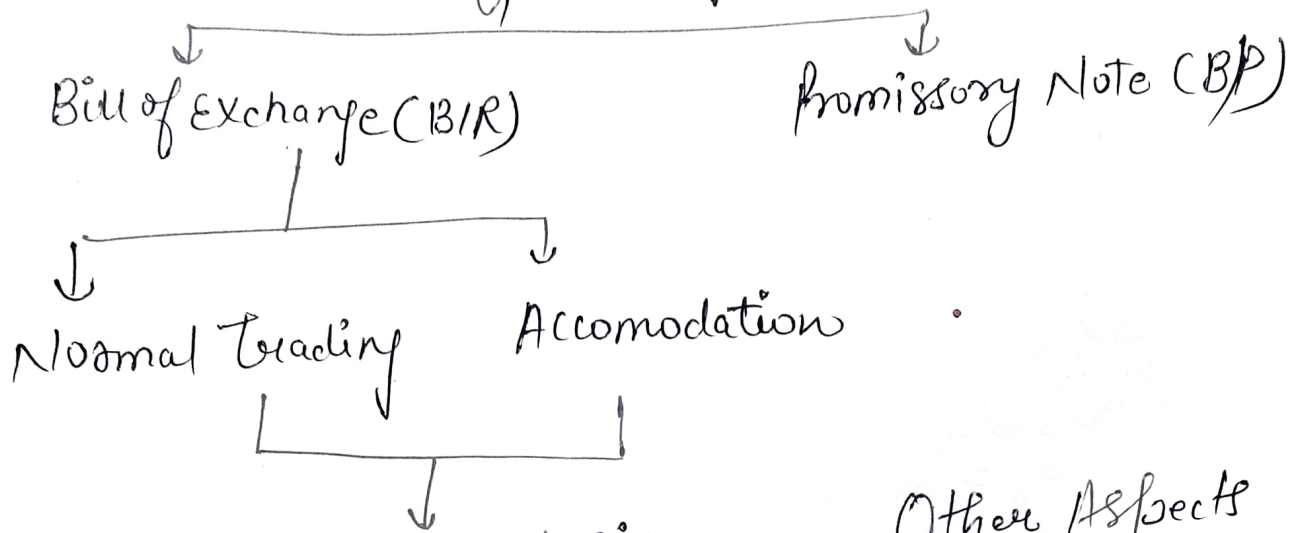


Bills of Exchange



Nature of Bill

- Bill at Sight
- Bill after date
- Bill on Demand.

Other Aspects

- Dishonour of Bill
- Noting Charges
- Renewal of Bill
- Insolvency.
- Retirement of bills
- Bills for collection

Date of Expiry

- One date
- Days of grace
- Maturity Date.

1.1 BILLS OF EXCHANGE

It is general practice that when goods are sold or services are provided, the seller extends a credit period to buyer. In sometimes, the seller may not be in a position to offer credit period and the purchaser is not in a position to pay immediately. In such circumstances the seller would like that the purchaser should give a definite promise in writing to pay the amount of the goods on a certain date which he can use to generate immediate funds. Commercial practice has developed to treat these written promises into valuable instruments of credit that when a written promise is made in proper form and is properly stamped, it is expected that the buyer discharges his debt and the seller receives payment. This is because written promises are often accepted by banks and money is advanced against them. Also, they can be endorsed, i.e., passed on from person to person. The written promise is either in the form of a Bill of Exchange or in the form of a promissory note.

A Bill of Exchange has been defined as an "instrument in writing containing an unconditional order signed by the maker directing 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". When such an order is accepted in writing on the face of the order itself, it becomes a valid bill of exchange. Suppose A orders B to pay ₹50,000 for three months after date and B accepts this order by signing his name, then it will be a bill of exchange.

A Bill of Exchange has the following characteristics:

1. It must be in writing.
2. It must be dated.
3. It must contain an order to pay a certain sum of money.
4. The promise to pay must be unconditional.
5. The money must be payable to a definite person or to his order to the bearer.
6. The draft must be accepted for payment by the party to whom the order is made.
7. It should be properly stamped.
8. Payment must be in legal currency of the country.

The party which makes the order is known as the **drawer**. The party which accepts the order is known as the **acceptor** and the party to whom the amount has to be paid is known as the **payee**. The drawer and the payee can be the same.

