

Chapter 10

Bill of Exchange

Learning Objectives

After studying this chapter you will be able to know-

- What is bill of exchange? What are its features?
- Different types of Bills of Exchange
- How is the due date of a bill of exchange calculated?
- What is Promissory Note?
- What is the Difference between bill of exchange and Promissory Note?
- What is Hundi and what are its different types?

Bills of Exchange

In modern times the field of business has expanded very much. Today's business is not combined within the limits of city, state or the country but its area now is International. Any one country can get the articles and the services of its requirements or necessities from other countries without any difficulty and also dispatch its articles and services of requirements or necessities to other countries also. Hence the importance of credit transactions have enhanced very much due to expansion in the field of business, but if the business was to be run on cash basis, it would not have been expanded to this extent, most of the businessmen undertake transactions on credit. The seller sells his goods on credit and the buyer promises to make the payment of goods bought on a certain date in future. In such a case, the seller would like to take a written undertaking from the buyer to get the payment after a fixed period such written document has two advantages. Firstly the seller receives a proof that the customer is his debtor and secondly, the ownership of this document can be transferred very easily. As such it is called a negotiable instrument.

According to section 3 (i) of Indian Negotiable Instrument Act 1881, only three instruments are treated as negotiable instruments, for example (1) Promissory Note, (2) Bills of Exchange and (3) the cheque. In addition to these, in modern Business many other negotiable instruments have come in vogue due to increase in credibilities, for example Hundi, dividend coupon, bank draft, documentary letter, postal order, and interest authority letter etc.

Meaning of Bill of Exchange

The Bills of exchange are instruments of credit which facilitates the credit sales of goods. It is an unconditional order in writing duly signed by the maker in which the maker orders other person to make payment of certain sum of money after a stipulated time to himself or to the person named there in. As per section 5 of Indian Negotiable Instrument Act of 1881, “A Bills of Exchange is an instrument in writing, an unconditional order signed by the maker directing to pay a certain sum of money only to or to the order of a certain person or to the bearer of the Instrument”.

Characteristics of bill of exchange

1. Bills of Exchange must be in writing or it must in black and white.
2. It is an order for payment, not a request.
3. This order must be unconditional.
4. It contains an order for payment of specified sum of money.
5. It must be signed by the maker of the drawer or the bill.
6. The date of payment must be certain or a fixed date.
7. It must be signed by the drawee or the acceptor of bill.
8. The amount mentioned in the bill is payable either on demand or on the expiry of a fixed period.
9. The amount is payable either to the bearer of the bill or to a specified person or to his order.
10. According to rules it must be stamped or written on a stamp paper of the court.

Parties in a bill of exchange – Usually there are three parties in Bill of Exchange

1. Drawer – The person who writes the bill of orders for payment is called maker or writer of the bill, he is either a creditor or a seller of goods.
2. Acceptor or Drawee – The purchaser of goods is the acceptor of bill, he is either a debtor or a purchaser of goods.
3. Payee – The person to whom payment is to be made is called payee. The drawer himself or a third party may be the payee of the bill. The drawer will be the payee of the bill if he retains it till the date of maturity when he receives payment. In case the bill is discounted from the bank, the bank may be the payee. If it is endorsed by the drawer to a third party, the third party known as Endorsee will be the payee of the Bill.

Acceptance is necessary on the bill of exchange because when the debtor accepts the condition of the bill then only the payment of the bill is possible.

For example Shree Prem Singh of Pratap Nagar sells goods for Rs. 10000 on 10th July, 2016 to Ram Singh of Gandhinagar, the payment of which will be made after 3 months. Shree Prem Singh writes a bill for Rs. 10000 on Shree Ram Singh for a period of three months which is accepted by Ram Singh who returns the same and returns to Prem Singh. In this case Shree Prem Singh is called the maker or drawer of the Bill and Ram Singh, the drawee. The following is the specimen Proforma of this bill -

Proforma of Bill of Exchange

Rs. 10000		Pratap Nagar, Jaipur
stamp		10 July, 2016
Three months after this date pay to us of order the sum of Rupees Ten Thousand only for value received.		
To	Accepted	For Singh Bros.
Shri Ram Singh	Ram Singh	Prem Singh
Ram Bros.	Signature	Manager
Gandhi Nagar, Jaipur		

It is clear from the above specimen of bill that Drawer and payee of the bill both is Prem singh. The acceptor or drawee is Ram Singh. If Prem singh discounts the bill from the bank then Bank will become the payee. On the other hand if Prem singh endorses the bill to Shree Raj Kumar will be called payee of the bill.

Advantages of bill of exchange –

In modern day's business, the bill of exchange is a very important instrument of credit. Its advantages are as under –

1. With the help of bills of exchange, the field of business is expanded and transactions become easy.
2. A bill of exchange serves as an evidence in writing of a Debt.
3. It is a legal document in the eyes of law.
4. A bill of exchange can easily be endorsed from one party to another.
5. It can be discounted from the bank also.
6. The payment by means of bill of exchange avoids unnecessary circulation of money.
7. It is a convenient method of payment of large amount of foreign payment which avoids the risk of remitting foreign currency.
8. It helps in planning for cash payment.
9. With the help of bill of exchange, such a trader without liquid resources may also purchase goods in bulk quantity.
10. Since the date of payment of the bill is fixed, the trader is not required to go to Debtors again and again for expediting the payment.
11. The businessmen, through accommodation bills of exchange, can help each other for finances. Or it enhances the liquidity of the creditor also.

Types of Bills of Exchange –

There are various types of bills of exchange which may be learnt easily by means of following chart –Types of B.E.

1. Nature basis
 - Trade bill
 - Accommodation bill
2. Area basis
 - Indian bill
 - Foreign bill
3. Time bill
 - Sight bill
 - Tenure bill

4. Basis of Assets & Liabilities

- Bills receivable
- Bills payable

On the basis of nature -

- Trade bill – The bills written and accepted on account of sale of goods are called trade bills.
- Accommodation bills- Bills written and accepted for providing help to each other by the businessmen are called accommodation bills

On the basis of area –

- Indian bill – The bills which are written and paid within the limits of the country are called Indian bills.
- Foreign bill - The bills which are written in one country and are paid in other countries, are called foreign Bills.

