

Chapter - Bills Of Exchange & Promissory Notes

Note Title

6/20/2022

Alias - " Aasan" chapters ka "Sardaar "

- Topics to be Covered :-
- (i) Concept of Bills of Exchange and Promissory Notes & Difference between them.
 - (ii) Some important terms to be used in this chapter.
 - (iii) Calculation of due date of a bill.
 - (iv) Retainment of the bill Till Maturity .
 - (v) Discounting of bill .
 - (vi) Endorsement of the bill.
 - (vii) Retirement of a bill under Rebate.
 - (viii) Renewal Of the bill.
 - (ix) Bills sent for Collection.
 - (x) Insolvency.
 - (xi) Accommodation Bills.

1. Meaning of Bills of Exchange :-

It is a Written consent of one party, accepting to make payment, against the amount due on him, to the Other one [who draws the bill] after the end of a specified period .

The maker of the bill is called Drawer . The person who accepts the bill is called acceptor / payor .

This Bill can also be endorsed further by the drawer . The ultimate person who receives the payment is called payee.

If the acceptor himself draws and accepts the bill, then it becomes a Promissory Note.

Difference between Bills of Exchange and a promissory Note :-

Bills of Exchange	Promissory Note
1. It contains an order to pay.	It contains a promise to pay.
2. Drawer, drawee and payee are the three parties to it.	Maker and payee are the only 2 parties.
3. Drawer and payee can be same.	Maker and payee can't be the same.
4. Notice of dishonor must be given.	Notice of dishonor not required.
5. It is made by the creditor.	It is made by debtor himself.

2. Some Important terms to be used :-

(a) Bill after Sight :- The period starts from "date of sighting" i.e from the date when the bill is accepted .

(b) Bill after date :- The period starts from the date when the bill is drawn.

(c) Due date / expiry date :- The date when the period mentioned in the bill expires.

(d) Days of Grace :- Three days added to the due date are called Grace days.

(e) Maturity date :- The date which comes after adding 3 days of Grace to the due date.

(f) Noting Charges :- In case of dishonor/ fear of dishonor , the bill may be given to "Notary Public" . The Notary then tries to clear the bill . In case of dishonor, they also note the fact with the reasons. For this service, they charge a nominal amount known as "Noting charges".

3. Calculation of due date of a bill :-

(a) When the period specified is in months = Go forward monthwise ignoring 30/31 days fact.

(b) When the period specified is in days = Go forward with the mentioned number of days
excluding the date when the bill is drawn .

(c) When the due date is a public holiday = The preceding business day will become due date.

(d) When the due date is an emergency /unforeseen holiday = The next following day will become the due date.

Note :- Remember whether the bill is "after sight" or "after date".

4. Accounting when the bill is Retained till maturity :-

	In the books of Drawer/seller	In the books of Drawee/buyer
(a) At the time of sale	Buyer/Debtor A/C Dr. To Sales A/C	Purchase A/C Dr. To seller/Creditor A/C
(b) When bill is drawn	Bills Receivable [B/R] A/C Dr. To Debtor A/C	Creditor A/C Dr. To Bills Payable [B/P] A/C
(c) When the bill is cleared on maturity	Bank/Cash A/C Dr. To Bills Receivable A/C	Bills Payable A/C Dr. To Bank/Cash A/C
(d) If the bill is dishonored	Debtor A/C Dr. To Bills Receivable A/C	Bills payable A/C Dr. To Creditor A/C