A Bill of Exchange can be passed on to another person by endorsement. Endorsement on a bill of exchange is made exactly as it is done in the case of a cheque. The primary liability on a bill of exchange is that of the acceptor. If he does not pay, a holder can recover the amount from any of the previous endorsers or the drawee.



1.2 PROMISSORY NOTES

A promissory note is an instrument in writing, not being a bank note or 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. Under Section 31(2) of the Reserve Bank of India Act a promissory note cannot be made payable to bearer.

A promissory note has the following characteristics:

1. It must be in writing.
2. It must contain a clear promise to pay. Mere acknowledgement of a debt is not a promissory note.
3. The promise to pay must be unconditional "I promise to pay ₹50,000 as soon as I can" is not an unconditional promise.
4. The promiser or maker must sign the promissory note.
5. The maker must be a certain person.
6. The payee (the person to whom the payment is promised) must also be certain.
7. The sum payable must be certain. "I promise to pay ₹50,000 plus all fine" is not certain.
8. Payment must be in legal currency of the country.
9. It should not be made payable to the bearer.

Distinction between a Bill of Exchange and a Promissory Note y

<i>Basis of Distinction</i>	<i>Bill of Exchange</i>	<i>Promissory Note</i>
Parties	There may be three parties to it, viz., the drawer, the acceptor and the payee.	There are only two parties to it — the maker who draws the note and signs it and the payee to whom the amount is payable.
Drawer	It is drawn by the creditor.	It is drawn by the debtor.
Order and Promise	It is an order to make payment.	It is a promise to make payment.
Acceptance	It needs acceptance by the drawee.	It does not need acceptance.
Liability	The liability of the drawer is secondary. He will be liable only if the acceptor does not pay.	The liability of the drawer (maker) is primary.
Payee	Drawer can be the payee of the bill.	Maker cannot be the payee of it.
Noting	It is better to get it noted in case of dishonour.	Noting is not necessary in case of a promissory note.
Copies	In case of local bills only one copy is prepared but in case of foreign bills three copies are prepared.	Only one copy is prepared whether it is local or foreign.
Stamps	There is no need of fixing the stamps on the bills payable 'on demand' but otherwise stamps would be necessary.	Stamps have to be fixed in any case.

Term of A Bill

- Term of Bill of Exchange may be any duration. Usually term does not exceed 90 days from the date of bill.
- Bill drawn After Sight → Term of bill Start from the date when the bill is accepted.
- Bill drawn after date → Term Start from the date of drawing of bill.
- Expiry / due date of bill.
The date on which the bill become terminate.
- Days of Grace :-
Every instrument payable is entitled to 3 days of grace except bill on demand mean No grace days allowed.
- Maturity of Bill :-
 $\text{Due date} + 3 \text{ days} = \text{Maturity date}$.
- No grace days added if bill on demand, At sight (if specified date mentions) and on presentment.

How to Calculate due date of Bill

Case

See Example.

due date

a) bill mention specific date

Specific date is due date.

b) bill specified No. of Month after date

term of bill expires is due date. but if. No corresponding day then last day of such a month.

c) bill stated No. of days after date

date which comes after adding No. of days to the date of bill.

* The date of bill Excluded

d) due date is a public Holiday.

Preceding business day

e) due date is an Emergency holiday

next following day.

(No. of grace days Add. None k baad Considered. Holiday)

Example :-

(b). If the bill drawn 30th Jan for one month due date is 28 Feb. + 3 days grace = 3 March.

• Bills drawn on 30th May or 31st May for one month due date is 30 June + 3 day = 3rd July

Example :-

(c) Bill drawn on 30th April for 30 days then date is 30 May + 3 days = 2 June.

Example :-

(d) Bill drawn falls date is 23rd NOV for 2 m. then
then 23 Jan + 3 day = 26 Jan. it's Public holiday
then 25 Jan is due date / Maturity date.

