

Chapter 2 – Bills of Exchange

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Parties to a Bill of Exchange

Drawer

The person who makes (or writes) the bill of exchange is called the Drawer.

Drawee or Acceptor

The person on whom the bill is drawn is called the Drawee. He accepts the bill, and hence is also called the Acceptor.

Payee

The person to whom the money is paid is called the Payee. Often, the Drawer and the Payee are the same person.

Certain Important Terms

Term of a Bill

Usually, the term of a Bill does not exceed 90 days from the date of the bill.

- When the bill is drawn “after sight”, the term of the bill begins to run from the date of “sighting”, i.e. when the bill is accepted.
- When a bill is drawn “after date”, the term of the bill begins to run from the date of drawing the bill.

Expiry/Due Date of a Bill

The date on which the term of the bill terminates is called as “Expiry/Due Date of a Bill”.

Days of Grace

Days of Grace is a period of additional three days from the due date of the bill. It is customary to allow the drawee another three days for making the settlement of the bill.

However, if the bill is payable “on demand”, days of grace are not added to it.

Date of Maturity of a Bill

The date which comes after adding the days of grace to the due date of the bill is known as the date of maturity of the bill.

Bill at Sight

An instrument in which any time of payment is not specified is called a Bill at Sight. Such a bill is payable on demand. An example of an instrument payable on demand is a cheque.

A 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.

Bill After Date

An instrument in which time of payment is mentioned is called a Bill after Date. It is also known as “Time Instrument”.

A bill of exchange is a time instrument when it is expressed to be payable:

1. After a specified period; or
2. On a specific day; or
3. After sight; or
4. On the happening of an event which is certain to happen.

Note – A cheque can never be a “Time Instrument” as it is always payable on demand.

Calculation of Date of Maturity of a Bill

Date of Maturity = Due Date + 3 Days Grace

Case		Date of Maturity										
1.	When the bill is made payable on a specific date.	That specific date + 3 Days Grace.										
2.	When the bill is made payable at a stated number of month(s) after date.	<p>The date on which the term of the bill shall expire.</p> <p>Note the following examples:</p> <table border="1"> <thead> <tr> <th>Case</th> <th>Date of Maturity</th> </tr> </thead> <tbody> <tr> <td>1. A Bill is drawn on 30th April payable 2 months after date.</td> <td>The due date will be 30th June. The date of maturity will be 3rd July.</td> </tr> <tr> <td>2. A Bill is drawn on 15th April payable 3 months after date.</td> <td>The due date will be 15th July. The date of maturity will be 18th July.</td> </tr> <tr> <td>3. A Bill is drawn on 31st January, 2016 payable 1 month after date.</td> <td>In this case, one month would technically end on 31st February, but we all know February doesn't have 31 days. In 2016, February had 29 days, so, the due date will be 29th February. Adding three days' grace, the date of maturity will be 3rd March.</td> </tr> <tr> <td>4. A Bill is drawn on 31st January, 2017 payable 1 month after date.</td> <td>In this case, one month would technically end on 31st February, but we all know that February doesn't have 31 days. In 2017, February had 28 days, so, the due date will be 28th February. Adding three days' grace, the date of maturity would be 3rd March.</td> </tr> </tbody> </table>	Case	Date of Maturity	1. A Bill is drawn on 30 th April payable 2 months after date.	The due date will be 30 th June. The date of maturity will be 3 rd July.	2. A Bill is drawn on 15 th April payable 3 months after date.	The due date will be 15 th July. The date of maturity will be 18 th July.	3. A Bill is drawn on 31 st January, 2016 payable 1 month after date.	In this case, one month would technically end on 31 st February, but we all know February doesn't have 31 days. In 2016, February had 29 days, so, the due date will be 29 th February. Adding three days' grace, the date of maturity will be 3 rd March.	4. A Bill is drawn on 31 st January, 2017 payable 1 month after date.	In this case, one month would technically end on 31 st February, but we all know that February doesn't have 31 days. In 2017, February had 28 days, so, the due date will be 28 th February. Adding three days' grace, the date of maturity would be 3 rd March.
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3.	When the bill is made payable at a stated number of days after date.	<p>The date which comes after adding the stated number of days.</p> <p>Example – A bill is drawn on 1st April payable 90 days after date.</p> <p>Solution – 29 days of April + 31 days of May + 30 days of June = 30th June is the due date. The date of maturity will be 3rd July.</p>										

		Note – The date of drawing the bill is excluded; that is why, 1st April has been excluded in the above example while calculating the days.
4.	When the date of maturity is a public holiday.	The working day preceding the public holiday.
5.	When the date of maturity is a holiday due to unforeseen emergency.	The next business day.

Accounting for Bills of Exchange

The holder of a Bill of Exchange has the following four options:

1. Retain the bill till the date of maturity;
2. Discount the bill with bank;
3. Endorse the bill in favour of a creditor; and
4. Send the bill for collection.