5. Discounting of the Bill :-

In the books of Drawer/seller

In the books of Drawee/buyer

(a) At the time of sale

Buyer/Debtor A/C Dr.
To Sales A/C

Purchase A/C Dr.
To seller/Creditor A/C

(b) When bill is drawn

Bills Receivable [B/R] A/C Dr.
To Debtor A/C

Creditor A/C Dr.
To Bills Payable [B/P] A/C

(c) When the bill is
discounted

Bank A/C Dr.
Discounting Charges A/C Dr.
To Bills Receivable A/C

No Entry

(d) When the bill is paid
on maturity

NO ENTRY

Bills Payable A/C Dr.
To Bank/Cash A/C

(e) If the bill is dishonored
on maturity

Debtor A/C Dr.
To Bank A/C

Bills payable A/C Dr.
To Creditor A/C

6. Endorsement of a bill :-

In the books of Drawer/seller

In the books of Drawee/buyer

(a) At the time of sale

Buyer/Debtor A/C Dr.
To Sales A/C

Purchase A/C Dr.
To seller/Creditor A/C

(b) When bill is drawn

Bills Receivable [B/R] A/C Dr.
To Debtor A/C

Creditor A/C Dr.
To Bills Payable [B/P] A/C

(c) On Endorsement

Creditor/endorsee A/C Dr.
To Bills Receivable A/C

No Entry

(d) When the bill is cleared
on maturity

NO ENTRY

Bills Payable A/C Dr.
To Bank/Cash A/C

(e) If the endorsed bill is
dishonored

Debtor A/C Dr.
To Creditor A/C

Bills payable A/C Dr.
To Creditor A/C

7. Retirement of a bill : -

In the books of Drawer/seller

In the books of Drawee/buyer

(a) At the time of sale

Buyer/Debtor A/C Dr.
To Sales A/C

Purchase A/C Dr.

To seller/Creditor A/C

(b) When bill is drawn

Bills Receivable [B/R] A/C Dr.
To Debtor A/C

Creditor A/C Dr.

To Bills Payable [B/P]

A/C

(c) When the bill is Retired
before due date

Bank A/C Dr.
Rebate allowed A/C Dr.
To Bills Receivable A/C

Bills payable A/C Dr.

To Bank A/C
To Rebate received A/C

8. Renewal of a Bill :-

In the books of Drawer/seller

In the books of Drawee/buyer

(a) At the time of sale

Buyer/Debtor A/C Dr.
To Sales A/C

Purchase A/C Dr.
To seller/Creditor A/C

(b) When bill is drawn

Bills Receivable [B/R] A/C Dr.
To Debtor A/C

Creditor A/C Dr.
To Bills Payable [B/P] A/C

(c) When the bill is
Cancelled

Debtor A/C Dr.
To B/R A/c

B/P A/C Dr.
To Creditor A/C

(d) When Interest is
charged

Debtor A/C Dr.
To Interest A/C

Interest A/C Dr.
To Creditor A/C

(e) When new bill is drawn

Bills Receivable [new] A/C Dr.
To Debtor A/C
[With Interest]

Creditor A/C Dr.
To Bills Payable [new] A/C
[With Interest]

(f) If interest paid in cash
separately

Cash A/C dr. = Interest amount
B/R [new] A.C Dr. = Only Principal o/s
To Debtor A/C = Total Amount

Creditor A/C dr. = Total Amount
To Cash A/C = Interest Amount
To B/P [New] = Principal Amount

9. Bills Sent for Collection :-

In the books of Drawer/seller

In the books of Drawee/buyer

(a) At the time of sale

Buyer/Debtor A/C Dr.
To Sales A/C

Purchase A/C Dr.
To seller/Creditor A/C

(b) When bill is drawn

Bills Receivable [B/R] A/C Dr.
To Debtor A/C

Creditor A/C Dr.
To Bills Payable [B/P] A/C

(c) When the bill is sent
for Collection

Bills sent for collection A/C Dr.
To Bills Receivable A/C

No Entry

(d) When bill is cleared

Bank A/C Dr.
To Bills sent for collection A/C

B/P A/C Dr.
To Bank A/C

(d) If the bill is dishonored

Debtor A/C Dr.
To Bills sent for collection A/C

Bills payable A/C Dr.
To Creditor A/C

10. Insolvency :-

	In the books of Drawer/seller	In the books of Drawee/buyer
(a) At the time of sale	Buyer/Debtor A/C Dr. To Sales A/C	Purchase A/C Dr. To seller/Creditor A/C
(b) When bill is drawn	Bills Receivable [B/R] A/C Dr. To Debtor A/C	Creditor A/C Dr. To Bills Payable [B/P] A/C
(c) When the bill is dishonored	Debtor A/C Dr. To Bills Receivable A/C	Bills payable A/C Dr. To Creditor A/C
(d) On receipt of a specified % & Bad debts	Bank A/C Dr. Bad-debts A/C Dr. To Debtors A/C	Creditors A/C Dr. To Bank A/C To Deficiency A/C

11. Accommodation Bills :- Will be practiced in the Questions .

QUESTIONS PRACTICE :-

Theory Questions:-

1. Write short notes on :-

(a) Accommodation bills.

