

CBSE CLASS 11 ACCOUNTANCY
FINANCIAL ACCOUNTING PART-1
REVISION NOTES
CHAPTER-8
BILL OF EXCHANGE

➤ **Bill of Exchange**

A Bill of Exchange is an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.” Section 5 of the Negotiable Instrument Act, 1881.

Specimen of Bill of exchange

		126, Chandni Chowk, Delhi-110 006 5th May, 2012.
₹ 10,000.00 P	Three months after date, pay to us or our order a sum of Rupees Ten Thousand Only, for value received.	
<div style="border: 1px solid black; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center;">Stamp</div>	Accepted For M/s Aggarwal Stores (Signed) Nakul Gupta 5.5.2012 Partner	For M/s Lakhmi Chand & Sons. (Signed) Lakhmi Chand (Lakhmi Chand) Partner
To M/s Aggarwal Stores, 216, Malka Ganj, Delhi-11007		

• **Features of Bill of Exchange**

- 1) A Bill of Exchange must be in writing.
- 2) It must contain an order (and not a request) to make payment.
- 3) The order of payment must be unconditional.

- 4) The amount of bill of exchange must be certain.
- 5) The date of payment should be certain.
- 6) It must be signed by the drawer of the bill.
- 7) It must be accepted by the drawee by signing on it.
- 8) The amount specified in the bill of exchange is payable either on demand or on the expiry of a fixed period.
- 9) The amount specified in the bill is payable either to a certain person or to his order or to the bearer of the bill.
- 10) It must be stamped as per legal requirements.

- **Parties to a Bill of Exchange**

- 1) **DRAWER:** Drawer is the person who makes or writes the bill of exchange. Drawer is a person who has granted credit to the person on whom the bill of exchange is drawn. The drawer is entitled to receive money from the drawee (acceptor).
- 2) **DRAWEE:** Drawee is the person on whom the bill of exchange is drawn for acceptance. Drawee is the person to whom credit has been granted by the drawer. The drawee is liable to pay money to the creditor/drawer.
- 3) **PAYEE:** Payee is the person who receives the payment from the drawee. Usually the drawer and the payee are the same person. In the following cases, drawer and payee are two different persons:
 - a) When the **bill is discounted** by the drawer from his bank- **payee is the bank.**
 - b) When the **bill is endorsed** by the drawer to his creditors: **payee is the endorsee.**

- **Advantages of Bill of Exchange**

- 1) It helps in purchases and sales of goods on credit basis.
- 2) It is a legally valid document in the eyes of law. It assures a easier recovery to the drawer if drawee fails to make the payments.
- 3) A bill can be discounted from the bank before its date of maturity. By discounting with the bank, drawer can get the money before due date if required.

- 4) It can be easily transferred from one person to another by endorsement.
- 5) It helps in recovery of debt without sending reminders to the debtor.
- 6) It assures the seller about the timely recovery of debt. So a drawer and drawee can plan about its cash management.

➤ **Promissory Note**

A Promissory note is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking signed by the maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.

SPECIMEN OF PROMISSORY NOTE	
<p>Rs 10,000 Stamp</p>	<p>Hyderabad - 500002 January - 29 - 2017</p>
<p>On demand (or six months after date) I promise to pay Ms. Pooja or order the sum of rupees ten thousand rupees with interest at 11 percent per annum only for the value received.</p>	
<p>To Ms. Pooja Address.....</p>	<p>(Signed) Mr. Poorna</p>

- **Features of Promissory Note**

- 1) There must be an unconditional promise to pay a certain sum of money on a certain date.
- 2) It must be signed by the maker.
- 3) The name of the payee must be mentioned on it.
- 4) It must be stamped according to its value.

- **Parties of Promissory Note**

- 1) **The maker:** The maker is the person who makes the promise to pay the amount on a certain date. Maker of a bill must sign the promissory note before giving it to the payee.
- 2) **The payee:** The payee is the person who is entitled to get the payment from the maker of promissory note. Payee is the person who has granted the credit.

