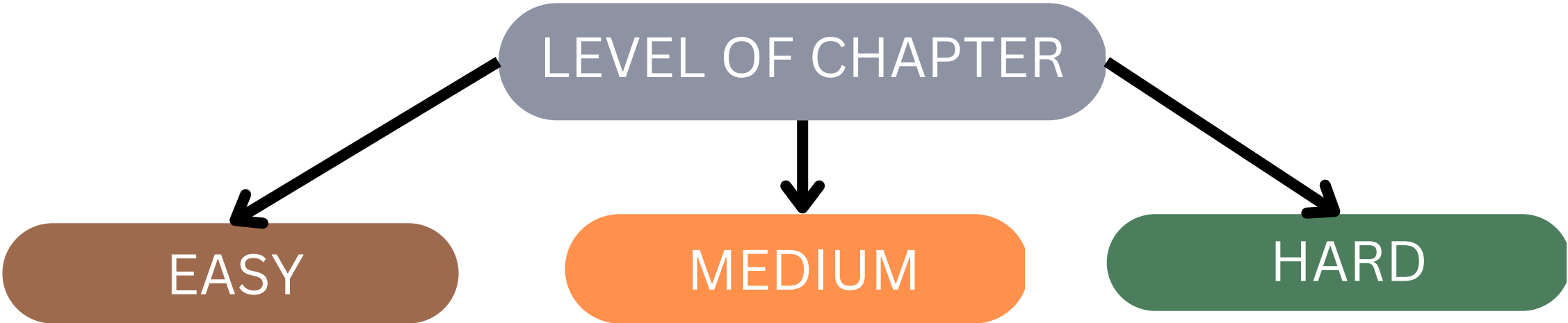


BILLS OF EXCHANGE

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BILLS OF EXCHANGE



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

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 :-

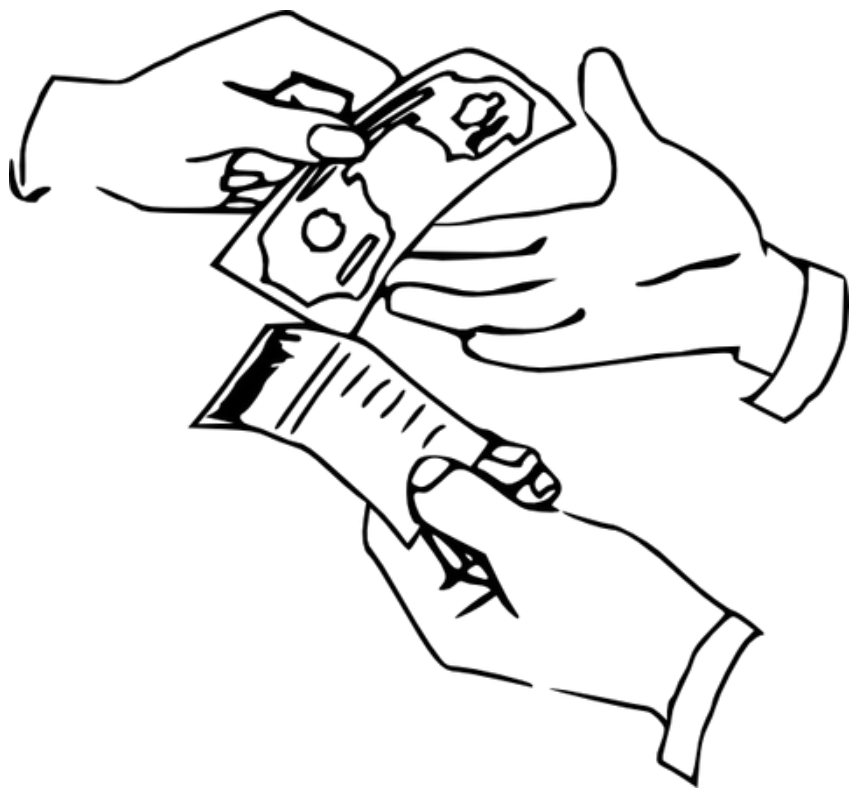
- (a) When the period specified is in months = Go forward monthwise ignoring 30/31 days fact.
- (b) When the period specified is in days = Go forward with the mentioned number of days excluding the date when the bill is drawn .
- (c) When the due date is a public holiday = The preceding business day will become due date.
- (d) When the due date is an emergency = The next follwing 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	In the books of Drawee/buyer
<div>(a) At the time of sale</div> <div>Buyer/Debtor A/C Dr. To Sales A/C</div>	<div>Purchase A/C Dr. To seller/Creditor A/C</div>
<div>(b) When bill is drawn</div> <div>Bills Receivable [B/R] A/C Dr. To Debtor A/C</div>	<div>Creditor A/C Dr. To Bills Payable [B/P] A/C</div>
<div>(c) When the bill is cleared on maturity</div> <div>Bank/Cash A/C Dr. To Bills Receivable A/C</div>	<div>Bills Payable A/C Dr. To Bank/Cash A/C</div>
<div>(d) If the bill is dishonored</div> <div>Debtor A/C Dr. To Bills Receivable A/C</div>	<div>Bills payable A/C Dr. To Creditor A/C</div>

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	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

Retirement of a Bill

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

Bills Of Exchange

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	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