When the Bill of Exchange is Retained till the Date of Maturity

Case	In the books of Drawer	In the books of Drawee
1. On sale of goods on credit	Debtor's A/c Dr. To Sales A/c	Purchases A/c Dr. To Creditor's A/c
2. Drawing of a Bill of Exchange	No Entry	
3. Acceptance of a Bill of Exchange by the Debtor	Bills Receivable A/c Dr. To Debtor's A/c	Creditor's A/c Dr. To Bills Payable A/c
4. Honour of Bill of Exchange on Due Date	Cash/Bank A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Cash/Bank A/c

When the Bill of Exchange is Discounted with the Bank

Case	In the books of Drawer	In the books of Drawee
1. On sale of goods on credit	Debtor's A/c Dr. To Sales A/c	Purchases A/c Dr. To Creditor's A/c
2. Drawing of a Bill of Exchange	No Entry	
3. Acceptance of a Bill of Exchange by the Debtor	Bills Receivable A/c Dr. To Debtor's A/c	Creditor's A/c Dr. To Bills Payable A/c
4. On Discounting the bill with Bank	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c	No Entry
5. Honour of Bill of Exchange on Due Date	No Entry	Bills Payable A/c Dr. To Cash/Bank A/c

When the Bill of Exchange is Endorsed in Favour of a Creditor

Case	In the books of Endorsee	In the books of Drawer	In the books of Drawee
1. On sale of goods on credit	N.A.	Debtor's A/c Dr. To Sales A/c	Purchases A/c Dr. To Creditor's A/c
2. Drawing of a Bill of Exchange	N.A.	No Entry	
3. Acceptance of a Bill of Exchange by the Debtor	N.A.	Bills Receivable Dr. A/c To Debtor's A/c	Creditor's A/c Dr. To Bills Payable A/c
4. On Endorsing the bill in favour of a creditor	Bills Receivable Dr. A/c To Drawer's A/c	Endorsee's A/c Dr. To Bills Receivable A/c	No Entry
5. Honour of Bill of Exchange on Due Date	Cash/Bank A/c Dr. To Bills Receivable A/c	No Entry	Bills Payable A/c Dr. To Cash/Bank A/c

When the Bill of Exchange is Sent to Bank for Collection

Case	In the books of Drawer	In the books of Drawee
1. On sale of goods on credit	Debtor's A/c Dr. To Sales A/c	Purchases A/c Dr. To Creditor's A/c
2. Drawing of a Bill of Exchange	No Entry	
3. Acceptance of a Bill of Exchange by the Debtor	Bills Receivable A/c Dr. To Debtor's A/c	Creditor's A/c Dr. To Bills Payable A/c
4. On sending the bill to bank for collection	Bills Sent for Collection A/c Dr. To Bills Receivable A/c	No Entry
5. Honour of Bill of Exchange on Due Date	Bank A/c Dr. To Bills Sent for Collection A/c	Bills Payable A/c Dr. To Cash/Bank A/c

Question 1

On 1st April, 2017, Ram sold goods to Mohan worth ₹50,000. On the same date, Mohan accepted a bill drawn upon him by Ram at 3 months for ₹50,000. Pass Journal Entries in the books of both the parties for the following cases:

1. On the due date, the bill was met.
2. Ram got this discounted @ 10%.
3. Ram endorses the bill in favour of Wahid to whom he owed a like amount.
4. Bill was sent for collection.

Dishonour of Bill

When the Bill of Exchange gets dishonoured on the date of maturity, the treatment in the books of accounts of the Drawer depends on whether the bill was retained till the date of maturity, discounted with the bank, endorsed in favour of a creditor, or sent to the bank for collection. The journal entries for all the four cases are given in the table under each heading.

Concept of Noting Charges

When a bill of exchange gets dishonoured, the drawer may get the bill notarised from a “Notary Public”. A “Notary Public” (or a “Notary”) is a public officer constituted by law to serve the public in disputable matters. The advantage of noting is that the evidence of dishonour is noted, and can be used as a legal evidence in the court of law. Noting consists of the following:

1. That the bill has been dishonoured;
2. The date of the dishonour;
3. The reason, if any, for the dishonour; and
4. The fee charged by the Notary Public, i.e. Noting Charges.

The noting charges are paid initially by the holder of the bill of exchange, but are recovered later on from the acceptor.

