Acceptance received for new B/E (Note : Sometimes this new B/E may be for the amount of old B/E + interest thereon. In other cases, Interest may be separately settled in cash	To Bills Receivable A/c Dr. Acceptor A/c

	by the Acceptor)	
7.	Retirement of Bill under Rebate , before due date	Cash/bank A/c Dr. Rebate/Interest on Bills To Bills Receivable A/c
8.	Insolvency of Drawee	This is similar to dishonour of B/E. Amount due from Acceptor has to be written off as Bad Debt , to the extent not recoverable.

Note : in case of P/N, the above entries are recorded in the books of the Maker of P/N.

4.13 Journal Entries in the books of the Drawee / Acceptor

Scheme of Journal Entries in the books of Drawee/Acceptor of B/E

	Transaction	Journal Entry
1.	Basic Trade Transaction, if any, i.e. Credit Purchase	Purchase a/c Dr. To Drawer (Sundry Debtor) A/c
2.	Acceptance given for B/E	Drawer a/c Dr. To Bills Payable A/c
3.	If Bill – (a) retained till maturity, or (b) discounted with Bank, or (c) endorsed in favour of another party (Creditor), or (d) sent to Bank for collection, by Drawer	No Journal Entry in the books of the Drawee/Acceptor.
4.	Payment made, i.e. bill honoured on due date	Bills Payable A/c Dr. To cash/Bank A/c
5.	Payment not made, i.e. Bill dishonoured on due date	Bills Payable A/c Noting Charges (Expense) A/c To Drawer A/c

	Transaction	Journal Entry
6.	Renewal of Bill before its due date	
	(a) cancellation of old B/E	Bills Payable A/c Dr. To Drawer A/c
	(b) Recording Interest Income for renewal / extension	Interest Expense Dr. To Drawer A/c
	(c) Acceptance given for new B/E (Note: Sometimes, this new B/E may be for the amount of old B/E + Interest thereon. In other cases, Interest may be separately settled in cash by the Acceptor)	To Drawer A/c Dr. Bills Payable A/c
7.	Retirement of bill under Rebate , before due date	Bills Payable A/c (full amount) Dr. To cash/Bank A/c (net amount paid) To Rebate / Interest Income (Rebate)
8.	Insolvency of Drawee	
	(a) For non-payment of Bill	Bill Payable A/c Dr. Noting Charges (Expense) A/c Dr. To Drawer A/c
	(b) Final settlement, if any, made to Drawer	Drawer A/c (Total Amt due) Dr. To Cash/Bank A/c (amt finally settled)

		To Deficiency A/c (amount not paid)
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4.14 Bills Receivable Book and Bills Payable Book

Point	Bills Receivable Book	Bills Payable Book
Purpose	To record all the bills received from Debtors	To record all the bills issued to the creditors
Dishonour	Dishonour of B/E shall be recorded	Dishonour of B/P shall be recorded

Illustration 1 : Different type of B/E transactions

Journalise the following transactions in the books of Prakash.

- Received acceptances from – (a) Arun Rs. 3,00,000 at 3 months, (b) Balu Rs. 2,00,000 at 3 months, (c) Chandru Rs 2,00,000 at 2 months, (d) Damodar Rs. 1,00,000 at 3 months, and (e) Eswar Rs. 1,00,000 at 3 months.
- Discounted Arun and Balu’s acceptances with Bank at 18%. Sent Damodar’s Acceptance to Bank for collection. Endorsed Chandru’s acceptance in favour of Viswam. Held back Eswar’s acceptance in own custody.
- Gave his own acceptance to Guru Rs. 2,00,000 at 3 months, Hari Rs. 2,00,000 at 2 months, and Indra Rs. 3,00,000 at 2 months.
- Balu and Chandru’s Bills were honoured on due date. Damodar’s acceptance was dishonoured and the Bank returned the B/E along with Rs. 500 Noting Charges. It was found that Damodar had become insolvent and only 30 paise in a Rupee is recoverable from his Estate, towards the Bill Amount due.
- Arun retired the bill one month before the due date, the interest rate being 18% p.a. Eswar requested for renewal of bill along with interest at 36% p.a. This new B/R was honoured by Eswar on the due date.
- Paid own acceptance in favour of Indra on the due date. Retired Guru’s B/P ½ month before the due date, and requested 3 months time extension from hari, the rate of interest in both cases being 24% p.a.