On the basis of time

- Sight bill – Bills of which the payment is made by the acceptor on presentation of such bills, are called sight bills.
- Tenure bill - The bills the payment of which is made after a certain duration of time or on the date specified in the bill are called tenure bills. The due dates of such bills is computed by adding 3 days of grace.

On the basis of Assets and Liabilities

- Bills Receivable – The person who writes or draws a bill of Exchange on other person, it is an asset for him for example – as soon as the purchaser of goods puts his acceptance on the bill it becomes bill receivable for the maker who will show this acceptance as an asset.
- Bills payable – The person who is required to make payment of specified amount written in acceptance, it is a liability for him. Total amount of such acceptances will be shown in balance sheet on liabilities side.

Important Terms Related To Bill of Exchange

- 1) **Term of bill** – This is that period after which the acceptor of the bill has to make payment. The acceptor agrees to make payment after a certain period which is mentioned in the bill. The pay of bill at sight has to be made as soon as it is presented for payment but the term bills have some period for payment. The payment of the bill is made after the expiry of the period mentioned in bill.
- 2) **Days of Grace** – While calculating the due date of the bill, it is compulsory to add three days to the period of the bill these three days are called “Days of grace”.
- 3) **Retiring a bill before due date** - When the drawee of the bill makes payment of the bill before its due date, it is called retiring the bill. In that case the holder of the bill usually allows him some

amount of discount which is called rebate. The rebate is calculated at a certain specified rate per annum for the period of early payment.

- 4) **Discounting of bill** – When a holder of bills receivable needs money before the date of maturity, he can get the bill discounted from the bank in order to get cash, discounting refer to encashing the bill before the date of maturity. The bank deducts the amount of discount from the face value of the bill at a certain rate for the discount prior to payment. The balance is paid by the bank to the holder of the bill.
- 5) **Endorsement of Bill** – The process of transfer bill by the holder of the bill receivable can transfer the bill in the name of another person to whom he wanted to make payment by writing the name of that person and putting his signature at the back of the bill. Endorsement is generally made to creditor. The person endorsing the bill is called “Endorser” and the person to whom the bill is endorsed is known as “Endorsee”. After endorsement, the endorsee receives all rights of the endorser.
- 6) **Bill sent to bank for collection** - Sometimes bill is sent to the Bank for its collection instead of its being discounted the instructions are given to the bank to keep the bill till the date of maturity. The bank will collect the amount of the bill on the date of maturity by presenting it before the acceptor on that date. In this case the bank will not credit the customer's account until the amount of the bill actually realised by it.
- 7) **Dishonor of the bill** – When the acceptor of the bill refuses to pay the amount of the bill on the date of maturity, it becomes insolvent, it is called dishonor of the bill. The bill may be dishonored in two ways, namely –
 - When the bill is not accepted,
 - When the amount of the bill is not paid on due date.
- 8) **Renewal of bill** – Sometimes the acceptor of the bill is unable to make payment of the bill on due date. In such a case he may request the drawer of the bill to cancel the original bill and write a new bill in place of the old one. If the holder of the bill agrees, a new bill will be drawn for the amount of the original bill, plus some amount of interest. Sometimes interest for the new period is taken in cash and another bill is written for the full amount of original bill which is also to be accepted by the drawee. This is known as renewal of a bill.
- 9) **Noting charges** – The bill is generally presented to the drawee through a person called notary public with the object to establish the fact that the bill was presented for payment but was dishonored. Notary public notes down the fact of dishonor on the bill itself, which is called 'Noting' public charges before such noting the service rendered by him, which is called 'Noting charges', are paid first by the holder of the bill but ultimately this amount is received from the acceptor of the bill who is responsible for the dishonor of the bill.
- 10) **Insolvency of acceptor** – When the acceptor of the bill is declared insolvent, it is implied that he

will not be able to make payment of this acceptance on due date. Hence the acceptance is treated as dishonored and entries for dishonor of the bill are passed by the holder of the bill. Usually some amount is received from his estate in the form of some paisa in a rupee. The amount so received from the estate of the Insolvent is called 'Dividend'. The amount remaining unpaid is written off as bad debts a/c in the books of the Drawer, however Drawee, treats it as deficiency which is credited by him in his books.

11) Maturity or due date of the bill – The date when the payment of the bill becomes due is called due date or date of maturity. If the bill is sight – the date on which the bill is presented for payment is the date of maturity for such bill means bill is payable on demand on the other hand if the bill is a term bill, the due is ascertained by adding three days. The maturity or due date, will be due date. The following points are worth noting for finding out due date of the acceptance.

- Month denotes calendar months, e.g. January, February, March etc.
- When the term of the bill is given in month for calculating due date, all months shall be treated similar for example January is of 31 days, February of 28 or 29 days, but for computing due date both these months will be treated as similar. If a bill falls due in the month in which there is no 29th or 30th or 31st dates, the maturity will be the last date of the month. For example a bill was drawn and accepted on Jan. 30 payable after one month after date, the due date will be 28th February + 3 days or 3rd March.
- When the term of the bill is given in terms of days, the period will begin to run from the date of drawing the acceptance. Three days of grace are also allowed on this bill. In counting days of beginning will not be considered but the date of payment is included.
- If the due date (including 3 days of grace) falls on Sunday or a public holiday or gazetted holiday, the due date will be supposed one day earlier.
- If the due date including days of grace falls due on the day which is declared as emergency holiday, the due date is supposed to fall on next working day.
- There are 365 days in a year except in case of leap year when the no. is 366 due to 29 days of February.