When the Bill of Exchange is Retained till the Date of Maturity

In the books of Drawer		In the books of Drawee	
Drawee's (B/R + N.C.) A/c	Dr.	Bills Payable A/c	Dr.
To Bills Receivable A/c (B/R)		Noting Charges A/c	Dr.
To Cash A/c (N.C.)		To Drawer's A/c	

When the Bill of Exchange is Discounted with the Bank

In the books of Drawer		In the books of Drawee	
Drawee's (B/R + N.C.) A/c	Dr.	Bills Payable A/c	Dr.
To Bank A/c (B/R + N.C.)		Noting Charges A/c	Dr.
		To Drawer's A/c	

When the Bill of Exchange is Endorsed in Favour of a Creditor

In the books of Endorsee		In the books of Drawer		In the books of Drawee	
Drawer's A/c (B/R + N.C.)	Dr.	Drawee's A/c (B/R + N.C.)	Dr.	Bills Payable A/c	Dr.
To Bills Receivable A/c (B/R)		To Endorsee's A/c (B/R + N.C.)		Noting Charges A/c	Dr.
To Cash A/c (N.C.)				To Drawer's A/c	

When the Bill of Exchange is Sent to Bank for Collection

In the books of Drawer		In the books of Drawee	
Drawee's (B/R + N.C.) A/c	Dr.	Bills Payable A/c	Dr.
To Bills for Collection A/c (B/R)		Noting Charges A/c	Dr.
To Bank A/c (N.C.)		To Drawer's A/c	

Question 2

On 1st October, 2016, X sells goods to Y for ₹25,000 and draws two Bills of Exchange on him: the first for ₹10,000 for 2 months and second for ₹15,000 for 3 months. Y accepts and returns these bills to X. Both the bills are sent to the bank for collection. In due course, X receives the information from the bank that the bill for ₹10,000 has been duly met and the other bill for ₹15,000 has been dishonoured. Noting charges paid on the dishonour of the second bill are ₹100.

Solution**In the books of X
Journal**

Date	Particulars	Dr. (₹)	Cr. (₹)
2016 Oct. 1	Y To Sales A/c (Being the goods sold to Y on credit)	Dr. 25,000	25,000
Oct. 1	Bills Receivable (No. 1) A/c Bills Receivable (No. 2) A/c To Y (Being his two acceptances - one for ₹10,000 and other for ₹15,000 received)	Dr. 10,000 Dr. 15,000	25,000
Oct. 1	Bills for Collection A/c To Bills Receivable (No. 1) A/c To Bills Receivable (No. 2) A/c (Being the bills sent to bank for collection)	Dr. 25,000	10,000 15,000
Dec. 4	Bank A/c To Bills for Collection A/c (Being the amount collected by Bank)	Dr. 10,000	10,000
2017 Jan. 4	Y To Bills for Collection A/c To Bank A/c (Being the second bill dishonoured and bank paid ₹100 as noting charges)	Dr. 15,100	15,000 100

Renewal of Bill

Sometimes, before the due date of a bill of exchange, the drawee requests the drawer to cancel the original bill, and draw another bill for an extended term. The drawer may charge some interest for such extended period. Since the drawee himself requests the drawer to cancel the original bill, it is not necessary to get it notarised from a Notary Public.

The journal entries are given below:

Case	In the books of Drawer	In the books of Drawee
1. On cancellation of old B/E	Drawee's A/c To Bills Receivable A/c	Bills Payable A/c To Drawer's A/c
2. Part payment by the Drawee	Cash A/c To Drawee's A/c	Drawer's A/c To Cash A/c
3. Interest charged to Drawee	Drawee's A/c To Interest A/c	Interest A/c To Drawer's A/c

4. Acceptance of a new B/E	Bills Receivable A/c To Drawee's A/c	Dr.	Drawer's A/c To Bills Payable A/c	Dr.
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Question 3

A draws upon B three Bills of Exchange of ₹3,000, ₹2,000 and ₹1,000 respectively. A week later his first bill was mutually cancelled, B agreeing to pay 50% of the amount in cash immediately and for the balance plus interest ₹100, he accepted a fresh Bill drawn by A. This new bill was endorsed to C who discounted the same with his bankers for ₹1,500. The second bill was discounted by A at 5%. This bill on maturity was returned dishonoured (nothing charge being ₹30). The third bill was retained till maturity when it was duly met. Give the necessary journal entries recording the above transactions in the books of A.

(ICAI Study Material)

Solution

**In the books of A
Journal**

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bills Receivable (No. 1) A/c	Dr.	3,000	
	Bills Receivable (No. 2) A/c	Dr.	2,000	
	Bills Receivable (No. 3) A/c	Dr.	1,000	
	To B (Three bills for ₹3,000, ₹2,000 and ₹1,000 drawn on B and duly accepted by him received)			6,000
	B	Dr.	3,000	
	To Bills Receivable (No. 1) A/c (Bill No. 1 received from B cancelled for renewal)			3,000
	Cash A/c	Dr.	1,500	
	To B (Being 50% of the amount received from B)			1,500
	B	Dr.	100	
	To Interest A/c (Being interest due to B)			100
	Bills Receivable (No. 4) A/c	Dr.	1,600	
	To B (Being new bill accepted by B)			1,600
	C	Dr.	1,600	
	To Bills Receivable (No. 4) A/c (Being Bill No. 4 endorsed to C)			1,600
	Bank A/c	Dr.	1,900	
	Discount A/c	Dr.	100	
	To Bills Receivable (No. 2) A/c (Being Bill No. 2 discounted)			2,000
	B	Dr.	2,030	
	To Bank A/c (Bill No. 2 dishonoured on maturity and noting charges ₹30 paid by Bank)			2,030
	Bank A/c	Dr.	1,000	
	To Bills Receivable (No. 3) A/c			1,000