Solution

JOURNAL ENTRIES IN THE BOOKS OF PRAKASH

	Particles		Dr.	Cr.
1.	Bills Receivable A/c	Dr.	9,00,000	
	To Arun A/c			3,00,000
	To Balu A/c			2,00,000
	To Chandru A/c			2,00,000
	To Damodar A/c			1,00,000
	To Eswar A/c			1,00,000
	(Being B/R acceptances received from various parties)			

	Particles		Dr.	Cr.
2.	Bank A/c (balancing figure, being amount received)	Dr.	4,77,500	
	Discount A/c (Rs. 5,00,000 × 18% × 3/12)	Dr.	22,500	
	To Bills Receivable A/c (Rs. 3,00,000 + Rs. 2,00,000)			5,00,000
	(Being B/R received from Arun and Balu, discounted with Bank)			

Bills of Exchange and Promissory Notes
CA MUNISH KUMAR

3.	Bills sent for Collection A/c To Bills Receivable A/c (Being B/R given by Damodar, sent to Bank for collection)	Dr.	1,00,000	1,00,000
4.	Viswam A/c To Bills Receivable A/c (Being endorsement of Chandru's acceptance in favour of Visvam)	Dr.	2,00,000	2,00,000
5.	Guru A/c Hari A/c Indra A/c To Bills Payable A/c (Being B/R acceptances given to various parties)	Dr.	2,00,000 2,00,00 3,00,00	7,00,000
6.	Damodar A/c Nothing charges Expenses A/c To Bill sent for collection A/c To Bank A/C (Being B/R Damodar, sent for Collection, now dishonoured)	Dr. Dr.	1,00,000 500	1,00,000 500
7.	Receivable from Damodar's Estate A/c Bad Debts A/c To Damodar A/c (Being 30% amount receivable from Damodar's estate, balance bad debts)	Dr. Dr.	30,000 70,000	1,00,000
8.	Eswar A/c Bills Receivable A/c (Being cancellation of old B/R of Eswar, in consideration of new B/R)	Dr.	1,00,000	1,00,000
9.	Bills Receivable A/c Eswar A/c To Interest Income A/c (Rs. 1,00,000 × 36% × 3/12)	Dr.	1,09,000	1,00,000 9,000
10.	Bank A/c To Bills Receivable A/c (Being new B/R honoured by Eswar on due date, payment received)	Dr.	1,09,000	1,09,000
11.	Bills Payable A/c To Bank A/c (Being B/P in favour of India, honoured on due date)	Dr.	3,00,000	3,00,000
12.	Bills Payable A/c To Bank A/c To Rebate Income (Rs. 2,00,000 × 24% × 0.5/12) (Being B/P in favour of India, honoured on due date)	Dr.	2,00,000	1,98,000 2,000
13.	Bills Payable A/c To Hari A/c (Being cancellation of old B/P in favour of Hari, for renewal)	Dr.	2,00,000	2,00,000
14.	Hari A/c Interest Expense A/c (Rs. 2,00,000 × 24% × 3/12)	Dr. Dr.	2,00,000 12,000	2,12,000
15.	Bills Payable A/c To Bank A/c	Dr.	2,12,000	2,12,000

	(Being B/P in favour of Hari, honoured on due date)		
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Note :

- Balu’s B/R has been discounted, and Chandru’s B/R has been endorsed to Viswam. Hence, no entry will be made in Prakash’s books in case of honouring of these B/R on the due date.
- Arun’s B/R has been discounted, and when he retires the bill, he will make payment to the holder, i.e. Bank, before the due date. No entry is made in Prakash’s Books for such retirement.

Illustration 2 : Accommodation Bills & Insolvency of Acceptor

Anil draws a bill of Rs. 90,000 on Sanjay on 1st April, for 3 months. After Sanjay’s acceptance, Anil discounts it with his Bank for Rs. 88,200 and remits 1/3rd of the amount to Sanjay. On the due date, Anil fails to remit the amount due to Sanjay, but he accepts a bill for Rs. 1,26,000 for 3 months, which Sanjay discounts for Rs. 1,23,000 and remits Rs. 22,200 to Anil.