Illustration 1 – Calculate the due dates of the following bills of exchange :

S.NO.	DATE OF THE BILL	PERIOD OF BILL
1	23-11-2016	2 months after date
2	22-12-2016	3 months after date
3	13-05-2016	30 days after date
4	20-03-2016	4 months after date
5	31-08-2016	1 months after date
6	14-05-2016	90 days after date

Solution –

- | | |
|---------------------|--------------------|
| 1. January 25, 2017 | 4. July 23, 2016 |
| 2. March 25, 2017 | 5. October 3, 2016 |
| 3. June 15, 2016 | 6. August 14, 2016 |

Note: 26th January, 2017 and 15 August, 2016 are public holidays as such due dates of the bills of exchange will be a day before holidays.

Accounting Entries for Transactions Regarding Bills of exchange

For the purpose of accounting bills are divided into two categories, namely 1. Bills receivable, and 2. Bills payable for the drawer of the bill or the receiver of payment of bill, it is bill receivable, while the person who has accepted the bill is bills payable for him. Thus the same bill is a bill receivable or B\R from drawer's point of view while it is Bills payable or B/P from the point of view of the acceptor.

For example, Ashok sold goods to Basant on credit and drew a bill on the later who accepted the same and returned to Ashok, it will be called B\R for Ashok and for Basant bill payable, Accounting for Bill of exchange in different situations will be as under –

3.1. On drawing & accepting a bill**1. Books of drawer**

Bills receivable	A/c	Dr.
To Drawee's	A/c	
(Being acceptance received)		

2. Books of drawee

Drawer's	A/c	Dr.
To Bills payable a/c	A/c	
(Being acceptance given)		

1.2 On payment of bill on due date**1. Books of drawer**

Cash \Bank	A/c	Dr.
To Bills receivable	A/c	
(Being Payment received on due date)		

2. Books of drawee

Bills payable	A/c	Dr.
To Cash \Bank	A/c	
(Being Payment made on due date)		

Illustration 2: On March 1st, 2016, Ganesh sold goods of ₹. 3000 to Ravi on credit. And drew a bill for the same amount on Ravi for three months, which was accepted by Ravi, On the due date the bill was met. Give Journal entries in the books of Ganesh and Ravi.

(Solution) :

Journal of Ganesh

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2016 March 1	Ravi Dr. To Sales A/c (For Goods sold to Ravi)		3,000	3,000
March 1	Bills Receivable A/c Dr. To Ravi ₹ (For Acceptance Received on bill from Ravi)		3,000	3,000
June 4	Cash A/c Dr. To Bills Receivable A/c (For Payment of the Bill Received)		3,000	3,000

Journal of Ravi

March 1	Purchase A/c Dr. To Ganesh (For Purchase of goods from Ganesh on Credit)		3,000	3,000
March 1	Ganesh Dr. To Bills Payable A/c (For Acceptance given to Ganesh)		3,000	3,000
June 4	Bills Payable A/c Dr. To Cash A/c (For Payment of Bill on due date)		3,000	3,000

1.3 Discounting of the bill – If the holder of B/R requires money before the date of maturity of the bill, he can get it discounted from the bank in order to convert it in cash. Thus the right to receive the amount of the bill is with the bank. Receiving the amount of the bill before its due date for which some consideration is paid to bank which is called discount the bank assuming the amount of bill will be received on due date, gives amount of the bill to the holder of the bill after deducting a certain amount of discount. Discount is an income for the bank where as it is loss for the party discounting the bill. Calculation of discount is just like calculating the amount of discount allowed. Actually, payment of acceptance prior to its due date will involve loss on interest to the bank for which the bank deducts a certain amount as discounting charges. The entries for discounting as acceptance is as follows in the books of both. Parties –

1. In the books of holder of the bill

Bank	A/c	Dr.	(Amount received)
Discount	A/c	Dr.	(Discounting charges)
To bills receivables	A/c		(Total amount of bill)
(Being bill discounted from the bank)			

2. No entry is passed in the books of acceptor of the bill

On the due date when payment of this bill is made

Bills payable	A/c	Dr.	(Amount of bill
To cash /bank		A/c	(Amount of bill
(Being payment made)			

Illustration 3

On 10th January, 2016 Jitendra sold goods to Yatendra Rs. 10000 and drew a bill on Yatendra for four months, which was accepted by Yatendra. On 13th January, 2016 Jitendra discounts the bill with his Bank at discount @ 5% per annum. On the due date the bill was met by Yatendra. Pass entries in the books of both the parties.

Solution:

(Solution)— **Journal of Jitendra**

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2016 Jan 10	Yatendra Dr. To Sales A/c (For Goods sold to Yatendra)		10,000	10,000
Jan 10	Bills Receivable A/c Dr. To Yatendra (For acceptance received from Yatendra)		10,000	10,000
Jan 13	Bank A/c Dr. Discount A/c To Bills Receivable A/c (For bill Discounted with Bank at 5% p.a.)		9,500 500	10,000

Journal of Yatendra

2016				
Jan 10	Purchase A/c	Dr.	10,000	
	To Jitendra			10,000
	(For purchase goods from Jitendra)			
Jan 10	Jitendra	Dr.	10,000	
	To Bills Payable A/c			10,000
	(For acceptance given on bill of Jitendra)			
May 13	Bills Payable A/c	Dr.	10,000	
	To Cash A/c			10,000
	(For Payment of bill on due date)			

3.4. Retiring a Bill under Rebate – When the drawee of the bill makes payment of the acceptance before its due date it is called retiring bill under rebate. In this case holder of the bill generally allows him discount technically known as rebate. The rebate is calculated for the specified period of time at rate per annum. The amount of rebate is a loss for the holder of acceptance while gain for the acceptor. The following are the Journal entries for this –

- In the books of drawer or holder

Cash /bank	A/c	Dr.	Amount received
Rebate	A/c	Dr.	Rebate amount
To bills receivable a/c			Total amount of bill
(Payment received under rebate)			
- In the books of drawee

Bills payable	A/c	Dr.	Total amount of bill
To Cash /bank	A/c		Actual amount paid
To Rebate	A/c		Amount of Rebates.
(Bill retired under rebate)			

Illustration 4: On 1st January, 2017 Mahesh sold goods to Suresh for ₹ 40000 and draws a bill for 3 months for the amount while Suresh accepts. On 4th January, 2017 Suresh retires the bill under rebate of 4 % per annum. Enter these transactions in the Journal of both the parties.