(Being Bill No. 3 honoured on maturity)

Retirement

Sometimes, the drawee wishes to pay the amount to the payee before the due date of the bill. This process is known as “Retiring the Bill”. Usually, in such case, the payee wishes to allow a certain portion from the full amount as deduction. Such deduction is known as “Rebate”. The journal entries are:

In the books of Drawer		In the books of Drawee	
Cash/Bank A/c	Dr.	Bills Payable A/c	Dr.
Rebate A/c	Dr.	To Cash/Bank A/c	
To Drawee's A/c		To Rebate A/c	

Question 4

On 1st January, 2016, Ankita sells goods for ₹5,00,000 to Bhavika and draws a bill at three months for the amount. Bhavika accepts it and returns it to Ankita. On 1st March, 2016, Bhavika retires her acceptance under rebate of 12% per annum. Record these transactions in the journals of Ankita and Bhavika.

(ICAI Study Material)

Solution

In the books of Ankita Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
2016 Jan. 1	Bhavika Dr. To Sales A/c (Being the goods sold to Bhavika on credit)	5,00,000	5,00,000
	Bills Receivable A/c Dr. To Bhavika (Being the acceptance of bill received)	5,00,000	5,00,000
Mar. 1	Bank A/c Dr. Rebate on Bills A/c Dr. To Bills Receivable A/c (Being retirement of bill by Bhavika one month before maturity, the rebate being given to her at 12% p.a.)	4,95,000 5,000	5,00,000

In the books of Bhavika Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
2016 Jan. 1	Purchases A/c Dr. To Ankita (Being the goods purchased from Ankita on credit)	5,00,000	5,00,000
	Ankita Dr. To Bills Payable A/c (Being the acceptance of bill)	5,00,000	5,00,000
Mar. 1	Bills Payable A/c Dr.	5,00,000	

To Rebate Income A/c		5,000
To Bank A/c		4,95,000
(Being retirement of bill one month before maturity, the rebate being received at 12% p.a.)		

Comprehensive Questions

Question 5

Journalise the following transactions in K. Katrak's books.

- Katrak's acceptance to Basu for ₹2,500 discharged by a cash payment of ₹1,000 and a new bill for the balance plus ₹50 for interest.
- G. Gupta's acceptance for ₹4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid ₹20 noting charges. Bill withdrawn against cheque.
- D. Dalal retires a bill for ₹2,000 drawn on him by Katrak for ₹10 discount.
- Katrak's acceptance to Patel for ₹5,000 discharged by Mody's acceptance to Katrak for a similar amount.

(Note: This point was printed in the ICAI Study Material as "Katrak's acceptance to Patel for ₹5,000 discharged by Patel. Mody's acceptance to Katrak for a similar amount."; and in RTP November, 2018 as "Katrak's acceptance to Patel for ₹5,000 discharged by Patel Mody's acceptance to Katrak for a similar amount.")

(ICAI Study Material; RTP November, 2018)

Solution

Video Link: https://youtu.be/Vdwlu_CvOTI

In the books of K. Katrak Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
1.	Bills Payable A/c	Dr. 2,500	
	Interest A/c	Dr. 50	
	To Cash A/c		1,000
	To Bills Payable A/c		1,550
	(Bills Payable to Basu discharged by cash payment of ₹1,000 and a new bill for ₹1,550 including ₹50 as interest)		
2. (a)	G. Gupta	Dr. 4,020	
	To M. Mehta		4,020
	(G. Gupta's acceptance for ₹4,000 endorsed to M. Mehta dishonoured, ₹20 paid by M. Mehta as noting charges)		
(b)	M. Mehta	Dr. 4,020	
	To Bank A/c		4,020
	(Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)		
3.	Bank A/c	Dr. 1,990	
	Discount A/c	Dr. 10	
	To Bills Receivable A/c		2,000
	(Payment received from D. Dalal against his acceptance for ₹2,000. Allowed him a discount of ₹10)		
4.	Bills Payable A/c	Dr. 5,000	

To Bills Receivable A/c (Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)		5,000
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Question 6

Journalize the following in the books of Don:

- Bob informs Don that Ray's acceptance for ₹3,000 has been dishonoured and noting charges are ₹40. Bob accepts ₹1,000 cash and the balance as bill at three months at interest of 10%. Don accepts from Ray his acceptance at two months plus interest @ 12% p.a.
- James owes Don ₹3,200; he sends Don's own acceptance in favour of Ralph for ₹3,160 in full settlement.
- Don meets his acceptance in favour of Singh for ₹4,500 by endorsing John's acceptance for ₹4,450 in full settlement.
- Ray's acceptance in favour of Don retired one month before due date, interest is taken at the rate of 6% p.a.

