

CHAPTER 15

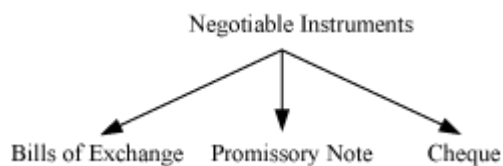
BILLS OF EXCHANGE

❖ Negotiable Instruments

These refer to those instruments which are written document for making or receiving payment at a pre-determined date or before that date. These are transferable by delivery, i.e. the ownership of these can be transferred from one person to another and hence, these act as a medium of exchange and store of value.

❖ Types of Negotiable Instruments

According to Negotiable Instrument Act 1881, there are only three types of Negotiable Instruments.

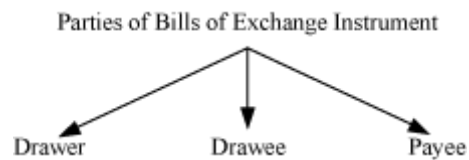


❖ Bills of Exchange

- **Meaning**

Bill of Exchange is a negotiable instrument containing unconditional order, that is drawn by a drawer (debtor) to the drawee (creditor) ordering the drawee to pay the specified sum of money to the specified person or the bearer of the bill at the pre-determined date or before.

- **Parties involved in Bills of Exchange**



- **Drawer:** A person who draws the bill and makes the order to pay the amount of the bill is called drawer of the bill.
- **Drawee:** A person in favour of whom the bill is drawn by the drawer is called drawee. A drawee is obliged to make the payment to the bearer of the bill or any specified person as ordered by the drawer.

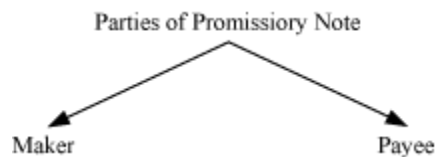
- **Payee:** A person who receives the amount of the bill from the drawee is called payee. Payee may be drawer himself or the endorsee.

❖ Promissory Note

- **Meaning**

A Promissory Note is an unconditional written undertaking or promise committed by the maker of the Note (i.e. the creditor) to pay the specified sum of money to the specified person or to the order of the certain person or the bearer of the Note at a pre-determined date or before.

- **Parties involved in Promissory Note**



- **Maker:** A person who makes the Promissory Note and thereby promises to pay the specified sum of money at a pre-determined date or before is called the maker.
- **Payee:** A person who receives amount of promissory note from the maker is called the payee.

❖ Accounting Treatment for Bills of Exchange and Promissory Note

- **Case I: When bill is retained by the drawer till maturity and honoured**

In the books of the Drawer		In the books of the Drawee	
Drawee (<i>if given</i>) To Sales A/c (Goods sold to the drawee)	Dr.	Purchases A/c (<i>if given</i>) To Drawer (Goods purchased from the drawer)	Dr.
B/R A/c To Drawee (Drawee's acceptance received)	Dr.	Drawer To B/P (Drawee's acceptance accepted bill and returned to the drawer)	Dr.
Cash/Bank A/c To B/R (Amount for B/R received)	Dr.	B/P A/c To Cash/Bank A/c (Bill paid on maturity)	Dr.

- **Case II: When bill is retained by the drawer till maturity and dishonoured**

In the books of the Drawer	In the books of the Drawee
Drawee (<i>if given</i>) Dr. To Sales A/c (Goods sold to the drawee)	Purchases A/c (<i>if given</i>) Dr. To Drawer (Goods purchased from the drawer)
B/R A/c Dr. To Drawee (Drawee's acceptance received)	Drawer Dr. To B/P A/c (Drawee's acceptance accepted bill and returned to the drawer)
Drawee Dr. To B/R A/c To Cash A/c (<i>if given</i>) (Bill dishonoured and paid noting charges in cash)	Noting Charges A/c (<i>if given</i>) Dr. B/P A/c Dr. To Drawer (Bill dishonoured and noting charges due)

❖ **Discounting of the Bill and Promissory Note**

- **Case I: When the bill is discounted and honoured**

In the books of the Drawer	In the books of the Drawee
Drawee (<i>if given</i>) Dr. To Sales (Goods sold to the drawee)	Purchases A/c (<i>if given</i>) Dr. To Drawer (Goods purchased from the drawer)
B/R A/c Dr. To Drawee (Drawee's acceptance received)	Drawer Dr. To B/P A/c (Drawee's acceptance accepted bill and returned to the drawer)
Bank A/c Dr. Discounting Charges A/c Dr. To B/R A/c (Bill discounted with the bank)	(No entry for discounting the bill)
(No entry for at the time of honour of the bill) (Amount of the bill paid to the bank)	B/P A/c Dr. To Cash/Bank A/c (Amount of the bill paid to the bank)

- **Case II: When the bill is discounted and dishonoured**

In the books of the Drawer		In the books of the Drawee	
Drawee	Dr.	Purchases A/c	Dr.
To Sales A/c		To Drawer	
(Goods sold to the drawee)		(Goods purchased from the drawer)	
B/R A/c	Dr.	Drawer	Dr.
To Drawee		To B/P	
(Drawee's acceptance received)		(Drawee's acceptance accepted bill and returned to the drawer)	
Bank A/c	Dr.	(No entry)	
Discounting Charges A/c	Dr.		
To B/R			
(Bill discounted with the bank)			
Drawee	Dr.	B/P A/c	Dr.
(amount with Noting charges)		Noting Charges A/c	
To Bank A/c		To Drawer	
(Bill dishonoured)		(Bill dishonoured)	