(Solution)–

Journal of Mahesh

Date	Particulars	L.F.	Amount Dr.	Amount Cr.
2017 Jan 1	Suresh To sales A/c (For goods sold to Suresh)		(₹) 40000	(₹) 40000
Jan 1	Bills Receivable A/c To Suresh A/c (For acceptance received on bill)		40000	40000
Jan 4	Cash A/c Rebate A/c To Suresh A/c (For payment received under Rebate of 4% p.a.)		39600 400	40000

Journal of Suresh

2017 Jan 1	Purchase A/c To Mahesh (For purchase goods from Mahesh)		40000	40000
Jan 1	Mahesh To Bills Payable A/c (For acceptance given on Bill)		40000	40000
Jan 4	Bills Payable A/c To Cash A/c To Rebate A/c (For Payment under rebate of 4% p.a.)		40000	39600 400

3.5 Endorsement of bill - Bill of exchange, like a Cheque, can also be endorsed to another person by building his signatures at the back side of the bill. The person endorsing the acceptance is called endorser and the person to whom it is endorsed is known as endorsee. An endorsee may again endorse it to some other person and the process may continue to any extent. The holder of the bill on the date of maturity will be entitled to receive payment the entries are as under -

A. When the acceptance is endorsed

1. In the books of endorser :

Endorsee	A/c	Dr.
To bills receivable	A/c	
(Bills endorsed to xxxxx)		

2. In the books of Drawee : (No Entry)

3. In the books of endorsee

Bills receivable	A/c	Dr
To Endorser	A/c	
(Acceptance received from -----)		

B. At the time of maturity –

1. In the books of endorser: No Entry required.

2. In the books of Drawee: Bills Payable	A/c	Dr.
To Cash /Bank	A/c	
(Payment made on due date)		

3. In the books of endorsee : Cash \Bank	A/c	Dr.
To Bills Receivable	A/c	
(Payment received on due date)		

Illustration 5:

X draws on Y a bills of exchange for three months for ₹ 4000 which Y accepts on 1st July, 2016. Endorsed it on 4th July 2016 to his Creditor Z. On the due date the bill was duly met. Journalize the above transaction in the books of X, Y and Z.

(Solution)–

Books of X (Drawer)

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2016 July 1	Bills Receivable A/c Dr. To Y (For acceptance Received)		4,000	4,000
July 4	Z Dr. To Bills Receivable A/c (For bill endorsed to Z)		4,000	4,000

Solution:**Books of Y (Drawee)**

2016				
July 1	X	Dr.	4000	
	To Bills Payable A/c			4000
	(For acceptance given)			
Oct 4	Bills Payable A/c	Dr.	4000	
	To Cash A/c			4000
	(For payment made on due date)			

Books of Z (Endorsee)

2016				
July 4	Bills Receivable A/c	Dr.	4000	
	To X			4000
	(For bill Received from X)			
Oct 4	Cash A/c	Dr.	4000	
	To Bills Receivable A/c			4000
	(For payment Received on due date)			

Note: (i) No entry for endorsement will be passed in the books of the acceptor or Drawee.

(ii) No entry will be passed for discharging pigment by (y) in the books of (x) because the payment of bill was received by Z.

3-6 Bill sent to Bank for collection

Sometimes the acceptance received by the drawer is sent to the Bank for collection of the amount from the acceptor on due date in such a case Bank will credit the customer only when the amount of the bank is collected by it, bank may charge some bank charges for the service rendered, the following entries are passed in the books-

(a) In the Books of Drawer or the payee

(i) When the bill is sent for collection-

Bill for collection	A/C	Dr.	(Amount or Bill)
To Bill Receivable	A/c		

(Being Bill sent to Bank for collection)

(ii) When amount of the Bill collected by the bank

Bank	A/c	Dr.	(Bill Amount-Bank charge)
Bank charge	A/c	Dr.	(Bank charge)
To Bill for collection	A/c		(Amount of the bill)

(Being bill collected and bank charges incurred)

(B) In the books of the drawee / Acceptor :

No entry is passed when bill is sent for collection by the drawer.

Illustration 6:

On 15th May 2016 Basu sold goods of ₹10000 to Satish on credit and drew a bill of three months of same amount on Satish, which was accepted by Satish. On 1st August, 2016 Basu deposited this bill into bank for collection. On the due date Satish met the bill. On 20th August, 2016 Basu got the information from the Bank that after deducting ₹ 100 as collection charges the remaining amount be credited in his account. Pass the entries of these transaction in the journal of Basu and Satish.

Solution:**Books of Basu**

Date	Particulars	LF	Amount Dr. (₹)	Amount Cr. (₹)
2016 May 15	Satish Dr. To Sales A/c (For goods sold to Satish on credit)		10000	10000
May 15	Bills Receivable A/c Dr. To Satish (For acceptance Received) ₹		10000	10000
Aug 1	Bills for collection A/c Dr. To Bills Receivable A/c (For bill deposited into Bank for collection)		10000	10000
Aug 20	Bank A/c Dr. Bank charges A/c Dr. To Bills for collection A/c (For bill collected after deducting Bank charges Rs. 100)		9900 100	10000

Books of Satish

2016 May 15	Purchases A/c Dr. To Basu (For goods purchased from Basu)		10000	10000
May 15	Basu Dr. To Bills Payable A/c (For acceptance on bill given)		10000	10000
Aug 18	Bills Payable A/c Dr. To Cash A/c (For payment of bills paid on due date)		10000	10000

3.7 Dishonor of Bill

When on the date of maturing the acceptor of the bill fails to meet it or refuses to make payment or becomes insolvent the acceptance is said to be dishonoured. The bill of exchange is dishonoured in the following cases –

1. If acceptor refuses to make payment
2. If the bill is not met at maturity or before
3. If the bill is renewed.
4. If the acceptor of the bill becomes insolvent
5. If the payment of the bill is only in part