(ICAI Study Material)

Solution

Video Link: <https://youtu.be/ldaxauXr3H0>

**In the books of Don
Journal**

Date	Particulars	Dr. (₹)	Cr. (₹)
1. (a)	Ray To Bob (Ray's acceptance endorsed to Bob dishonoured on due date nothing charges paid by Bob ₹40)	Dr. 3,040	3,040
(b)	Bob Interest A/c (10% of ₹2,040 × 3/12) To Cash A/c To Bills Payable A/c (Amount payable to Bob ₹3,040 settled by cash payment ₹1,000 and issue of new bill for ₹2,091 including interest ₹51 for three months on ₹2,040 @ 10% p.a.)	Dr. Dr. 3,040 51	1,000 2,091
(c)	Bills Receivable A/c To Ray To Interest A/c (12% of ₹3,040 × 2/12) (Bill received from Ray for ₹3,040 due against earlier acceptance dishonoured plus ₹60.80 interest for two months @ 12% p.a.)	Dr. 3,100.80	3,040.00 60.80
2.	Bills Payable A/c Discount A/c To James (Cancellation of bills payable to Ralph for ₹3,160 in settlement of ₹3,200 due from James)	Dr. Dr. 3,160 40	3,200
3.	Bills Payable A/c To Bills Receivable A/c	Dr. 4,500	4,450

4.	To Discount A/c (Settlement of acceptance issued to Mr. Singh by endorsement of John's Acceptance for ₹4,450)			50
	Bank A/c Discount A/c To Bills Receivable A/c (Amount received from Ray in settlement of Bills Payable, retired one month before due date)	Dr. Dr.	3,085.30 15.50	3,100.80

Insolvency

Following journal entries are passed:

Case	In the books of Drawer	In the books of Drawee
1. On insolvency of Drawee	Drawee's A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Drawer's A/c
2. On receipt of partial payment	Cash A/c Dr. To Drawee's A/c	Drawer's A/c Dr. To Cash A/c
3. For recording Bad Debts and Deficiency	Bad Debts A/c Dr. To Drawee's A/c	Drawer's A/c Dr. To Deficiency A/c

Question 7

Mr. David draws two bills of exchange on 1.1.2016 for ₹6,000 and ₹10,000. The bill of exchange for ₹6,000 is for two months while the bill of exchange for ₹10,000 is for three months. These bills are accepted by Mr. Thomas. On 4.3.2016, Mr. Thomas requests Mr. David to renew the first bill with interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20.3.2016, Mr. Thomas retires the acceptance for ₹10,000, the interest rebate i.e. discount being ₹100. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate. You are to give the journal entries in the books of Mr. David.

(ICAI Study Material; May, 2019 (Similar))

Solution

In the books of David Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
2016			
Jan. 1	Bills Receivable (No. 1) A/c Dr. Bills Receivable (No. 2) A/c Dr. To Thomas (Being drawing of bills receivable No. 1 due for maturity on 4.3.2016 and bills receivable No. 2 due for maturity on 4.4.2016)	6,000 10,000	16,000
Mar. 4	Thomas Dr. To Bills Receivable (No. 1) A/c (Being the reversal entry for bill No.1 on agreed renewal)	6,000	6,000
Mar. 4	Thomas Dr. To Interest A/c (18% of ₹6,000 × 2/12) (Being the interest due from Thomas for 2 months)	180	180

Mar. 4	Bills Receivable (No. 3) A/c To Thomas (Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2016)	Dr.	6,180	6,180
Mar. 20	Bank A/c Rebate A/c To Bills Receivable (No. 2) A/c (Being the amount received on retirement of bills No.2 before the due date)	Dr. Dr.	9,900 100	10,000
May 7	Thomas To Bills Receivable (No. 3) A/c (Being the amount due from Mr. Thomas on dishonour of his acceptance on presentation on the due date)	Dr.	6,180	6,180
May 7	Bank A/c Bad Debts A/c To Thomas (Being the amount received and written off on insolvency of Thomas)	Dr. Dr.	3,090 3,090	6,180

**In the books of Thomas
Journal**

Date	Particulars		Dr. (₹)	Cr. (₹)
2016 Jan. 1	David To Bills Payable (No. 1) A/c To Bills Payable (No. 2) A/c (Being acceptance given to David)	Dr.	16,000	6,000 10,000
Mar. 4	Bills Payable (No. 1) A/c To David (Being cancellation of old bill)	Dr.	6,000	6,000
Mar. 4	Interest A/c To David (Being interest due to David)	Dr.	180	180
Mar. 4	David To Bills Payable (No. 3) A/c (Being new bill accepted)	Dr.	6,180	6,180
Mar. 20	Bills Payable (No. 2) A/c To Bank A/c To Rebate A/c (Being retirement of Bills Payable No. 2 under Rebate)	Dr.	10,000	9,900 100
May 7	Bills Payable (No. 3) A/c To David (Being David became insolvent)	Dr.	6,180	6,180
May 7	David To Bank A/c To Deficiency A/c (50% amount paid and balance credited to Deficiency A/c)	Dr.	6,180	3,090 3,090

Accommodation Bills

The Bills that we have studied till now are technically known as “Trade Bills”. Trade Bills are used to facilitate the transactions of purchase and sale of goods.

