

* Chapter - 2 *

* Bills of Exchange

And

8-10
Marks

Promissory Note *

Journal Entries

Bills of Exchange

Promissory Note

Trade Bill

Accommodation Bill

Inland Bill

Foreign Bill

* What is Bills of Exchange ?

— Bills of exchange is a,

- written document
- Issued by drawer containing an unconditional order.
- on Drawee to pay certain sum of money
- on specified date and to drawer of bill or to person ordered by Drawer of Bill.

* These are 3 Parties in Bills of Exchange :

a) Drawer of Bill

- Creditor
- maker
- seller

b) Drawee of Bill

- debtor
- acceptor
- buyer

C) Payee - who receives payment on behalf of Drawer.

Note: normally Drawer and Payee are same person.

* What is Foreign Bill?

- Foreign Bill are those bill which are Issued in other country and accepted in other country. [Payable in other country]

* Example:

1) Drawn in India and Payable outside India.

2) Drawn in Foreign and Payable in India.

* What is Promissory Note?

- Promissory note is an instrument,
 - in writing
 - containing unconditional promise
 - To pay certain sum of money
 - To Drawee on the person ordered by drawer.
- Promissory note will not include Bank note or currency note.
- Promissory note cannot be made payable to bearer as per sec-31(2) of RBI act.

* These are 2 partners in Promissory

Note :-

1) Maker

- Debtor
- Buyer
- Promiser

2) Promisee

- Creditor
- Seller
- Payee

* Term of Bill :-

a) Payable "after date".

→ calculation of days start from date of Bill.

b) Payable "after sight".

→ calculation of days start from date of Acceptance.

c) "At sight" / "At presentment" or nothing in mentioned.

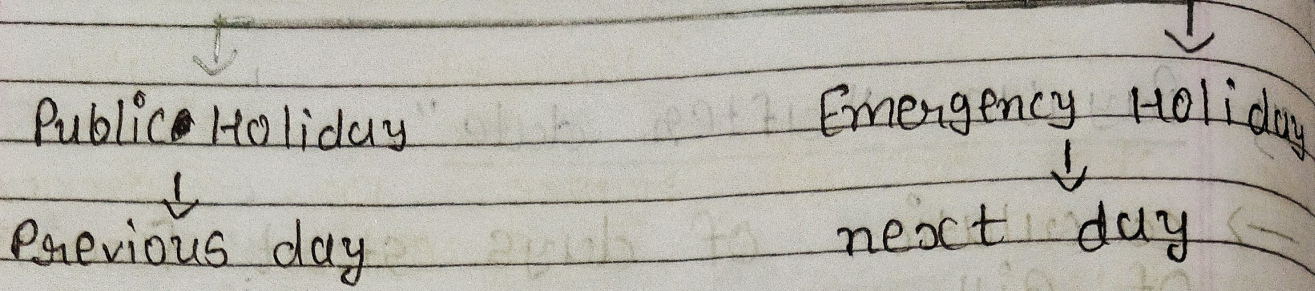
→ Payable on Demand [no grace days allowed]

* What is grace days?

• Normally, 3 days of grace is allowed in case of instrument.

• Grace days is not allowed "on demand."

— Due date of Bill + 3 days of Grace = Maturity date of Bill



* Use of Bill by Drawers:

- Bill not accepted → Draft
- Bill accepted

↓
Drawer

↓
Bills
Receivable

↓
Drawee

↓
Bills
Payable

- Case: 1 → Bill held till maturity
- Case: 2 → Bill discounted with Bank
- Case: 3 → Bill endorsed to creditor
- Case: 4 → Bill sent for collection to Bank

* Journal Entries *

Particulars	Drawer	Drawee
a) when exchanging of goods takes place	Drawee Dr. To Sales	Purchase Dr. To Drawer
b) when bill is accepted & returned	Bills Receivable Dr. To Drawee	Drawee Dr. To bill Payable

* Use of Bills :

	Drawer	Drawee
Case-1	NO entry	NO entry
Case-2	Bank Alc Dr. Discount Alc Dr. To Bills Receivable	NO entry
Case-3	creditor Alc Dr. To Bill Receivable	NO entry

Case-1	Bills sent for collection Dr. To Bills Receivable	NO entry
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* ON maturity

— Bill ~~honoured~~ ^{honoured} :