When bill is dishonoured the following entries are passed-

A. In the books of the drawer or the maker – If the drawer retains the bill till maturity and dishonours on due date or discounted from the bank or endured and dishonor or sent the bill for collections and dishonored -

Acceptor or Drawee	A/c	Dr
To Bills Receive Bill	A/c	Dr
To Bank A/c		Dr
To Endorsee's	A/c	Dr
To Bill for Collection	A/c	
(Being acceptance dishonoured on due date)		

B. In the books of Drawee – under all aviations-

Bill payable	A/c	Dr
To Drawee's / Acceptor's	A/c	
(Being acceptance dishonored)		

Note :- In the books of the drawer of bill, Acceptor's Account is debited and To B/R A/c is credited if he retains the bill if bank possesses the bill then 'To Bank' if it is with the endorsee, To endorsee' A/c and if it has been sent to Bank for collections then 'To Bill for collection A/c'

Illustration 7 :

Ram draws of Shyam a bill for ₹ 4000 which is accepted by shyam. Show what entries would be passed in the books of Ram and Shyam. If the bill became dishonored under each of the following circumstances:

- (I) If Ram retains the bill till the due date.
- (II) If Ram discounts the same with his banker paying ₹ 60 for discount charges.
- (III) If Ram endorses the same to his creditors Z.

Solution :

Books of Ram

Date	Particulars	L.F.	Amount Dr. (₹)	Amount (Cr. ₹)
(i)	Bills Receivable A/c Dr. To Shyam (For acceptance received on bill)		4000	4000
	Shyam Dr. To Bills Receivable A/c (For acceptance received dishonour if bill)		4000	4000
(ii)	Bank A/c Dr. Discount A/c To Bills Receivable A/c (For bill discounted with Bank)		3940 60	4000
	Shyam Dr. To Bank A/c (For bill dishonoured)		4000	4000
(iii)	Z Dr. To Bills Receivable A/c (For bill receivable endorsed to Z)		4000	4000
	Shyam Dr. To Z (For bill Dishonoured on due date)		4000	4000
(iv)	Bank for Collection of Bills A/c Dr. To Bills Receivable A/c (For bill sent to the Bank for collection)		4000	4000
	Shyam Dr. To Bank for Collection of Bills A/c (For bill dishonoured)		4000	4000

Books of Shyam

	Ram Dr. To Bills Payable A/c (For acceptance given on bill)		4000	4000
	Bills Payable A/c Dr. To Ram (For bill dishonoured on due date)		4000	4000

Note : - In the books of the Acceptor or the Drawee the same above entries will be passed under all the above four conditions.

(IV) If Ram sends the bill to his banker for collection.

3.8 Noting charges

When on the date of maturity, the acceptor of the bill refuses to make payment of the bill, legal action is required to be taken by the drawer of the bill. Therefore in order to establish the fact that the bill was presented but dishonored, it is usually handed over to notary public appointed by the court, notary public again presents the dishonored bill to the drawee for payment. If the drawee of the bill still refuses to make payment notary public will note this fact on the bill with his real. This is called 'Noting' the notary public charges some amount of money for this service, which is called 'Noting charges'

The following entries are passed for noting charges in the books of the Drawer and the Drawee –

A. In the books of holder ;

- | | | |
|-------|--|-----|
| (i) | If he himself is also a Drawer : Drawees A/c | Dr |
| | To Bill Receivable A/c | |
| | To Cash A/c | |
| | (Bill dishonored and noting charges paid) | |
| (ii) | If the bill was endorsed : Drawee's A/c | Dr |
| | To Endorsee's A/c | |
| | (Bill in honored and noting charges paid) | |
| (iii) | If the bill was discounted from the bank : Drawees's A/c | Dr |
| | To Bank A/c | |
| | (Bill dishonored and noting charges paid) | |
| (iv) | If the bill was sent to bank for collection : Drawee's A/c | Dr |
| | To Bank for collection of Bill | A/c |
| | To Bank A/c | |
| | (Bill dishonored and noting charges paid) | |

B. Books of Drawee/Acceptor : Bill Payable	A/c	Dr
Noting Charges	A/c	Dr
To Drawer's	A/c	
(Bill dishonored and noting charges paid by the drawer)		

Illustration 8:

Manu sold goods to Shanu for ₹10000 at 10% Trade Discount and draws a bill upon Shanu for the amount due. Shanu accepted the bill and returned it to Manu. On due date the bill became dishonored and Manu paid ₹ 40 as Noting Charges. After ten days Shanu pays the amount due to Manu. Pass necessary Journal entries

Solution :

Books of Manu

Date	Particulars	L.F.	Amount Dr. (₹)	Amount (Cr. ₹)
1.	Shanu Dr. To Sales A/c (For goods sold for Rs 10000 at 10% Trade Discount)		9000	9000
2.	Bills Receivable A/c Dr. To Shanu (For acceptance received)		9000	9000
3.	Shanu Dr. To Bills Receivable A/c To Cash A/c (For bill dishonoured and noting charges paid)		9040	9000 40
4. (10 days later)	Cash A/c Dr. To Shanu (For amount received from Shanu)		9040	9040

Books of Shanu

1.	Purchases A/c Dr. To Manu (For goods purchased for Rs 10000 at 10% Trade Discount)		9000	9000
2.	Manu Dr. To Bills Payable A/c (For acceptance given on bill)		9000	9000
3.	Bills Payable A/c Dr. Noting Charges A/c To Manu (For bill dishonoured and Noting Charges paid by Manu)		9000 40	9040
4. (10 days later)	Manu Dr. To Cash A/c (For amount paid to Manu)		9040	9040

in the books of Manu and Shanu.