Bills of Exchange can also be used to raise finance. Bills drawn to raise finance are known as Accommodation Bills. Following two cases may arise:

1. When a bill is drawn up for the accommodation of one of the parties
2. When a bill is drawn up for mutual accommodation

When a Bill is drawn up for the Accommodation of one of the Parties

Suppose A and B are friends, and B is in need of ₹1,000. Following steps are followed:

1. B draws up a bill on A for ₹1,100 payable after 3 months.
2. A accepts this bill.
3. B discounts this bill from his Bank and receives ₹1,000.
4. Before the due date, B remits (sends) ₹1,000 to A.
5. On maturity, A meets the bill.

Question 8

In order to accommodate B, A agrees to accept a bill of exchange for ₹1,000. B discounts the bill for ₹980 with his bankers. Before the due date, B sends a sum of ₹1,000 to A. A meets the bill on maturity. Pass necessary journal entries in the books of both A and B.

Solution

In the books of A Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
	B To Bills Payable A/c (Acceptance given)	Dr.	1,000	1,000
	Cash/Bank A/c To Bills Payable A/c (Money reimbursed by B)	Dr.	1,000	1,000
	Bills Payable A/c To Cash/Bank A/c (Bill discharged)	Dr.	1,000	1,000

In the books of B Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bills Receivable A/c To A (A's acceptance received)	Dr.	1,000	1,000
	Bank A/c Discount A/c To Bills Receivable A/c (Bill discounted with bank)	Dr. Dr.	980 20	1,000

	A To Bills Receivable A/c (Amount of the bill reimbursed to A)	Dr.	1,000		1,000
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When a Bill is drawn up for Mutual Accommodation

Suppose A and B are friends and both are in need of ₹5,000. Following steps are followed:

1. B draws up a bill on A for ₹10,500 payable after 3 months.
2. A accepts this bill.
3. B discounts this bill from his Bank and receives ₹10,000.
4. B sends ₹5,000 to A.
5. Discounting charges of ₹500 are borne by A and B in the agreed ratio.
6. Before the due date, B remits (sends) ₹5,000 to A.
7. On maturity, A meets the bill.

Question 9

S. Sarkar draws on R. Shankar a bill for ₹2,000 on 1st May, 2015 for 3 months for mutual accommodation. R. Shankar returns the bill duly accepted and S. Sarkar discounts the bill with the Punjab National Bank for ₹1,990. He remits half the proceeds to R. Shankar. On the date of maturity, he remits the balance and the bill is met on presentation. Pass necessary journal entries in the books of both the parties.

Solution

In the books of S. Sarkar Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
2015 May 1	Bills Receivable A/c To R. Shankar (Acceptance received from R. Shankar for mutual accommodation)	Dr. 2,000	2,000
May 1	Bank A/c Discount A/c To Bills Receivable A/c (Bills discounted for ₹1,980)	Dr. Dr. 1,980 20	2,000
May 1	R. Shankar To Bank A/c To Discount A/c (Half proceeds remitted to R. Shankar)	Dr. 1,000	990 10
Aug. 4	R. Shankar To Bank A/c (Balance due remitted)	Dr. 1,000	1,000

In the books of R. Shankar Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
2015 May 1	S. Sarkar To Bills Payable A/c	Dr. 2,000	2,000

	(Acceptance given to S. Sarkar for mutual accommodation)			
May 1	Bank A/c	Dr.	990	
	Discount A/c	Dr.	10	
	To S. Sarkar			1,000
	(Half proceeds received from S. Sarkar)			
Aug. 4	Bank A/c	Dr.	1,000	
	To S. Sarkar			1,000
	(Balance due received from Sarkar)			
Aug. 4	Bills Payable A/c		2,000	
	To Bank A/c			2,000
	(Bill discharged)			

Question 10

On 1st July, 2016 Gorge drew a bill for ₹1,80,000 for 3 months on Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth ₹1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2016, Jack purchased goods worth ₹1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid ₹9,000 in full settlement of the amount due to Harry. On 1st October, 2016, Harry purchased goods worth ₹2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque. Give the necessary Journal Entries in the books of Harry and Gorge.