➤ **Difference Between Bill of Exchange and Promissory Note**

Basis of difference	Bills of Exchange	Promissory Note
1) Drawer	The Drawer is the creditor	The Drawee is the debtor.
2) No. of Parties	It has three parties namely: <ol style="list-style-type: none"> 1. The drawer 2. The drawee 3. The payee 	two parties namely: <ol style="list-style-type: none"> 1. The maker 2. The payee
3) Order or Promise	It contains an order to make the payment.	It contains a promise to make the payment.
4) Acceptance	It is valid only when accepted by the drawee.	It does not require any acceptance from the drawee.
5) Payee	It case of bill of exchange, drawer can be the payee	Drawer or maker cannot be the payee of promissory note.
6) Noting	It case of dishonor of bill noting becomes important.	Noting is not necessary in case of dishonor of promissory note.
7) Liability	The liability of the drawer arises only if the drawee fails to make payment.	The liability of the drawer (maker) is primary.

➤ **Important Terms**

- 1) **Term of Bill:** The period intervening between the date on which a bill is drawn and the date on which it becomes due for payment is called, Term of Bill.
- 2) **Due Date:** Due date is the date on which the payment of the bill is due. Due date is ascertained in the following manner:

- a) In case of Bill at sight - Due date is the date on which a bill is presented for the payment.
 - b) In case of Bill after Date - Due Date = Date of Drawing + Term of Bill
 - c) In case of Bill after sight – Due date = Date of Acceptance + Term of Bill
- 3) **Days of Grace:** Drawee is allowed three extra days after the due date of bill for making payments. Such 3 days are known as „Days of Grace“. It is a custom to add the days of grace.
 - 4) **Date of Maturity:** The date which comes after adding three days of grace to the due date of a bill is called Date of maturity.
 - 5) **Bill at sight/Bill on Demand:** When no time for payment is mentioned in the bill of exchange and the bill is payable whenever it is presented to the drawee for the payment, such bills are known as "Bill at sight" or "Bill on Demand". 3 days of grace are not allowed when bill is payable on demand.
 - 6) **Bill after Date:** Bill after date is the bill in which due date and date of maturity is ascertained from the date on which the bill is drawn. 3 days of grace are allowed for ascertaining the date of maturity in case of bill after date.
 - 7) **Discounting of Bill:** When the bill is encashed from the bank before its due date, it is known as discounting of bill. Bank deducts its charges from the amount of bill and disburses the balance amount.
 - 8) **Endorsement of Bill:** Endorsement of a bill means the Process of transferring the title of bill from the drawer or holder to their creditors. The person transferring the title is called " Endorser" and the person to whom the bill is transferred called „Endorsee“. The endorsee can further endorse the bill in favor of his creditors. Endorsement is executed by putting the signature at the back of the bill.

- 9) **Bill sent for Collection:** It is a process when the bill is sent to the bank with instructions to keep the bill till maturity and collect its amount from the acceptor on the date of maturity.
- 10) **Dishonour of Bill:** When the drawee (or acceptor) of the bill fails to make payment of the bill on the date of maturity, it is called 'Dishonour of Bill'.
- 11) **Noting of Bill:** To obtain the proof of dishonour of a bill, it is re-sent to the drawee through a legally authorized persons called Notary Public. Notary Public charges a small fee for Providing this service known as noting charges. Noting charges are paid to the Notary Public first by the holder of the bill but are ultimately recovered from the drawee, because he is the person responsible for the dishonour.
- 12) **Retirement of a Bill:** When the drawee makes the payment of the bill before its due date it is called 'Retirement of a bill'. In such a case, holder of the bill usually allows a certain amount as Rebate to the drawee. Amount of rebate is calculated at a fixed percentage for the unexpired period only.
- 13) **Renewal of a Bill:** Sometimes, the drawee of a bill finds himself unable to meet the bill on due date. To avoid dishonouring of bill, he may request the holder of the bill to cancel the original bill and draw a new bill in place of old one. If the holder agrees, the old bill is cancelled and a new bill with new terms is drawn on the drawee and also accepted by him. This process is called 'Renewal of a bill'.
- 14) **Accommodation Bill:** When bills of exchange or promissory note are not drawn to settle a trade between drawer and drawee but are written for the purpose of mutual help and to raise funds temporarily then it is known as Accommodation bill.
- 15) **Insolvency of Acceptor:** When the drawee (i.e., acceptor) of a bill is unable to meet his liabilities on due date, the drawee become insolvent. In such a case, entries for the dishonour of the bill are passed in the books of drawer/holder and drawee of the bill. Any