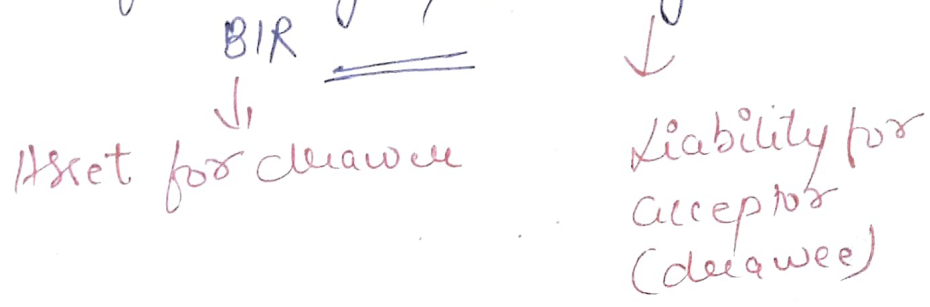
Example :-

(e) Bill drawn on 23rd May for 60 days. & Emergency holidays on 25 July then 29 July + 3 day = 25 July. then 25th July is Maturity date.

Example: Bill after Sight :- Bill dated 1st Jan is payable 2 m. "after sight" and it is accepted on 15th Jan 2015. then due date start from 15 Jan. So. $\Rightarrow 15 \text{ March} + 3 = 18 \text{ March}$ is maturity date.

Bill after date: Same example above. bill date start from 1 Jan so. 1 March + 3 day = 4 March. is maturity date.

Accounting Treatment of Bill of Exchange / Bills Payable



There are different Uses of Bills Receivable. Party who hold Bill IR Can Use it in either

- 1) → keep it till the date of Maturity.
 - 2) → may discount from Bank before maturity
 - 3) → may endorse it to other party before maturity.
 - 4) → may send it to his banker for collection.
- (1) hold it till Maturity and pay by acceptor on maturity.

<u>Transaction</u>	<u>Drawer</u>	<u>Drawee</u>
i) X Sold good to Y	Y To Sales Acc (Sold good on credit)	Dr Purchase Acc To X (Purchase on cr.)
ii) When X receive a Bill accepted by Y	BIR Acc To Y (Acceptance Received)	Dr X To BIP Acc (Acceptance given)

iii) Bill Retained by X
till maturity & Y
pay the amt on
maturity.

Bank A/c Dr
To BIR A/c
(Amt. Received)

BIP A/c Dr
To Bank A/c
(Amt Paid)

iv) if 'Y' the acceptor
a) of Bill dishonoured
on due date.

Y Dr
To BIR A/c
(Bill dishonoured)

BIP A/c Dr
To X
(Same)

iv) b) X Pay Noting
charges. (which is)
Received from Y)

Y Dr
To Cash A/c
(Noting charges paid
on Y's behalf)

Noting charges A/c Dr
To X
(Noting charges
payable to X)

above (a) & (b) Compound also.

Meaning of Dishonoured Bill → When the acceptor of
the Bill refuses to pay the amt. on due date of
maturity or becomes insolvent. is called dishonoured
of Bill. The holder of bill can recover the amt.
from any of Endorsers or drawer. Holder
of Bill must serve notice to the drawer of Bill.
if not served then lose the right of the to recover
the amt. from the party.

Noting Charges: Noting charges are paid to
Notary Public first by the holder of the bill.

but one immediately recovered from the acceptor, because he is the person responsible for the dishonour.

Renewal of Bill

Sometimes, the acceptor of a Bill finds himself unable to meet the bill on the due date. He may request the holder of bill to cancel the original Bill and make new one. If he agrees new bill drawn either full amt & partial amt. and drawee charges interest for the new bill.

Interest Paid in cash, or may add in amount of new bill.

→ first cancel old bill as same. in case of dishonour.

→ then Entry of new bill & interest.

Transaction

1) Cancel the old bill

<u>Drawer</u>		<u>Drawee</u>	
Y	Dr	BIP Ac	Dr
To BIP Ac		To X	
(Bill cancelled)			

2) Y Pays the amt of interest in cash.

Cash Ac	Dr	Interest Ac	Dr
To Interest Ac		To Cash Ac	
(Interest received)			
(Int. paid)			

8) Y does not pay the amt of interest in Cash.

Y
To Interest Acc
(Int. Receivable)

Dr Interest Acc
To X
(Int Payable)

4) When new bill is received from Y.