(b) Renewal of bill.

(c) Noting charges.

2. What is a bills of exchange? How does it differ from promissory note?

3. Write short note on Retirement of BOE.

4. Write short note on BOE and various parties to it.

5. When does insolvency occur in case of BOE?

6. What do you mean by bills sent for collection?

7. What are B/P and B/R Books?

8. What do you understand by days of grace?

9. Trade bill vs accommodation bill

10. What is date of maturity of bill ?

TRUE / FALSE QUESTIONS :-

1. Bills payable account is a nominal account.
2. Promise to pay is included in a bill of exchange.
3. Days of rebate are added to the due date to arrive at the maturity date.
4. There are always 2 parties to the bills of exchange.
5. Foreign bill is drawn in the country and payable outside the country.
6. Promissory note is different from bill of exchange because the amount is paid by the maker in case of former and by the acceptor in the later.
7. Bills Receivable and Bills payable books are part of subsidiary books
8. Salary paid to Ram will be debited to Ram's Personal Account.
9. A promissory can be made payable to the bearer.
10. No cancellation entry is required when a bill is renewed.
11. At the time of renewal of a bill, interest account is debited in the books of drawee .
12. A bill given to the creditor is called bills payable.
13. A has drawn a bill on B. B accepts the same and endorses the bill to C.
14. Refusal by the acceptor to make payment of the bill on the maturity date is called retirement of the bill.
15. Promissory note requires acceptance.
16. Cancelling an old bill and drawing new bill is called is called renewal of a bill.

17. Discount at the time of retirement of a bill is a gain to drawee.

18. No cancellation entry is required when a bill is renewed.

19. Cancelling old bill and drawing new bill is called renewal of bill.

20. A cancellation entry is required when a bill is renewed.

21. Refusal by acceptor to make payment of the bill on maturity is called retirement of the bill.

22. A Bill of exchange is a conditional order in writing given by a debtor to a creditor.

23. A Promissory note requires acceptance.

24. At the time of renewal of a bill, interest account is debited in the books of a drawee.

25. If a cheque received from a customer is dishonoured, it will be debited to customer's account.

26. Accommodation bills are drawn , accepted and endorsed for some consideration.

27. In case of bills of exchange , the drawer and the payee may not be the same person but in case of a promissory note , maker and payee may be the same person

PRACTICAL QUESTIONS

Question 1

Ms. Sujata receives two bills from Ms. Aruna dated 1st January 2020 for 2 months. The first bill is for 10,200 and the second bill is for ` 15,000. The second bill was endorsed in favour of Mr. Sree on 3rd January 2020. And the First bill is discounted immediately with the bank for ` 10,000. Pass the necessary journal entries in the books of Ms. Sujata.

Question 2

Vijay sold goods to Pritam on 1st September, 2019 for 1,06,000. Pritam immediately accepted a three months bill. On due date Pritam requested that the bill be renewed for a fresh period of two months. Vijay agrees provided interest at 9% p.a. was paid immediately in cash. To this Pritam was agreeable. The second bill was met on due date. Give Journal entries in the books of Vijay and Pritam.

Question 3

On 1st January, 2020, 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, 2020, Bhavika retires her acceptance under rebate of 12% per annum. Record these transactions in the journals of Ankita and Bhavika.

Question 4

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

- (i) 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.**
- (ii) 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.**
- (iii) D. Dalal retires a bill for ` 2,000 drawn on him by _____ Katrak for ` 10 discount.**
- (iv) Katrak's acceptance to Patel for ` 5,000 discharged by Patel. Mody's acceptance to Katrak for a similar amount.**

Question 5

On 1st January, 2020, Vilas draws a bill of exchange for ₹ 10,000 due for payment after 3 months on Eknath. Eknath accepts to this bill of exchange. On 4th March, 2020 Eknath retires the bill of exchange at a discount of 12% p.a. You are asked to show the journal entries in the books of Eknath.

Question 6

On 1st January, 2020, Vilas draws a Bill of Exchange for ₹10,000 due for payment after 3 months on Eknath. Eknath accepts to this bill of exchange. On 4th March, 2020. Eknath retires the bill of exchange at a discount of 12% p.a. You are asked to show the journal entries in the books of Vilas.