Illustration 9:

On 1st Jan 2017 Raj drew a bill on Prabhu for ₹ 2000 at three months date on account of goods supply. Prabhu accepted the bill and returned it to Raj who discounts the same with his bankers at 5% p.a. on 4th Jan. 2017 On the due date bill is dishonored and the bank pays ₹ 30 as Noting Charges. Enter the above

Solution :**Journal of Raj**

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2017 Jan 1	Prabhu Dr. To Sales A/c (For goods sold to Prabhu)		2000	2000
Jan 1	Bills Receivable A/c Dr. To Prabhu (For acceptance received on bill)		2000	2000
Jan 4	Bank A/c Dr. Discount A/c Dr. To Sales A/c (For bill discounted with the bank at 5% p.a.)		1975 25	2000
April 4	Prabhu Dr. To Bank A/c (For bill dishonoured and noting charges ₹ 30 paid by the Bank)		2030	2030

Journal of Prabhu

2012 Jan 1	Purchase A/c Dr. To Raj (For goods purchased from Raj)		2000	2000
Jan 1	Raj Dr. To Bills Payable A/c (For acceptance given on bill)		2000	2000
April 4	Bills Payable A/c Dr. Noting Charges A/c Dr. To Raj (For bill dishonoured and noting charges paid by bank)		2000 30	2030

transaction in the Journal of all the parties.

3.9. Renewal of the Bill

Sometimes acceptor of bill finds himself unable to make payment of this acceptance on due date. In such a case he may request the drawer of the bill or the holder to cancel the original bill and draw a new bill. If the holder agrees, a new bill will be drawn either for the full amount of the original bill or for balance of amount in partial payment is made by the acceptor. Sometimes the drawer charges interest for the period of

the new bill.

While passing entries for renewal, the following points should be taken into consideration –

1. First of all an entry for cancellation of original bill has to be passed as for dishonor.
2. Thereafter an entry for charging interest, if any, be passed.
3. Interest will be charged only for the period of new bill.
4. Then the entry for writing and accepting of new bill is passed.
5. Sometimes the drawee pays partial amount of the old bill in cash, then the entry for amount received will be passed. Then the entry for interest and then for new acceptance.

The following are the entries regarding renewal of bill—

Book of Drawer

- | | | | |
|---|---|-----|-----|
| 1. Cancellation of old bill – | Acceptor's | A/c | Dr. |
| | To Bills Receivable a/c | | |
| | (for old bill cancelled) | | |
| 2. If partial amount of old bill - | Cash \ Bank | A/c | Dr. |
| | To acceptor's | A/c | |
| | (For part payment received) | | |
| 3. For charging interest by the drawer. | Cash | A/c | Dr. |
| | To interest | A/c | |
| | (For interest received in cash) | | |
| 4. If interest charged & not received in cash – | Acceptor's | A/c | Dr. |
| | To interest | A/c | |
| | (For interest charged on renewal) | | |
| 5. For writing new bill – | B/R | A/c | Dr. |
| | To Acceptor's | A/c | |
| | (for new acceptance received in including interest) | | |

B. Books of drawee:

- | | | | |
|---|--------------------------|-----|-----|
| 1. Cancellation of old bill | Bills Payable | A/c | Dr. |
| | To drawer's | A/c | |
| | (For old bill cancelled) | | |
| 2. Part payment of the bill in cash. Drawer's | | A/c | Dr. |
| | To cash | A/c | |
| | (for payment in part) | | |
| 3. For allowing interest— | | | |
| 1. If interest paid in cash | Interest | A/c | Dr. |

	To Cash/bank	A/c	
2. If interest is charged ,not paid in cash	Interest	A/c	Dr.
	To drawer's	A/c	
4. When new Acceptance given	Drawer's	A/c	Dr.
	To Bills Payable	A/c	

Note: If the amount of interest is paid in cash by the drawer this amount is not included in the new acceptance.

Illustration 10:

On 1st May 2016 Kalu drew a bill on Raju for his due amount of ₹ 50000 for the period of two months, which was accepted by Raju. On the due date Raju expressed his inability to meet the bill and offered ₹20000 cash and accepted a new bill for the balance plus interest @ 12% per annum for three months. On due date the new bill was duly met by Raju. Pass Journal entries in the books of both parties.

Solution:

Books of Kalu

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2016 May 1	Bills Receivable A/c Dr. To Raju (For acceptance Received)		50000	50000
July 4	Raju Dr. To Bills Receivable A/c (For old bill cancelled)		50000	50000
July 4	Cash A/c Dr. To Raju (For partly payment received from Raju)		20000	20000
July 4	Raju Dr. To Interest A/c (For interest charged on balance due)		900	900
July 4	Bills Receivable A/c Dr. To Raju (For received new bill on acceptance)		30900	30900
Oct 7	Cash a/c Dr. To Bills Receivable A/c (For amount received of the bill)		30900	30900

Books of Raju

2016				
May 1	Kalu	Dr.	50000	
	To Bills Payable A/c			50000
	(acceptance given on the bill)			
July 4	Bills Payable A/c	Dr.	50000	
	To Kalu			50000
	(For old bill cancelled)			
July 4	Kalu	Dr.	20000	
	To Cash A/c			20000
	(For partly payment made)			
July 4	Interest A/c	Dr.	900	
	To Kalu			900
	(For interest payable due)			
July 4	Kalu	Dr.	30900	
	To Bills Payable A/c			30900
	(For acceptance given new bill)			
Oct 7	Bills Payable A/c	Dr.	30900	
	To Cash A/c			30900
	(For payment of the bill)			

$$\text{Note : Interest Amount} = 30000 \times \frac{12}{100} \times \frac{3}{12} = ₹ 900$$

Illustration 11 :

On 14th Feb. 2016 Sajan draws a bill at three months on Pawan for ₹. 7000 which Pawan accepts and returns to Sajan. On the due date of the bill Pawan is able to pay only ₹ 2000 in cash and requests Sajan to draw a new bill at 4 months for the balance plus interest at 6 % per annum. Sajan agrees to this proposal and pays ₹. 2000 and the interest on renewal in cash. Pass necessary journal entries in the books of both the parties.