proportionate amount received from the drawee is recorded in the books of the holder and the amount unrecoverable is debited to Bad Debts A/c.

➤ **Accounting Treatment of Bill Transactions**

• **On the Due Date bill is Honoured**

The accounting treatment under this heading is based on the assumption that bill is duly honoured at maturity of the bill. The drawer can treat the bill in the following ways:

Case - I Bill is retained by the drawer till date of maturity:

Transaction	In the books of Drawer	In the books of Drawee
1) When Goods are sold on credit	Drawee A/c Dr. To Sales A/c (Being goods Sold on credit)	Purchases A/c Dr. To Drawer A/c (Being goods purchased from Drawer)
2) When Bill is Drawn	Bills Receivable A/c Dr. To Drawee A/c (Being acceptance received from drawee)	Drawer A/c Dr. To Bills Payable A/c (Being acceptance given to drawer)
3) When Bill is Honored on Date of Maturity	Cash/Bank A/c Dr. To Bills Receivable A/c (Being payment of bill received from Drawee)	Bills Payable A/c Dr. To cash/Bank A/c (Being payment of bill made to drawer)

Case II: When the bill is discounted from the Bank by the Drawer

Transaction	In the books of Drawer	In the books of Drawee
1) When the bill is discounted from Bank	Bank A/c Dr. Discounting Charges A/c Dr. To Bills Receivables A/c	No Entry

	(Being bill discounted for the Bank)	
2) When the bill is honored on date of maturity	No Entry	Bills Payable A/c Dr. To Cash/Bank A/c (Being the payment of bill made)

Case III: When bill is endorsed in favour of a creditor

Transaction	In the books of Drawer/Endorser	In the books of Drawee
1) When bill is endorsed	Endorsee A/c Dr. To Bills Receivable A/c (Being bill receivable endorsed)	No Entry
2) When bill is honoured on date of maturity	No Entry	Bills Payable A/c Dr. To Cash/Bank A/c (Being the payment of bill made)

Transaction	In the Books of Endorse
1) When bill is endorsed	Bills Receivable A/c Dr. To Endorser (Being bill received from debtor through endorsement)
2) When bill is honoured on date of maturity	Cash/Bank A/c Dr. To Bills Receivable (Being Bill realised on date of maturity)

Case - IV When Bill is sent to the Bank for collection

Transaction	In the books of Drawer	In the books of Drawee
1) When bill is sent collecting to Bank	Bills sent for Collection A/c Dr. To Bills Receivable A/c (Being bill sent for collection)	No Entry
2) When the amount is realised on date of maturity	Bank A/c Dr. To Bill sent for collection A/c (Being the bill sent for collection realised on maturity)	Bill Payable A/c Dr. To Cash/Bank A/c (Being bill paid on date maturity)

Illustration: A sold good to B on April 1, 2011 for Rs. 20,000 on credit and drew upon him a bill for the same amount payable after 3 months. B accepted the bill and returned into to A. On the due date bill was dishonoured. Pass Journal entries in the books of A and B if:

Case I: Bill is retained by A till the date of maturity.