Drawer

Drawee

Case-1	Bank A/c Dr. To Bills Receivable	Bills Payable Dr. To Bank
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Case-2	NO entry [as cash is received by bank]	Bills Payable Dr. To Bank
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Case-3	NO entry [as cash is received by creditor]	Bills Payable Dr. To Bank
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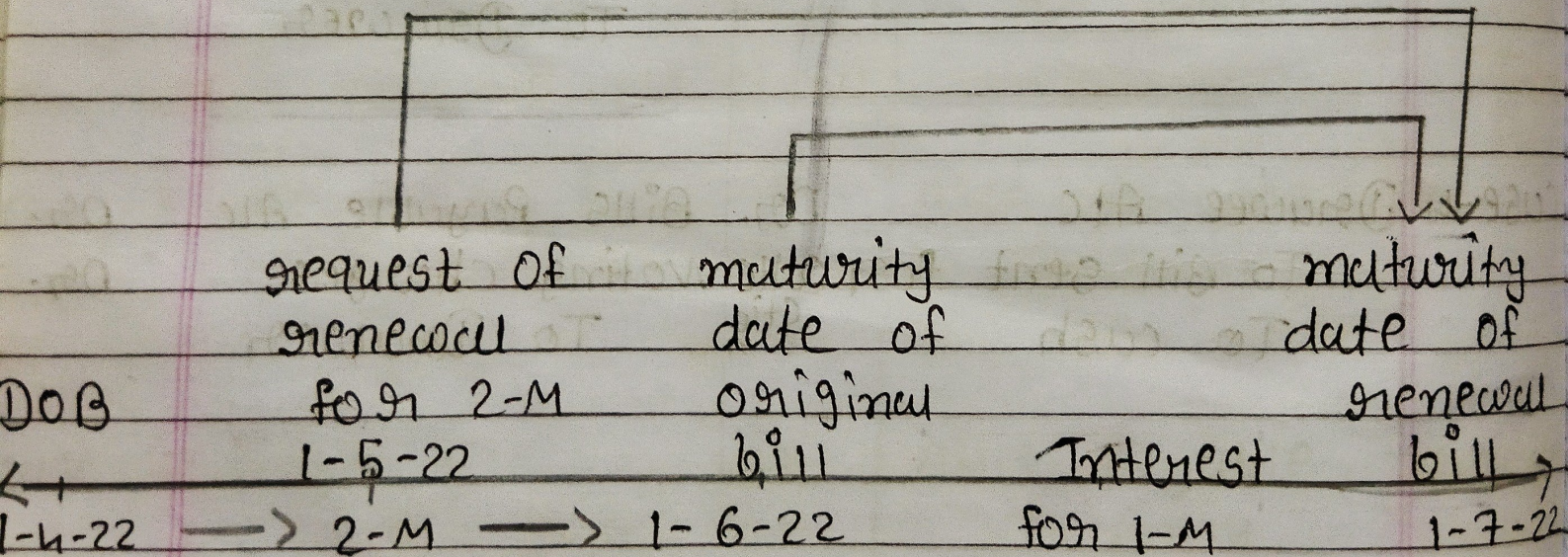
Case-4	Bank A/c Dr. To Bill sent for collection	Bills Payable Dr. To Bank
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— Bill Dishonoured :

	Drawers		Drawee
Case-1	Drawee A/c Dr. To Bills receivable To cash (noting charges)		Bills Payable A/c Dr. Noting charges Dr. To Drawers
Case-2	Drawee A/c Dr. To Bank [noting charges include]		Bills Payable A/c Dr. Noting charges Dr. To Drawers
Case-3	Drawee A/c Dr. To Creditor		Bills Payable A/c Dr. Noting charges Dr. To Drawers
Case-4	Drawee A/c Dr. To Bill sent for collection To cash		Bills Payable A/c Dr. Noting charges Dr. To Drawers

* Renewal of Bill :

- when drawee request to extend the credit period of original bill on maturity date or before maturity date. It is known as renewal of bill.
- when original bill is renewed the old bill is cancelled and new bill is issued.
- As the period is extended. Drawee will change interest from maturity date of original bill till maturity date of new bill.



• Interest •

$$- \cdot ₹10,000 + ₹200 = ₹10,200$$

↓
Paid

Immediately

↓
Added to

New bill

- • Cash A/c Dr.
To interest

- • Bills receivable Dr.
To Bank

* Insolvency of Partner :

- • insolvency means unable to pay amount.

- • When any drawee of bill is declared insolvent in that case First we will pass entry for dishonoured.

- • If any amount is receivable / receive from such drawee then following entry will be pass :

—• Cash / Bank A/c Dr.
To Drawee

—• Any amount which is not recoverable will be transferred to Bad debt :