Question 7

Mr. David draws two bills of exchange on 1.1.2020 for ` 6,000 and ` 10,000. The bills 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 4.3.2020, 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 20.3.2020, 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.

Question 8

Rita owed ₹1,00,000 to Siriman. On 1st October, 2019, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2019. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Siriman.

Question 9

On 1st July, 2019 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, 2019, 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, 2019, 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.

Question 10

For the mutual accommodation of 'X' and 'Y' on 1st April, 2019, 'X' drew a four months' 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 received from his estate.

Record Journal entries in the books of 'X'.

Question 11

X Draws on Y a bill of exchange for 30,000 on 1.4.2020 for 3 months . Y accepts the bill and sends it to X who gets it discounted for 28,800. X immediately remits 9,600 to Y. On the due date, X being unable to remit the amount due, accepts a bill for 42000 for 3 months which is discounted by Y for 40,110 . Y sends 6740 to X . Before the maturity of the bill , X becomes bankrupt , his estate paying 50 paisa in a rupee. Give journal entries in the books of X and Y.

Question -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.

Question -13

On 1st January, 2020, A sells goods for ₹10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. On 1st March, 2020, B retires his acceptance under rebate of 12% per annum. Record these transactions in the journals of B.

Question -14.

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.

Question -15.

Journalize the following in the books of Don:

(i) 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.

(ii) James owes Don ` 3,200; he sends Don's own acceptance in favour of Ralph for ` 3,160; in full settlement.

(iii) Don meets his acceptance in favour of Singh for ` 4,500 by endorsing John's acceptance for ` 4,450 in full settlement.

(iv) Ray's acceptance in favour of Don retired one month before due date, interest is taken at the rate of 6% p.a.

MTP SERIES -II – May 2022 = Ravi draws a bill for 45000 on rishi for 3 months, which is returned by rishi to ravi after accepting the same . Ravi gets it discounted with the bank for 44,100 on 18.4. 2021 and remits one third to rishi. On due date ravi fails to remit amount due to rishi , but he accepts bill of 52,500 for 3 months, which rishi discounts for 51300 and remits 8475 to Ravi. Before maturity of the renewed bill , ravi becomes insolvent and only 50 percent was realized from his estate on 31.10.21.

PASS J/E in the books of Ravi.

MAY 22 RTP Q.

On 1st January 2021, Swapnil draws two bills of exchange for ` 32,000 and ` 50,000.

The bill of exchange for ` 32,000 is for two months while the bill of exchange for ` 50,000 is for three months. These bills are accepted by Vishal. On 4th March, 2021, Vishal requests Swapnil to renew the first bill with interest at 15% p.a. for a period of two months. Swapnil agreed to this proposal. On 25th March, 2021, Vishal retires the acceptance for ` 50,000, the interest rebate i.e. discount being ` 500. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paisa in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Swapnil.

NOV.21 RTP Q.

Prepare Journal entries for the following transactions in David's books.

- (i) David's acceptance to Samuel for ` 5,000 discharged by a cash payment of ` 1,000 and a new bill for the balance plus ` 100 for interest.
- (ii) Samantha's acceptance for ` 8,000 which was endorsed by David to Flex was dishonoured. Flex paid ` 50 noting charges. Bill withdrawn against cheque.
- (iii) Simon retires a bill for ` 2,000 drawn on him by David for ` 20 discount.
- (iv) David's acceptance to Ralph for ` 20,000 discharged by Ralph's Kent's acceptance to David for a similar amount.

MAY21 RTP Q.

8. Prepare Journal entries for the following transactions in Samarth's books.

(i) Samarth's acceptance to Aarav for ` 1,250 discharged by a cash payment of ` 500 and a new bill for the balance plus ` 25 for interest.

(ii) G. Gupta's acceptance for ` 4,000 which was endorsed by Samarth to Sahni was dishonoured. Sahni paid ` 20 noting charges. Bill withdrawn against cheque.

(iii) Harshad retires a bill for ` 5,000 drawn on him by Samarth for ` 20 discount.

(iv) Samarth's acceptance to Patel for ` 19,000 discharged by Sandeep Chadha's acceptance to Samarth for a similar amount.

NOV.20 RTP Q.

Rita owed `1,00,000 to Siriman. On 1st October, 2019, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for `99,000 on 3rd October, 2019. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that `50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Siriman