(ICAI Study Material)

Solution**In the books of Harry
Journal**

Date	Particulars		Dr. (₹)	Cr. (₹)
2016				
Jul. 1	Gorge	Dr.	1,80,000	
	To Bills Payable A/c			1,80,000
	(Acceptance of bill drawn by Gorge)			
Sep. 1	Jack	Dr.	1,90,000	
	To Sales A/c			1,90,000
	(Sales made to Jack)			
Sep. 1	Bills Receivable A/c	Dr.	1,80,000	
	Bank A/c	Dr.	9,000	
	Discount A/c	Dr.	1,000	
	To Jack			1,90,000
	(Acceptance received from Jack's endorsement of bill received from Gorge for ₹1,80,000 and ₹9,000 received in full settlement of the amount due)			
Sep. 1	Bills Payable A/c	Dr.	1,80,000	
	To Bills Receivable A/c			1,80,000
	(Own acceptance received from Jack's endorsement, cancelled)			
Oct. 1	Purchase A/c	Dr.	2,00,000	
	To Gorge			2,00,000
	(Purchases made from Gorge)			
Oct. 1	Gorge	Dr.	20,000	

To Bank A/c (Amount paid to Gorge after adjusting ₹180,000 for accommodation extended to him)		20,000
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**In the books of Gorge
Journal**

Date	Particulars	Dr. (₹)	Cr. (₹)
2016			
Jul. 1	Purchases A/c To Jack (Purchase of goods from Jack)	Dr. 1,81,000	1,81,000
Jul. 1	Bills Receivable A/c To Harry (Acceptance by Harry of bill drawn on him)	Dr. 1,80,000	1,80,000
Jul. 1	Jack To Discount Received A/c To Discount Bills Receivable A/c (Harry's bill endorsed to Jack)	Dr. 1,81,000	1,000 1,80,000
Oct. 1	Harry To Sales A/c (Sales to Harry)	Dr. 2,00,000	2,00,000
Oct. 1	Bank A/c To Harry (Amount received from Gorge after adjusting ₹180,000 for accommodation extended by him)	Dr. 20,000	20,000

When the Drawer fails to remit to Drawee before the Due Date

Suppose A and B are friends, and A is in need of money. A draws up an accommodation bill on B for 3 months. Now, A is supposed to remit the amount to B before the due date so that B can meet the bill, right! It may so happen that A fails to remit such amount to B. In such case, the following happens:

1. B draws up an accommodation bill on A, which is accepted by A.
2. B gets this bill discounted from Bank in order to honour the first bill.
3. If B also remits some amount to A, then some discounting charges are borne by A as well.
4. The proportion of discount to be borne by A will be based upon the proceeds remitted as well as the benefit obtained by him on the first bill (i.e., by not paying the amount due to B on due date).

Discounting Charges to be borne by A

$$= \frac{\text{Total Benefit to A} \times \text{Discounting Charges of Second Bill}}{\text{Proceeds from Discounting of Second Bill}}$$

Where,

$$\text{Total Benefit to A} = \text{Unremitted Portion of First Bill} + \text{Remittance of Second Bill}$$

Question 11

Anil draws a bill for ₹9,000 on Sanjay on 5th April, 2016 for 3 months, which Sanjay returns to Anil after accepting the same. Anil gets it discounted with the bank for ₹8,820 on 8th April, 2016 and remits one-third amount to Sanjay. On the due date, Anil fails to remit the amount due to Sanjay, but he accepts a bill for ₹12,600 for three months, which Sanjay discounts it for ₹12,330 and remits ₹2,220 to Anil. Before the

maturity of the renewed bill, Anil becomes insolvent and only 50% was realized from his estate on 15th October, 2016. Pass necessary Journal entries for the above transactions in the books of Anil.

(ICAI Study Material)

Solution

**In the books of Anil
Journal**

Date	Particulars	Dr. (₹)	Cr. (₹)
2016			
Apr. 5	Bills Receivable A/c To Sanjay (Acceptance received from Sanjay for mutual accommodation)	Dr. 9,000	9,000
Apr. 8	Bank A/c Discount A/c To Bills Receivable A/c (Bills Discounted for ₹8,820)	Dr. 8,820 Dr. 180	9,000
Apr. 8	Sanjay To Bank A/c (1/3 × ₹8,820) To Discount A/c (1/3 × ₹180) (One-third of the proceeds remitted to Sanjay)	Dr. 3,000	2,940 60
Jul. 8	Sanjay To Bills Payable A/c Acceptance given to Sanjay, being unable to remit the due amount)	Dr. 12,600	12,600
Jul. 8	Bank A/c Discount A/c (W.N. 1) To Sanjay (Amount received from Sanjay and discount amount credited to him)	Dr. 2,220 Dr. 180	2,400
Oct. 11	Bills Payable A/c To Sanjay (Acceptance to Sanjay dishonoured because of insolvency)	Dr. 12,600	12,600
Oct. 15	Sanjay To Bank A/c To Deficiency A/c (Amount paid @ 50% and balance credited to deficiency account as being unable to pay)	Dr. 8,400	4,200 4,200

**In the books of Sanjay
Journal**

Date	Particulars	Dr. (₹)	Cr. (₹)
2016			
Apr. 5	Anil To Bills Payable A/c (Acceptance given to Anil for mutual accommodation)	Dr. 9,000	9,000
Apr. 8	Bank A/c Discount A/c To Anil	Dr. 2,940 Dr. 60	3,000