Solution :**Journal of Sajan**

Date	Particulars	L.F.	Amount Dr. (₹)	Amount (Cr. ₹)
2016 Feb 14	Bills Receivable A/c Dr. To Pawan (For acceptance received on bill)		7000	7000
May 17	Pawan Dr. To Bills Receivable A/c (For the bill cancelled)		7000	7000
May 17	Cash A/c Dr. To Pawan (For part payment received in cash)		2000	2000
May 17	Cash A/c Dr. To Interest (For interest on renewal received in cash)		100	100
May 17	Bills Receivable A/c Dr. To Pawan (For new bill on acceptance received)		5000	5000
Sept 20	Cash A/c Dr. To Bills Receivable A/c (For payment of new bill on Maturity)		5000	5000

Journal of Pawan

2016 Feb 14	Sajan Dr. To Bills Payable A/c (For acceptance given on bill)		7000	₹ 7000
May 17	Bills Payable A/c Dr. To Sajan (For the cancelling of bill)		7000	7000
May 17	Sajan Dr. To Cash A/c (For part payment made to Sajan)		2000	2000
May 17	Interest A/c Dr. To Cash A/c (For interest at 6% p.a. paid in cash)		100	100
May 17	Sajan Dr. To Bills Payable A/c (For acceptance given on new bill)		5000	5000
Sept 20	Bills Payable A/c Dr. To Cash A/c (For the new bill payment on maturity)		5000	5000

3.10 Insolvency of the acceptor:

When the acceptor of the bill becomes insolvent the acceptance is automatically dishonored. Thus the acceptance given by the drawee is treated as cancelled and hence the entries will be passed as in case of ordinary dishonor.

Usually some partial payment is received from the estate of the insolvent as certain percentage of total amount of dues the amount received from his estate is known as dividend and the amount remaining unpaid is also debited to bad debts account in the books of the Drawee :

A. In the books of drawer :

1. Cancellation of acceptance on insolvency of drawee.

Acceptor's	A/c	Dr.
To B/R /bank /endorsed	A/c	
(for acceptance dishonored)		

2. When the proportion amount is received as dividend

Cash / Bnak	A/c	Dr.
Bad debts	A/c	Dr.
To Acceptor's	A/c	
(Amount received and balance written off)		

3. In the books of acceptor or drawee .

1. Cancellation of bill :

Bills Payable	A/c	Dr.
To drawer's personal	A/c	
(for cancellation of bill)		

2. For proportionate amount paid. Drawer's

To Cash / bank	A/c	Dr.
To deficiency	A/c	
(Amount paid in full settlement)		

Illustration 12 : on 1st Feb. 2016 Kalu sold goods of ₹. 30000 to Sonu. On the same day Kalu wrote a bill and sonu accepted it. On the due date, Sonu became insolvent and 70% amount due from her could be realized from her estate. Journalize the above transactions in the books of kalu and sonu.

(Solution) :

Books of Kalu (Drawer)

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2016 Feb 1	Sonu Dr. To Sales A/c (For goods sold to Sonu)		30000	30000
Feb 1	Bills Receivable A/c Dr. To Sonu (For acceptance received on bill)		30000	30000
May 4	Sonu Dr. To Bills Receivable A/c (For bill dishonoured due to insolvency)		30000	30000
May 4	Cash A/c Dr. Bad Debts A/c Dr. To Sonu (For 70% of Sonu's acceptance realised, 30% became baddebts due to her insolvency)		21000 9000	30000

Books of Sonu (Acceptor)

Date	Particulars	LF	Amount Dr. (₹)	Amount Cr. (₹)
2016 Feb 1	Purchase A/c Dr. To Kalu (For goods purchased from Kalu)		30000	30000
Feb 1	Kalu Dr. To Bills Payable A/c (For acceptance given on bill)		30000	30000
May 4	Bills Payable A/c Dr. To Kalu (For acceptance dishonoured due to insolvency)		30000	30000
May 4	Kalu Dr. To Cash A/c To Deficiency A/c (For payment of 70% dues)		30000	21000 9000

Illustration 13 : On 1st Jan. 2016 Ajay sold goods to Basant for Rs.10000 and drew a bill at 4 months duration for the same which Basant accepted. On Jan. 4, 2016 Ajay discounted the bill with his bankers at 6% per annum. On the due date Basant expressed his inability to make payment of the bill. The bank paid noting charges ₹.30. Bashant requested Ajay to take 6000 in partial payment and draw a new bill at 3 months

for the balance and interest there on at 5 % per annum. Ajay agrees to this proposal and the new bill was drawn and was accepted by Basant. On 1st August 2016 Basant becomes insolvent and a dividend of 50 paise in a rupee was received from his estate. Pass the necessary journal entries in the books of both the parties and prepare Ajay's account in Basant' ledger.

Solution:

Journal of Ajay

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2016 Jan 1	Basant Dr. To Sales A/c (For goods sold to Basant)		10000	10000
Jan 1	Bills Receivable A/c Dr. To Basant (For acceptance received from Basant on bill)		10000	10000
Jan 4	Bank A/c Dr. Discount A/c To Bills Receivable A/c (For bill discounted with the bank at 6% per annum)		9800 200	10000
May 4	Basant Dr. To Bank A/c (For bill dishonoured on due date and noting charges paid)		10030	10030
May 4	Cash A/c Dr. To Basant (For part payment received from Basant)		6000	6000
May 4	Basant Dr. To Interest A/c (For interest on renewal charged to Basant at 5% p.a.)		50	50
May 4	Bills Receivable A/c Dr. To Basant (For acceptance received from Basant for the new bill with interest)		4080	4080
Aug 1	Basant Dr. To Bills Receivable A/c (For bill dishonoured due to insolvency)		4080	4080
Aug 1	Cash A/c Dr. Bad Debts A/c To Basant (For dividend of 50 paise in a rupee received from Basant)		2040 2040	4080
	Total		58320	58320

Ledger of Ajay
Basant's Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2016				2016			
Jan 1	To Sales A/c		10000	Jan 1	By Bills Receivable A/c		10000
May 4	To Bank A/c		10030	May 4	By Cash A/c		6000
May 4	To Interest A/c		50	May 4	By Bill Receivable A/c		4080
Aug 1	To Bills Receivable A/c		4080	Aug 1	By Cash A/c		2040
				Aug 1	By Bad debts A/c		2040
			24160				24160

