CHAPTER 8

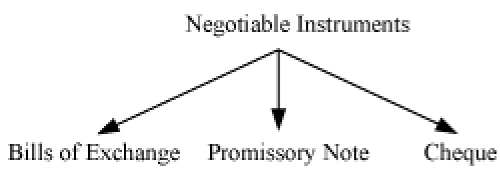
BILLS OF EXCHANGE

❖ **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.

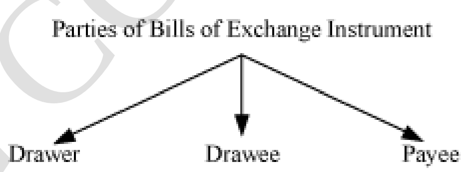


❖ **Bills of Exchange**

- ***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.

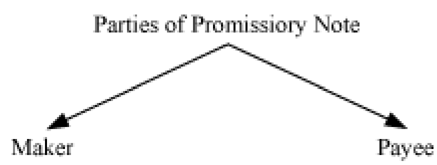
- ***Payee***: A person who receives the amount of the bill from the drawee is called payee. Payee may be drawer himself or the endorsee.

❖ **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 *<u>honoured</u>***

In the books of the Drawer		In the books of the Drawee	
Drawee (*if given*) To Sales A/c (Goods sold to the drawee)	Dr.	Purchases A/c (*if given*) 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 *<u>dishonoured</u>***

In the books of the Drawer	In the books of the Drawee
Drawee (*if given*) Dr. To Sales A/c (Goods sold to the drawee)	Purchases A/c (*if given*) 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 (*if given*) (Bill dishonoured and paid noting charges in cash)	Noting Changes A/c (*if given*) 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 *<u>honoured</u>***

In the books of the Drawer	In the books of the Drawee
Drawee (*if given*) Dr. To Sales (Goods sold to the drawee)	Purchases A/c (*if given*) 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. Discounted 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.

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

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 purchased from the drawer)
B/R A/c Dr. To Drawee (Drawee's acceptance received)	Drawer Dr. To B/P (Drawee's acceptance accepted bill and returned to the drawer)
Bank A/c Dr. Discounted A/c Dr. To B/R (Bill discounted with the bank)	(***No entry***)
Drawee Dr. (amount with Noting charges) To Bank A/c (Bill dishonoured)	B/P A/c Dr. Noting charges A/c To Drawer (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. 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 and returned it to the drawer)	

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

- **Case II: When the bill is endorsed and *<u>dishonoured</u>***

In the books of the Drawer	In the books of the Drawee	In the books of the Endorsee
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 and returned it to the drawer)	
Endorsee Dr. To B/R A/c (Bill endorsed)	(***No entry***)	B/R A/c Dr. To Drawer (Bill received from the drawer)
Drawee Dr. To Endorsee (Bill dishonoured in the hand of endorsee)	B/P A/c Dr. Noting charges A/c Dr. To Drawer (Bill dishonoured)	Drawer Dr. To B/R A/c 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)	
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)

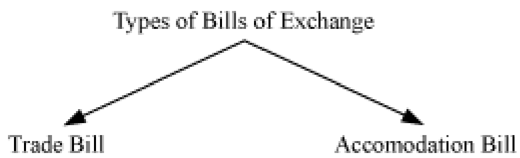
❖ **Rebate – Payment of bill before maturity**

In the books of the Drawer	In the books of the Drawee
Drawee Dr. To Seller 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 and returned it to the drawer)
Before maturity Cash/Bank A/c Dr. Rebate A/c Dr. To B/R A/c (Amount of bill received before maturity)	***Before maturity*** B/P A/c Dr. To Cash/Bank A/c To Rebate A/c (Bill discharged before maturity)

❖ **Renewal of the bill**

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 and returned it to the drawer)
Drawee Dr. To B/R A/c (Bill cancelled)	B/P A/c Dr. To Drawer (Bill cancelled)
Drawee Dr. To Interest A/c (Interest due)	Interest A/c Dr. To Drawer (Interest due)
B/R A/c Dr. To Drawee (New bill received from the drawee)	Drawer Dr. To B/P (New bill accepted and returned it to the drawer)
Cash A/c Dr. To B/R A/c (New bill honoured)	B/P A/c Dr. To Cash A/c (New bill honoured)

- **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.