BIR Acc Dr
To Y
(New acceptance received)

X
To BIR Acc
(New acceptance given)

2) When the bill is Discounted from the Bank.

if bill discounted from Bank

Bank Acc Dr
Discount Allowed Acc
To BIR Acc
(Bill discounted)

No Entry

When Y pays the amt of bill on due date

No Entry

Bill Payable Acc
To Bank Acc

if the bill discounted from bank is dishonoured

Y
To Bank Acc
(Bill dishonoured
Noting charges Paid
by Bank)

(amt of bill + N.C.)
Dr ↑

BIR Acc Dr
Noting charges Acc
To X

3) When the bill Endorse to other Party (Z)

	<u>Drawer</u>	<u>Drawee</u>	<u>Third Party</u>
if X Endorse bill in favour of Z	Z Dr To BIR Ac	No Entry	BIR Ac Dr To X
Y Pays the amt. of the bill on due date.	No Entry	BIR Ac Dr To Bank Ac	Bank Ac Dr To BIR Ac
if bill <u>dishonoured</u> on due date	X Dr (Amt of bill to NC) To Z (NC Received from Y to Z)	BIR Ac Dr Noting Ch. Ac Dr To X (Bill dish. and NC Payable to X)	X To BIR Ac To Cash Ac (NC Paid in Cash)

4) When the Bill sent to Bank for collection

When bill is sent for collection?
 Bill sent for collection Ac Dr
 To BIR Ac

On due date Actual realisation then
 Bank Ac Dr
 To Bill sent for collection Ac

Retiring a Bill Under Rebate

Drawee makes the payment before its due date called retiring the bill. In that case the holder of bill allows discount called Rebate. For one party its Expense & for another its gain.

X retires his
Acceptance
on before due
date

Drawee.
Bank A/c Dr
Rebate on bill A/c Cr
 To BIR A/c
(Amt Received)

Drawer
BIP A/c Dr
 To Bank A/c
 To Rebate on
 bill A/c
(Amt given)

Accommodation Bill

An accommodation bill, a note, or a draft is drawn and acknowledged by the drawee and the drawee without having any consideration in it. These draft notes, or bills are attached to help either one party or all parties for their monetary aid in a bill of Exchange.

- Step 1
- (1) ^A drawee draw Bill on ^B drawee.
 - (2) ^B drawee accepted and sent to ^A drawee.
 - (3) ^A drawee discounted it from Bank.
 - (4) Some portion of bill amt. ^B H/F to ^B drawee by A if he needed. & Dis. also transferred.
 - (5) if on due date ^A drawee can't send money to ^B drawee then ^B drawee again draw ^A met Bill on ^A drawee on that case. first ^A drawee becomes ^B drawee & vice versa. then ^B drawee Dis counted it from bank to repay first bill (Original Bill). and new drawee permit some proceed to new drawee. then Portion of discount to be borne by new (A) drawee based upon proceeds permit and the benefit obtained by him on first bill.

Understand by Example:-

ILLUSTRATION 12

Anil draws a bill for ₹9,000 on Sanjay on 5th April, 2019 for 3 months, which Sanjay returns it to Anil after accepting the same. Anil gets it discounted with the bank for ₹8,820 on 8th April, 2019 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, 2019. Pass necessary Journal entries for the above transactions in the books of Anil.

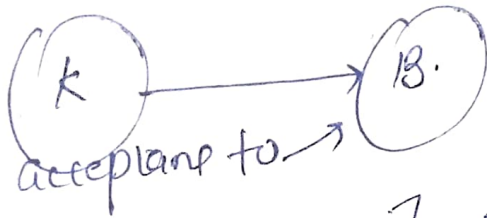


In the books of Anil
Journal Entries

Date	Particulars	Debit Amount ₹	Credit Amount ₹
2019			
5-Apr	Bills receivable account Dr. To Sanjay's account (Being acceptance received from Sanjay for mutual accommodation)	9,000	9,000
8-Apr	Bank account Dr. Discount account Dr. To Bills receivable account (Being bill discounted with bank)	8,820 180	9,000
8-Apr	Sanjay's account Dr. To Bank account To Discount account (Being one-third proceeds of the bill sent to Sanjay)	3,000	2,940 60
8-Jul	Sanjay's account Dr. To Bills payable account (Being Acceptance given)	12,600	12,600
8-Jul	Bank account Dr. Discount account $\left[\frac{6,000 + 2,220}{12,330} \times 270 \right]$ Dr. To Sanjay's account (Being proceeds of second bill received from Sanjay)	2,220 180	2,400
Oct.11	Bills payable account Dr. To Sanjay's account (Being bill dishonoured due to insolvency)	12,600	12,600
Oct.15	Sanjay's account (6,000+2,400) Dr. To Bank account To Deficiency account (Being insolvent, only 50% amount paid to Sanjay)	8,400	4,200 4,200