Case II: Bill is discounted by A from his bank on 4th April, 2011 @ 6% per annum.

Case III: Bill is endorsed in favour of C on April, 4th, 2011

Case IV: Bill is sent to bank for collection on July 1, 2011.

Solution:

In the books of A (Drawer)

Journal

Date	Particulars	LF	Dr. Rs.	Cr. Rs.
2011				
April 1	B Dr. To Sales A/c (Being goods sold to B on credit)		20,000	20,000
April 1	Bills Receivable A/c Dr. To B A/c		20,000	20,000

	(Being bill received from B)			
July 4	Case-I: When bill is retained by A B A/c Dr. To Bills Receivable A/c (Being bill received from B dishonoured)		20,000	20,000
April 4	Case - II: When bill is discounted from the Bank Bank A/c Dr. Discounting charges A/c Dr. To Bills Receivable A/c (Being bill discounted from the bank)		19,700 300	20,000
July 4	B A/c Dr. To Bank A/c (Being bill discounted from, dishonoured on date of maturity)		20,000	20,000
April 4	Case III: When bill is endorsed in favour of C C A/c Dr. To Bills Receivable A/c (Being bill endorsed in favour of C)		20,000	20,000
July 4	B A/c Dr. To C A/c (Being bill received from B and endorsed to C dishonoured on maturity date)		20,000	20,000
July 1	Case IV: When bill is sent for collection Bill sent for Collection A/c Dr. To Bills Receivable A/c		20,000	20,000

	(Being bill received from B sent for collection)			
July 4	B A/c Dr. To Bills Sent for Collection A/c (Being bill sent for collection to bank, dishonoured on date of maturity)		20,000	20,000

In the Books of B (DRAWEE)
(In All Cases)

Date	Particulars	LF	Dr. Rs.	Cr. Rs.
2011				
April 1	Purchases a/c Dr. To A a/c (Being goods purchased on credit)		20,000	20,000
April 1	A a/c Dr. To Bills Payble a/c (Being acceptance given to A)		20,000	20,000
July 4	Bills Payable a/c Dr. To A a/c (Being bill Payable to A dishonoured on date of maturity)		20,000	20,000

➤ **Renewal of a Bill**

Transaction	In the Books of Drawer	In the Books of Drawee
Cancelling the Original Bill	Drawee Dr. To Bills Receivable A/c (Being the cancellation of bill receivable)	Bills Payable A/c Dr. To Drawer (Being the bill payable cancelled)

Recording Interest for extended Period	Drawee To Interest A/c (Being interest charged for extended period)	Dr.	Interest A/c To Drawer (Being interest payable for extended period)	Dr.
Past Payment Received/ made	Cash or Bank A/c To Drawee (Being the part payment received)	Dr.	Drawer To Cash Bank A/c (Being the part payment made).	Dr.
New Bill Drawn Accepted	Bills Receivable A/c To Drawee (Being a new bill drawn)	Dr.	Drawer To Bills Payable A/c (Being a new bill accepted.)	Dr.

Illustration: On 1st April, 2011 Anil accepts a bill drawn by Sunil for 2 months for Rs. 15000, in payment of a debt. On the date of maturity bill was dishonoured and Sunil had to pay Rs. 150 as noting charges. On 4th June 2011, Anil requested to Sunil to draw a new bill for the amount due. Sunil agreed to draw a new bill for 73 days but he charged interest @ 15% per annum in cash. This bill is duly met on its maturity. Pass Journal entries in the books of both the parties.

