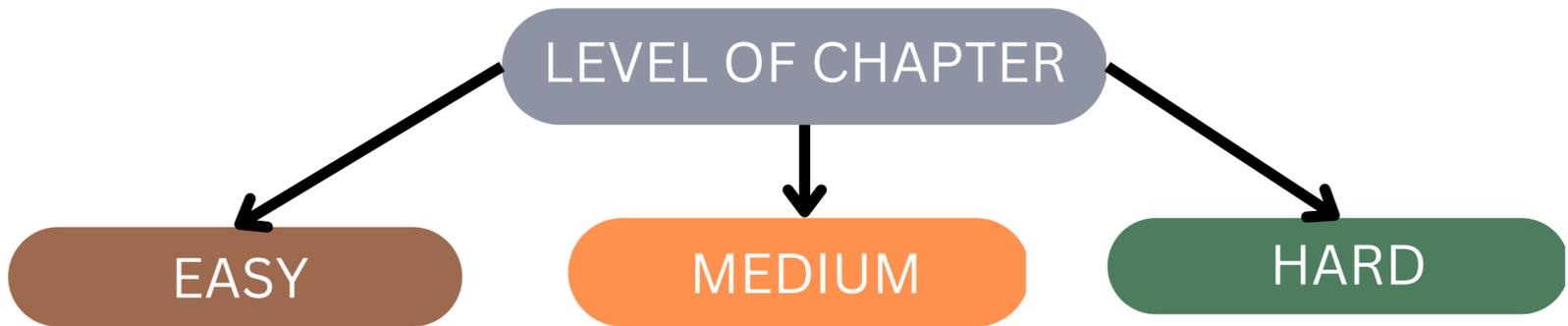


BILLS OF EXCHANGE

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BILL OF EXCHANGE

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.

PROMISSORY NOTE

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

Difference Between Bill of Exchange and Promissory Note

Difference between Bills of Exchange and a promissory Note :-

Bills of Exchange	Promissory Note
<ol style="list-style-type: none"> 1. It contains an order to pay. 2. Drawer, drawee and payee are the three parties to it. 3. Drawer and payee can be same. 4. Notice of dishonor must be given. 5. It is made by the creditor. 	<p>It contains a promise to pay. Maker and payee are the only 2 parties.</p> <p>Maker and payee can't be the same. Notice of dishonor not required. It is made by debtor himself.</p>

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 = The next following day will become the due date. /unforeseen holiday

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

(a) At the time of sale

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

(b) When bill is drawn

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

(c) When the bill is cleared on maturity

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

(d) If the bill is dishonored

Debtor A/C Dr.
To Bills Receivable A/C

In the books of Drawee/buyer

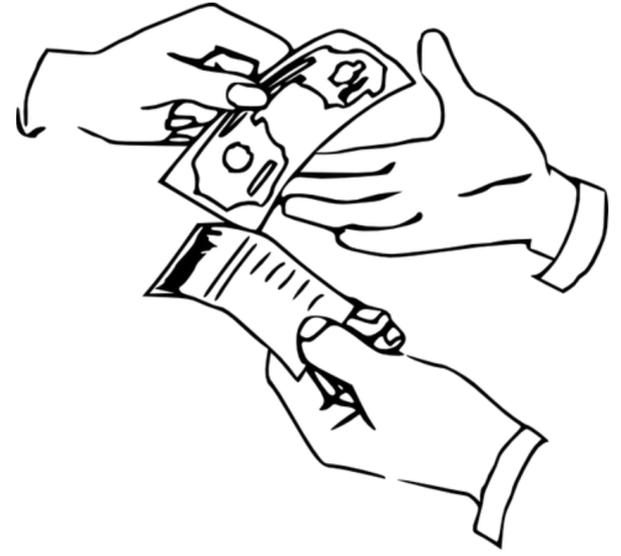
Purchase A/C Dr.
To seller/Creditor A/C

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

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

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

DISCOUNTING OF BILLS OF EXCHANGE



5. Discounting of the Bill :-

In the books of Drawer/seller

(a) At the time of sale
Buyer/Debtor A/C Dr.
 To Sales A/C

(b) When bill is drawn
Bills Receivable [B/R] A/C Dr.
 To Debtor A/C

(c) When the bill is discounted
Bank A/C Dr.
Discounting Charges A/C Dr.
 To Bills Receivable A/C