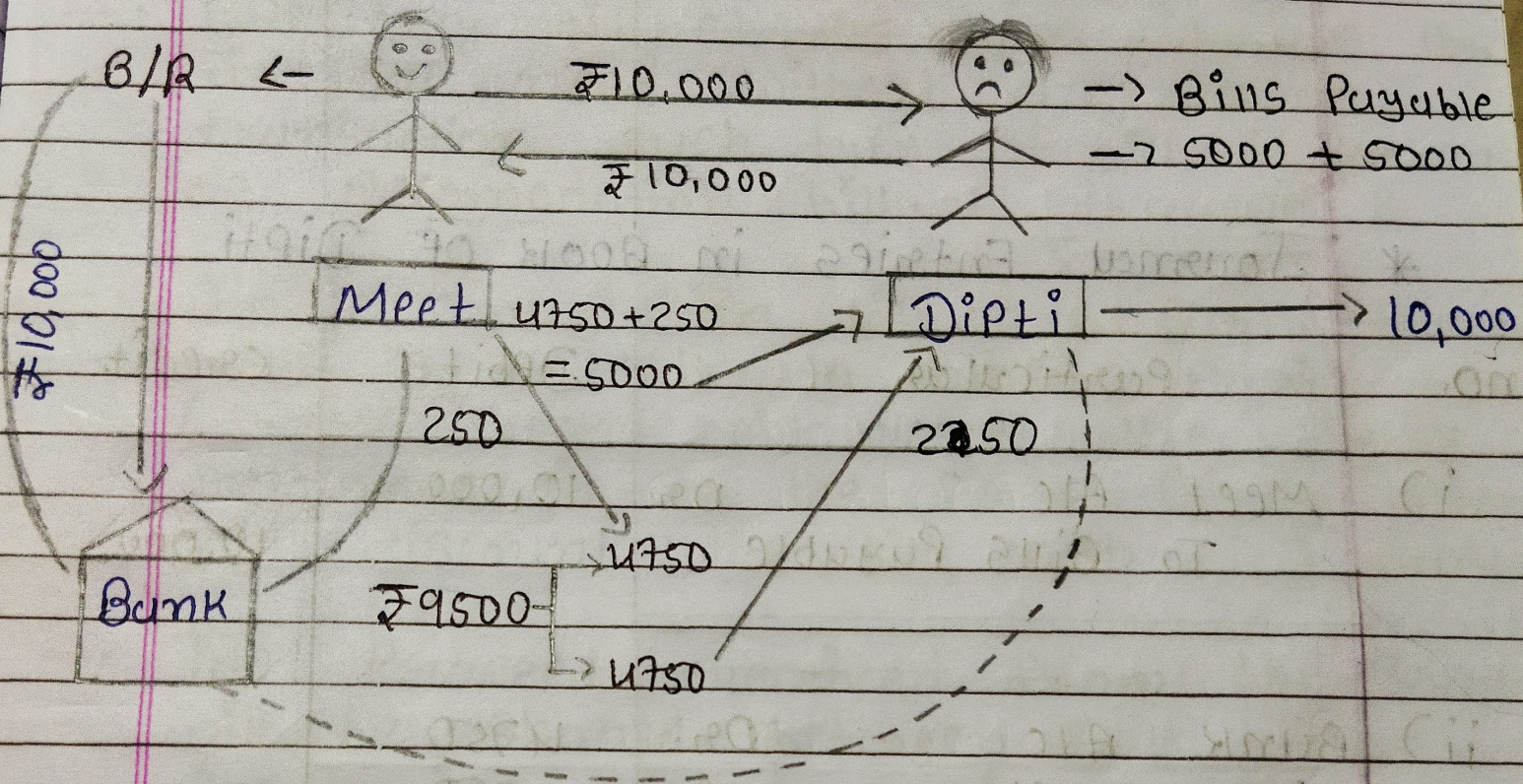
(A) In Books of Drawer :

—• Bad Debt Dr.
To Drawee

(B) In Books of Drawee :

—• Drawer A/c Dr.
To Deficiency

* ACComodation Bill :-



* Journal Entries in Books of Meet

no.	Particulars		Debit	Credit
i)	Bills receivable To Dipti	Dr.	10,000	10,000
ii)	Bank A/c Discount A/c To Bills receivable	Dr. Dr.	9500 500	10,000

iii)	Dipti Alc	Dr.	5000	
	To cash / Bank			4750
	To Discount			250

iv)	Dipti Alc	Dr.	5000	
	To cash / Bank			5000

* Journal Entries in Book of Dipti

no.	Particulars		Debit	Credit
i)	Meet Alc	Dr.	10,000	
	To Bills Payable			10,000
ii)	Bank Alc	Dr.	4750	
	Discount Alc	Dr.	250	
	To Meet Alc			5000
iii)	Cash Alc	Dr.	5000	
	To Meet Alc			5000
iv)	Bills Payable	Dr.	10,000	
	To Bank			10,000

* Notes :-

- Normally bills of exchange are used to finance trade transaction that is purchase & sale.
- But any bill of exchange is used for financial need without any trade transaction such type of bill is known as Accommodation bill.
- In accommodation bill one party [drawer] will issue bill to other party [drawee] who will accept the bill & returned it to the first party who will discount the bill with its bank.
- The proceeds received from the bank will be shared between both the party in agreed ratio & in same ratio discount will be distributed.
- On maturity date drawer of the bill will send his share [including discount] to the drawee & drawee will pay the total amount to bank.
- In case drawer of the bill fails to pay amount on maturity, drawee of the first bill will issue a new bill on drawer of the first bill.

- The drawee of first bill [drawee of second bill] will discount the second bill with his bank & the amount received from bank will be first utilized to pay the first bill & any remaining amount will be distributed among both the parties.

* Formula :-

- Discount on second bill to be borne by first drawee :

Benefit of the first bill + Proceed received of second bill \times Discount amount received of second bill after discount