Before the maturity of the new Bill, Anil becomes insolvent and only 40% was realized from his estate on 15th October. Pass necessary Journal Entries **in the books of Anil.**

Solution : JOURNAL ENTRIES IN THE BOOKS OF ANIL

Date	Particulars		Dr.	Cr.
Apr 5	Bills Receivable A/c To Sanjay A/c (Being B/R acceptance received from Sanjay)	Dr.	90,000	90,000
Apr 5	Bank A/c (amount received, given) Discount A/c (balancing figure) To Bills Receivable A/c (Being B/R received from Sanjay, discounted with Bank)	Dr. Dr.	88,200 1,800	90,000
Apr 5	Sanjay A/c To Bank A/c To Discount A/c (Being 1/3 share of proceeds paid to sanjay and 1/3 rd discount trfd)	Dr.	30,000	29,400 600
Jul 8	Sanjya A/c To Bills Payable A/c (Being acceptance given to Sanjay)	Dr.	1,26,000	1,26,00
Jul 8	Bank A/c (amount received, given) Discount A/c (see Note below) To Sanjay A/c (Being amt received from sanjay, for new B/E discounted with Bank)	Dr. Dr.	22,200 1,800	24,000
Oct 11	Bills Payable A/c To Sanjay A/c (Being B/P dishonoured due to insolvency)	Dr.	1,26,000	1,26,000
Oct 15	Sanjay A/c (net Cr. In Sanjay A/c after all transactions above) To Bank A/c (40% of Rs 84,000) To Deficiency A/c (60% of Rs. 84,000) (Being final settlement to Sanjay, being 40% of amount due to him)	Dr.	84,000	33,600 50,400

Note :

1. Excess Amount realized by parties on new B/E = New B/e Less Old B/E = 1,26,000 – 90,000	36,000
2. Net Amount realized by Sanjay on new bill = 1,23,300 less settlement of old B/E 90,000	33,300
3. Hence, Effective Discount on new B/E is 36,000 – 33,300	2,700
4. Amt sent by Sanjay to Anil from new bill = Rs. 22,200(given). % of this amount to (2) above	2/3 rd
5. Hence, discount to be borne by Anil on new bill = Rs. 2,700 × 2/3 rd	2/3 rd

Concept Questions for Revision

1. Write short notes on “Promissory Note”.
2. Write short notes on “Bills of Exchange”.
3. What are the different ways a Drawer can deal with a Bill of Exchange?
4. Explain the procedure for calculating the Maturity Date for a Promissory Note and Bill of Exchange?
5. Explain the following concepts in the context of Bill of Exchange – (a) Dishonour, (b) Noting Charges, (c) Renewal, (d) Retirement, (e) Accommodation bills, (f) Insolvency of Drawee.

PREVIOUS YEAR QUESTION

1. On 1st January 2018, Akshay draws two bills of exchange for Rs. 16,000 and Rs. 25,000. The bill of exchange for Rs. 16,000 is for two months while the bill of exchange for Rs. 25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2018, Vishal requests Akshay to renew the first bill with interest @ 5% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2018, Vishal retires the acceptance for Rs. 25,000, the interest rebate i.e. discount being Rs. 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paise in a rupee could be recovered from his estate. Show the Journal Entries (with narrations) in the books of Akshay.

[May 2019, 5 Marks]

2. Suresh draws a bill for Rs. 15,000 on Anup on 15th April, 2020 for 3 months, which Ail UP returns to Suresh after accepting the same. Suresh gets it discounted with the bank for Rs. 14,700 on 18th April, 2020 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts a bill of Rs. 17,500 for 3 months, which Anup discounts for Rs. 17,100 and remits Rs. 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31st October, 2020. Pass necessary Journal entries for the above transactions in the books of Suresh.

[Nov. 2020, 10 Marks]

3. On 12th May, 2020 A sold goods to B for Rs. 36,470 and drew upon the later two bills one for Rs. 16,470 at one month and the other for Rs. 20,000 at three months. B accepted both the bills.

On 5th June, 2020 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honour the second bill on the due date and the bank had to pay Rs. 20 as noting charges.

However, on 16th August, 2020 it was agreed between A and B that B would immediately pay Rs. 8,020 in cash and accept a new bill at 3 months for Rs. 12,480 which included interest for postponement of the part payment of the dishonoured bill. A immediately Sent new acceptance to its bank for collection on the due date. On 1st October, 2020 B approached A offering Rs. 12,240 for retirement of his acceptance. A accepted the request.

You are required to pass journal entries of all the above transactions in the books of A.

[Dec. 2021, 10 Marks]

4. T draws O'0 J a bill of exchange for Rs. 1,80,000 on 1st. April, 2022 for 3 months. J accepts the bill and sends it to T, who gets it discounted from his banker for Rs. 1,72,800. T immediately remits Rs. 57,600 to J. On the due date, T, being unable to remit the amount due, accepts a bill for Rs. 2,52,000 for three

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months, which is discounted by J from his banker for Rs. 2,40,660. J sends Rs. 40,440 to T. Before the maturity of the bill, T becomes bankrupt and his estate paying fifty paisa in a rupee. Give the journal entries-in the books of T and J.

[Dec. 2022, 15 Marks]