Solution:

In the books of Sunil

Journal

Date	Particulars	LF	Dr. Rs.	Cr. Rs.
2011				
April 1	Bills Receivable A/c To Anil A/c (Being acceptance received)	Dr.	15,000	15,000
June 4	Anil A/c To Bills Receivable A/c	Dr.	15,150	15,000

	To Cash A/c (Being bill dishonoured and noting charges paid)			150
June 4	Anil A/c Dr. To Interest A/c (Being interest charged)		454.50	454.50
June 4	Cash A/c Dr. To Anil A/c (Being interest received in cash)		454.50	454.50
June 4	Bills Receivable A/c Dr. To Anil A/c (Being a new bill drawn M Anil and acceptance received)		15,150	15,150
Aug 19	Bank A/c Dr. To Bills Receivable A/c (Being amount received on maturity of bill)		15,150	15,150

In the Books of Anil (Drawee)

Journal

Date	Particulars	LF	Dr. Rs.	Cr. Rs.
2011				
April 1	Sunil A/c Dr. To Bills Payable A/c (Being acceptance gave)		15,000	15,000
June 4	Bills Payable A/c Dr. Noting Charges A/c Dr. To Sunil A/c (Being bill dishonoured and noting charges due)		15,000 150	15,150

June 4	Interest A/c To Sunil A/c (Being interest payable to Sunil)	Dr.		454.50	454.50
June 4	Sunil A/c To Cash A/c (Being acceptance of new bill given)	Dr.		15,150	15,150
June 4	Sunil A/c To Cash A/c (Being acceptance of new bill given)	Dr.		454.50	454.50
Aug 19	Bills Payable A/c To Bank A/c (Being bill accepted, paid on maturity)	Dr.		15,150	15,150

➤ **Retiring a bill under Rebate:**

Transaction	In the Books of Drawer	In the Books of Drawee
When Drawee Retires the Bill Before the date of Maturity	Cash/Bank A/c Dr. Rebate A/c Dr. To Bill Receivable A/c (Being the amount received before date of maturity and rebate allowed)	Bills Payable A/c Dr. To Cash/Bank A/c To Rebate A/c (Being the amount paid before date of maturity and rebate received)

Illustration: Mukesh sold goods to Jitender on July 1, 2011 for ₹ 30,000 and drew a bill for the same amount for 3 months. Jitender accepted the bill and returned it to Mukesh. Jitender retired his acceptance on 4th August, 2011 under rebate of 8% per annum. Give Journal entries in the books of Mukesh and Jitender.

Solution:

In the books of Mukesh

Journal

Date	Particulars	LF	Dr. Rs.	Cr. Rs.
2011				
July 1	Jitender A/c Dr. To Sales A/c (Being goods sold on credit)		30,000	30,000
July 1	Bill Receivable A/c Dr. To Jitender A/c (Being acceptance received)		30,000	30,000
Aug 4	Cash A/c Dr. Rebate A/c Dr. To Bills Receivable A/c (Being amount received on bill before maturity and rebate allowed)		29,600 400	30,000

In the books of Jitender

Journal

Date	Particulars	LF	Dr. Rs.	Cr. Rs.
July 1	Purchases A/c Dr. To Mukesh A/c (Being goods purchased on credit)		30,000	30,000
July 1	Mukesh A/c Dr. To Bills Payable A/c (Being acceptance given to Mukesh)		30,000	30,000
Aug 4	Bill Payable A/c Dr. To Cash A/c To Rebate A/c (Being acceptance retired with rebate)		30,000	29,600 400

➤ **Insolvency of Acceptor**

Transaction	In the books of Drawer	In the books of Drawer
When Drawee is Insolvent	Entry for dishonour of bill shall be passed (depending up on the case)	Bills Payable A/c Dr. To Drawer
When nothing could be Recovered	Bad Debts A/c Dr. To Drawee (Being amount of Bill written off as bed debts)	Drawer Dr. To Deficiency A/c Or To P &L A/c (Being the amount of bill written off.)
When Amount is Received Partially	Cash/Bank A/c Dr. Bad Debts A/c Dr. To Drawee (Being the amount received partially and the remaining amount written off due to Insolvency of drawer.)	Drawer Dr. To Cash A/ c To Deficiency A/c (Being the amount payable Settled by payment of..... % only)