Illustration 4

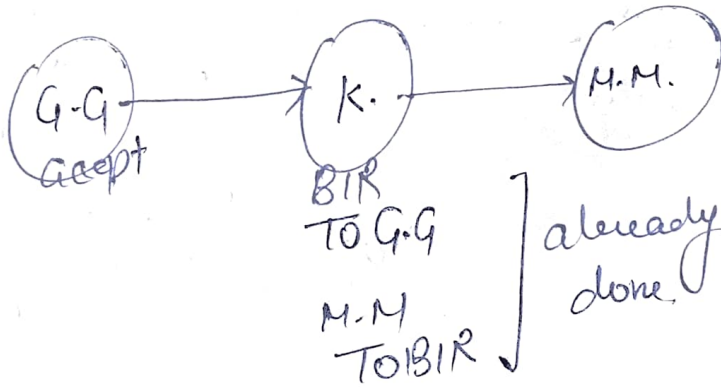
i)



a) Basu 2500
 TO BIP 2500 } already done.

b) BIP 2500
 Int 50
 to Cash 1000
 to Basu 1550

ii)



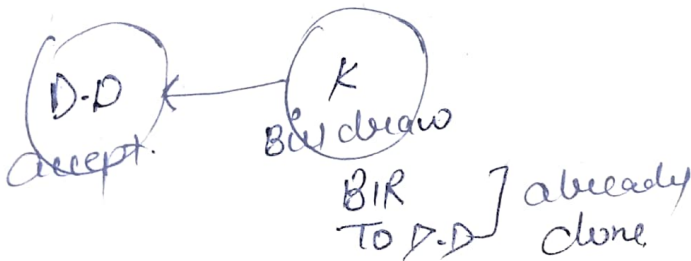
Now dishonour → Entry Reverse

	BIR	G.G.
	TO MM	TO BIR

• G.G. [including Noting Charge]
 TO M.M.

• MM 4020
 TO Bank 4020

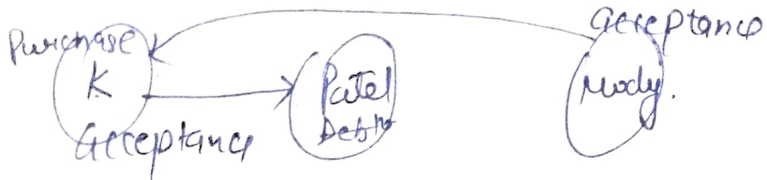
iii)



Now → Bill Return

Bank	1990
Dis.	10
TO BIR	2000

10)



Patel To BIP
BIP To Mody. } already done.

Now similar bill TIF then BIP 5000 To BIR. 5000 (Means liability finish)

Unsolved
3



BIR To Ray } already done.
Bob To BIR

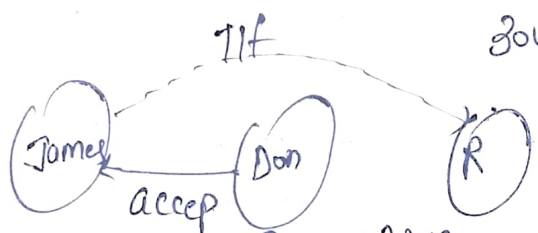
Now → dishonoured then BIR & Ray To Bob To BIR

⇒ Ray To Bob [including Notif Charge]

2090 × 10 / 100 × 3 / 12 ← Int. Bob 3040 51
To BIP 2091
To Cash 1000

⇒ BIR 3100.80
To Ray 3040
To Int 60.8

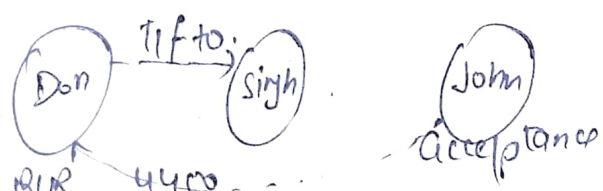
2)



already done [James 3200 To BIP 3200

Now BIP 3160 Dis 40 To James 3200

3)



already done [To John 4450 Singh 4500 To BIP 4500

Now Liab. Settlement by Endorse BIP 4500 To BIR 4450 To Dis. 50