Jul. 8	(One-third of the proceeds received from Anil) Bills Receivable A/c To Anil (Acceptance of a bill received from Anil)	Dr.	12,600	12,600
Jul. 8	Bank A/c Discount A/c To Bills Receivable A/c (Bill discounted for ₹12,330)	Dr. Dr.	12,330 270	12,600
Jul. 8	Bills Payable A/c To Bank A/c (First bill discharged)	Dr.	9,000	9,000
Jul. 8	Anil To Bank A/c To Discount A/c (W.N. 1) (₹2,220 along with proportionate discount remitted to Anil)	Dr.	2,400	2,220 180
Oct. 11	Anil To Bank A/c (Acceptance of Anil dishonoured due to insolvency)	Dr.	12,600	12,600
Oct. 15	Bank A/c Bad Debts A/c To Anil (Amount received @ 50% and balance treated as Bad Debts)	Dr. Dr.	4,200 4,200	8,400

W.N. 1 – Calculation of Discount to be borne by Anil

Particulars	₹
Unremitted Portion of First Bill	6,000
Add: Remittance of Second Bill	2,220
Total benefit to Anil	8,220
Total Discount	270
Total benefit to Anil	8,220
Amount Received on Discounting Second Bill	12,330
Discount to be borne by Anil $\{(8,220 \times 270) \div 12,330\}$	180

Question 12

For the mutual accommodation of 'X' and 'Y' on 1st April, 2016, 'X' drew a four month' bill on 'Y' for ₹4,000. 'Y' returned the bill after acceptance of the same date. 'X' discounts the bill from his bankers @ 6% per annum and remit 50% of the proceeds to 'Y'. On due date 'X' is unable to send the amount due and therefore 'Y' draws a bill for ₹7,000, which is duly accepted by 'X'. 'Y' discounts the bill for ₹6,600 and sends ₹1,300 to 'X'. Before the bill is due for payment 'X' becomes insolvent. Later 25 paise in a rupee is received from his estate. Record Journal entries in the books of 'X'.

(ICAI Study Material)

Solution

In the Books of X

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
2016 Apr. 1	Bills Receivable A/c To Y (Acceptance received from Y for mutual accommodation)	Dr. 4,000	4,000
Apr. 1	Bank A/c Discount A/c (6% of ₹4,000 × 4/12) To Bills Receivable A/c (Bills Discounted for ₹3,920)	Dr. Dr. 3,920 80	4,000
Apr. 1	Y To Bank A/c (50% of ₹3,920) To Discount A/c (50% of ₹80) (Half of the proceeds remitted to Y)	Dr. 2,000	1,960 40
Aug. 4	Y To Bills Payable A/c (Acceptance given to Y, being unable to remit the due amount)	Dr. 7,000	7,000
Aug. 4	Bank A/c Discount A/c (W.N. 1) To Y (Amount received from Y and discount amount credited to him)	Dr. Dr. 1,300 200	1,500
Aug. 4	Bills Payable A/c To Y (Acceptance to Y dishonoured because of insolvency)	Dr. 7,000	7,000
Aug. 4	Y To Bank A/c To Deficiency A/c (Amount paid @ 25 paise in a rupee and balance credited to deficiency account as being unable to pay)	Dr. 3,500	875 2,625

In the Books of Y
Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
2016 Apr. 1	X To Bills Payable A/c (Acceptance given to X for mutual accommodation)	Dr. 4,000	4,000
Apr. 1	Bank A/c Discount A/c To X (Half the proceeds received from X)	Dr. Dr. 1,960 40	2,000
Aug. 4	Bills Receivable A/c To X (Acceptance of a bill received from X)	Dr. 7,000	7,000
Aug. 4	Bank A/c Discount A/c To Bills Receivable A/c (Bill discounted for ₹6,600)	Dr. Dr. 6,600 400	7,000
Aug. 4	Bills Payable A/c	Dr. 4,000	

	To Bank A/c (First bill discharged)			4,000
Aug. 4	X	Dr.	1,500	
	To Bank A/c To Discount A/c (W.N. 1) (₹1,300 along with proportionate discount remitted to X)			1,300 200
Aug. 4	X	Dr.	7,000	
	To Bank A/c (Acceptance of X dishonoured due to insolvency)			7,000
Aug. 4	Bank A/c	Dr.	875	
	Bad Debts A/c	Dr.	2,625	
	To X (Amount received @ 25 paise in a rupee and balance treated as Bad Debts)			3,500

W.N. 1 – Calculation of Discount to be borne by X

Particulars	₹
Unremitted Portion of First Bill	2,000
Add: Remittance of Second Bill	1,300
Total benefit to X	3,300
Total Discount	400
Total benefit to X	3,300
Amount Received on Discounting Second Bill	6,600
Discount to be borne by X $\{(3,300 \times 400) \div 6,600\}$	200