(d) When the bill is paid on maturity
NO ENTRY

(e) If the bill is dishonored on maturity
Debtor A/C Dr.
 To Bank A/C

In the books of Drawee/buyer

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

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

No Entry

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

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



Endorsement of Bill of Exchange

6. Endorsement of a bill :-

In the books of Drawer/seller

(a) At the time of sale

Buyer/Debtor A/C Dr.

To Sales A/C

(b) When bill is drawn

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

To Debtor A/C

(c) On Endorsement

Creditor/endorsee A/C Dr.

To Bills Receivable A/C

(d) When the bill is cleared on maturity

NO ENTRY

(e) If the endorsed bill is dishonored

Debtor A/C Dr.

To Creditor A/C

In the books of Drawee/buyer

Purchase A/C Dr.

To seller/Creditor A/C

Creditor A/C Dr.

To Bills Payable [B/P] A/C

No Entry

Bills Payable A/C Dr.

To Bank/Cash A/C

Bills payable A/C Dr.

To Creditor A/C

Retirement of a Bill

7. Retirement of a bill :-

In the books of Drawer/seller

(a) At the time of sale

Buyer/Debtor A/C Dr.

To Sales A/C

(b) When bill is drawn

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

To Debtor 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

In the books of Drawee/buyer

Purchase A/C Dr.

To seller/Creditor A/C

Creditor A/C Dr.

To Bills Payable [B/P]A/C

Bills payable A/C Dr.

To Bank A/C

To Rebate received A/C

Renewal of Bill

8. Renewal of a Bill :-

In the books of Drawer/seller

(a) At the time of sale
Buyer/Debtor A/C Dr.
 To Sales A/C

(b) When bill is drawn
Bills Receivable [B/R] A/C Dr.
 To Debtor A/C

(c) When the bill is Cancelled
Debtor A/C Dr.
 To B/R A/c

(d) When Interest is charged
Debtor A/C Dr.
 To Interest A/C

(e) When new bill is drawn
Bills Receivable [new] A/C Dr.
 To Debtor 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

In the books of Drawee/buyer

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

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

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

Interest A/C Dr.
 To Creditor A/C

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

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

Accommodation Bill

Accommodation Bills :- Will be practiced in the Questions.

BILL SENT FOR COLLECTION

9. Bills Sent for Collection :-

In the books of Drawer/seller

(a) At the time of sale
Buyer/Debtor A/C Dr.
 To Sales A/C

(b) When bill is drawn
Bills Receivable [B/R] A/C Dr.
 To Debtor A/C

(c) When the bill is sent for Collection
Bills sent for collection A/C Dr.
 To Bills Receivable A/C

(d) When bill is cleared
Bank A/C Dr.
 To Bills sent for collection A/C

(d) If the bill is dishonored
Debtor A/C Dr.
 To Bills sent for collection A/C

In the books of Drawee/buyer

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

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

No Entry

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

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

10. Insolvency :-



Insolvency

In the books of Drawer/seller

(a) At the time of sale
Buyer/Debtor A/C Dr.
 To Sales A/C

(b) When bill is drawn
Bills Receivable [B/R] A/C Dr.
 To Debtor A/C

(c) When the bill is dishonored
Debtor A/C Dr.
 To Bills Receivable A/C

(d) On receipt of a specified % & Bad debts
Bank A/C Dr.
Bad-debts A/C Dr.
 To Debtors A/C

In the books of Drawee/buyer

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

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

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

Creditors A/C Dr.
 To Bank A/C
 To Deficiency A/C