

BILLS OF EXCHANGE & PROMISSORY NOTES

1 Concept & Terminology

Term	Explanation
Bill of Exchange	A written, unconditional order by the Drawer (creditor) to the Drawee (debtor) to pay a certain sum of money to himself or another person on a specified date.
Promissory Note	A written, unconditional promise by the Maker (debtor) to pay a certain sum to the Payee (creditor) on a specified date.
Bills Receivable	Asset for the person receiving the bill (creditor). Shows money receivable on due date.
Bills Payable	Liability for the person accepting the bill (debtor). Shows money payable on due date.
Noting Charges	Fees paid to a Notary Public for officially noting the dishonour of a bill. Recoverable from the drawee.

2 Accounting Treatment

(A) In Books of Creditor / Holder (Bills Receivable)

(i) When Bill is Received

Bills Receivable A/c Dr.

 To Debtor's A/c

(Debtor's account converted into a bill receivable)

(ii) When Bill is Endorsed to Creditor

Creditor A/c Dr.

 To Bills Receivable A/c

(Bill transferred to creditor — right to receive payment passes to him)

(iii) When Bill is Discounted with Bank

Bank A/c Dr. (Net amount received)

Discount A/c Dr. (Bank's discount charges)

 To Bills Receivable A/c

(Bill converted into immediate cash at a discount)

(iv) When Bill is Sent to Bank for Collection

Bills Sent for Collection A/c Dr.

To Bills Receivable A/c

(Bank will collect amount on due date on behalf of holder)

(v) On Collection by Bank

Bank A/c Dr. (Net amount credited)

Bank Charges A/c Dr. (Collection charges)

To Bills Sent for Collection A/c

(vi) On Dishonour of Bill

Case 1: Bill Retained till Maturity

Debtor A/c Dr.

To Bills Receivable A/c

Case 2: Bill Endorsed

Debtor A/c Dr.

To Creditor A/c

Case 3: Bill Discounted

Debtor A/c Dr.

To Bank A/c

If **noting charges** are paid:

Debtor A/c Dr. (Including Noting Charges)

To Bills Receivable/Bank/Creditor A/c

(vii) On Final Settlement (with Discount)

Bank/Cash A/c Dr. (Actual Amount Received)

Discount Allowed A/c Dr. (Concession given to debtor)

To Debtor A/c (Total due)

(B) In Books of Debtor / Acceptor (Bills Payable)

Event	Journal Entry
On Acceptance	Creditor A/c Dr. To Bills Payable A/c
On Honour	Bills Payable A/c Dr. To Bank/Cash A/c
On Dishonour	Bills Payable A/c Dr. Noting Charges A/c Dr. To Creditor A/c
On Final Settlement with Discount	Creditor A/c Dr. To Bank/Cash A/c To Discount Received A/c

3 Professional Example (Worked Out)

Given:

- **Date of Sale:** 1 Jan 2025 – Goods sold on credit to Mr. X for ₹5,40,000
 - **Bills Drawn:**
 - Bill 1 – ₹3,40,000 (2 months) → sent to bank for collection
 - Bill 2 – ₹2,00,000 (3 months) → kept by Excel Traders
 - **Bank Collection Charges:** ₹2,000
 - **Bill 2 Dishonoured:** Noting charges paid ₹2,500
 - **Final Settlement:** After 1 month, Mr. X settles for ₹2,02,000 with ₹500 discount allowed.
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