❖ **Endorsement of the bill**

- **Case I: When the bill is endorsed and honoured**

In the books of the Drawer		In the books of the Drawee		In the books of the Endorsee
Drawee	Dr.	Purchases A/c	Dr.	
To Sales A/c		To Drawer		
(Goods sold to the drawee)		(Goods bought from the drawer)		
B/R A/c	Dr.	Drawer	Dr.	
To Drawee		To B/P A/c		
(Drawee's acceptance received)		(Bill accepted and returned it to the drawer)		

Endorsee To B/R A/c (Bill endorsed)	Dr.	(No entry)	B/R A/c To Drawer (Bill received from the drawer)	Dr.
		B/P A/c To Cash (Bill paid on maturity)	Cash A/c To B/R A/c (Amount of bill received on maturity)	Dr.

• **Case II: When the bill is endorsed and dishonoured**

In the books of the Drawer		In the books of the Drawee		In the books of the Endorsee	
Drawee	Dr.	Purchases A/c	Dr.		
To Sales A/c		To Drawer			
(Goods sold to the drawee)		(Goods bought from the drawer)			
B/R A/c	Dr.	Drawer	Dr.		
To Drawee		To B/P A/c			
(Drawee's acceptance received)		(Bill accepted and returned it to the drawer)			
Endorsee	Dr.	(No entry)		B/R A/c	Dr.
To B/R A/c				To Drawer	
(Bill endorsed)				(Bill received from the drawer)	
		B/P A/c			
Drawee	Dr.		Dr.	Drawer	Dr.
To Endorsee		Noting Charges A/c	Dr.	To B/R A/c	
		To Drawer			
(Bill dishonoured in the hand of endorsee)		(Bill dishonoured)		To Cash A/c	
				(Bill dishonoured and paid Noting charges)	

❖ **Bill sent for collection**

- **Case I: When the bill is sent for collection and honoured**

In the books of the Drawer	In the books of the Drawee
Drawee Dr. To Sales A/c (Goods sold to the drawee)	Purchases A/c Dr. To Drawer (Goods bought from the drawer)
B/R A/c Dr. To Drawee (Drawee's acceptance received)	Drawer Dr. To B/P A/c (Bill accepted returned to the drawer)
Bill sent for collection A/c Dr. To B/R A/c (Bill sent to the bank for collection)	(No entry)
Bank A/c Dr. To Bill sent for collection A/c (Bill honoured on due date)	B/P A/c Dr. To Bank A/c (Bill honoured and the amount of the bill was paid to the bank)

- **Case II: When bill is sent for collection and is dishonoured**

In the books of the Drawer	In the books of the Drawee
Drawee Dr. To Sales (Goods sold to the drawee)	Purchases A/c Dr. To Drawer (Goods bought from the drawer)
B/R A/c Dr. To Drawee (Drawee's acceptance received)	Drawer Dr. To B/P A/c (Bill accepted and returned to the drawer)
Bill sent for collection A/c Dr. To B/R (Bill sent to the bank for collection)	(No entry)
Drawee Dr. To Bill sent for collection A/c To Bank A/c (Bill dishonoured and the Noting charges paid by the bank)	B/P A/c Dr. Noting Charges A/c Dr To Drawer (Bill dishonoured)

❖ **Rebate – Payment of bill before maturity**

In the books of the Drawer		In the books of the Drawee	
Drawee To Seller A/c (Goods sold to the drawee)	Dr.	Purchases A/c To Drawer (Goods bought from the drawer)	Dr.
B/R A/c To Drawee (Drawee's acceptance received)	Dr.	Drawer To B/P A/c (Bill accepted and returned it to the drawer)	Dr.
<u>Before maturity</u>		<u>Before maturity</u>	
Cash/Bank A/c Rebate A/c To B/R A/c (Amount of bill received before maturity)	Dr. Dr.	B/P A/c To Cash/Bank A/c To Rebate A/c (Bill discharged before maturity)	Dr.

❖ **Renewal of the bill**

In the books of the Drawer		In the books of the Drawee	
Drawee To Sales A/c (Goods sold to the drawee)	Dr.	Purchases A/c To Drawer (Goods bought from the drawer)	Dr.
B/R A/c To Drawee (Drawee's acceptance received)	Dr.	Drawer To B/P A/c (Bill accepted and returned it to the drawer)	Dr.
Drawee To B/R A/c (Bill cancelled)	Dr.	B/P A/c To Drawer (Bill cancelled)	Dr.
Drawee To Interest A/c (Interest due)	Dr.	Interest A/c To Drawer (Interest due)	Dr.
B/R A/c To Drawee (New bill received from the drawee)	Dr.	Drawer To B/P (New bill accepted and returned it to the drawer)	Dr.
Cash A/c To B/R A/c (New bill honoured)	Dr.	B/P A/c To Cash A/c (New bill honoured)	Dr.

❖ Types of Bills of Exchange



- ***Trade Bills***

These bills refer to those bills of exchange and Promissory Notes that are drawn for settling trade transactions.

- ***Accommodation Bills***

These bills refer to those bills of exchange that are accepted by a (good creditable) person who acts as a guarantor of the bill without any compensation to help other person (his/her friends or relatives) to obtain credit.

Note: The accounting treatment of Accommodation bill is not in syllabus.