Journal of Basant

2016						₹
Jan 1	Purchase A/c	Dr.	10000			10000
	To Ajay					
	(For purchased of goods from Ajay)					
Jan 1	Ajay	Dr.	10000			10000
	To Bills Payable A/c					
	(For acceptance given to Ajay on bill)					
May 4	Bills Payable A/c	Dr.	10000			
	Noting charges A/c	₹	30			
	To Ajay					10030
	(For bill dishonoured on due date and noting charges paid by Ajay)					
May 4	Ajay	Dr.	6000			6000
	To Cash A/c					
	(For part payment made to Ajay)					
May 4	Interest A/c	Dr.	50			50
	To Ajay					
	(For interest on renewal charged by Ajay)					
May 4	Ajay	Dr.	4080			4080
	To Bills Payable A/c					
	(For acceptance given on the new bill with interest)					
Aug 1	Bills Payable A/c	Dr.	4080			4080
	To Ajay					
	(For bill dishonoured due to insolvency)					
Aug 1	Bills Payable A/c	Dr.	4080			2040
	To Cash A/c					2040
	To Deficiency A/c					
	(For bill met on due date by paying 50 paise in a)					
	Total		58320			58320

Promissory note :

Sometimes the purchaser of goods himself writes a note and gives it to the seller after putting his signature. It is called Promissory note. According to sec.4 of the Indian negotiable act of 1881” 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 to or to the order of certain person”.

According to sec 31(2) of Indian reserve bank act, the promissory note cannot be payable to a bearer. Acceptance, like bills of exchange is not needed in case of promissory note , because it is a promise, itself from the beginning.

Parties of promissory note –

1. The maker or writer of promissory note (Debtor)
2. The payee (creditor)

Debtor is the writer and creditor a payee of promissory note –

Characteristics of promissory note –

1. Promissory note must be in writing.
2. Promissory note must be signed by the writer
3. Promissory note is neither a bank note nor a currency note.
4. Promissory note must be unconditional.
5. The amount to be paid by promissory note must of specified or definite.
6. Promissory note must be duly stamped according to value.
7. Promissory note cannot be made payable to bearer.
8. The name of the payee of promissory note must be mentioned which should be definite.
9. There should be clear promise in promissory note to pay a certain sum of money.
10. The amount of promissory note may be paid after a certain period of time or on demand.

Proforma of Promissory Note

₹. 25000	Pratap Nagar
Stamp	March 11,2017
Two months after date, I promise to pay is Shri Vishnukant or order a sum of Rupees Twenty five thousand only, for value received.	
Sign. Ashok	

In the above promissory note. Ashok is the promisor or the writer and Vishnukant is the receiver.

Utilities of Promissory Note :

In modern days promissory note is very much in vogue or in use. Promissory note is a legal tender. A suit can be filed by the promise if in case of its dishonor. As such, usually the payment is made by the promise of promissory note on due date. Promissory note is very useful in private and government debts. Purchase and sale transactions have increased due to credit transactions or non cash transactions; it is a conclusive proof of debt by a debtor. Promissory note saves time which may be wasted in sending reminders for payment since both the parties are aware of the date of payment.

Difference between promissory note and bill of Exchange –

Basis of Difference	Bill of exchange	Promissory note
Drawer	It is written by creditor	It is written by debtor himself
Copies	Only one copy in case of local bill is prepared but three copies in case of foreign bills.	Only one copy is prepared whether local or foreign.
Parties	There may be three parties to bill of exchange the drawer, drawee and payee	There are only two persons to promissory note writer and creditor.
Payee	In bill of exchange maker and payee may be one person only	In promissory note maker cannot be a payee.
Acceptance	A bill of exchange must have the acceptance of debtor.	Acceptance not needed in promissory note.
Liability	In this the liability of drawer is secondary he is liable only when the acceptor refuses to make payment	In case of promissory note the Liability of the maker is the primary.
Relation	The maker of bill is directly related to acceptor or debtor.	The relation of writer of promissory note is directly with the creditor.
Nature	Bill of exchange is an unconditional order to make payment according to order	Promissory note is a promise unconditional to make payment .
Order	It is an order to make payment	It is a promise to make payment
Stamp duty	Payable on demand but stamp duty is not necessary	It is always necessary to stamped.
Information of dishonour	It is the duty of the holder to furnish information of its dishonour to maker or endorser.	It is not necessary to furnish any information of its dishonour
Noting	Noting is necessary when dishonour	It is not necessary to get to notary public.

Hundi –

Hundi has not been included in negotiable instrument under negotiable instrument act of 1881 but according to tradition and convention, Hundi should also be treated negotiable instrument. But Hundi differs from negotiable instrument in certain aspect. But as regards the usage of Hundi some customs and traditions have been established and these are fully recognized under the law.

Indian central survey committee has written explaining about the legality in 1931 that there is no legal definition of Hundi and it is controlled by means of customs and traditions prevailing at various places, and where no such customs are in usage, the provisions of negotiable instrument act will be followed by including Hundi under bill the head bill of exchange.

The legal position of Hundi is still the same as stated clearly by the committee.

Hundi is a bill of exchange written in local language under which the maker gives order to the drawee to make payment of certain sum of money to himself or to his order on a certain date. Negotiable act is not applicable for Hundi. Thus its use is very much reduced. Hundi does not require any sort of acceptance like bill of exchange. The amount payable is written in Hundi many times so that it may not be altered. The amount is written as half the amount of double of the amount of actual payment. The rules regarding Hundi are not similar at all places. The rules differ from one place to another place. They are of two types -

1. Darshni Hundi for at sight Hundi.
2. Muddti Hundi or term hundi.

The payment of Darshni Hundi has to be made on presentation like bill of exchange at sight. While the payment of other Hundies are required to be made after a certain period of time like Term bill of Exchange the term Hundies are, NAM JOG HUNDI, DHANI JOG HUNDI, JOKHIM HUNDI, JABABI HUNDI, and SHAN HUNDI etc.

Importance of Hundi – Hundies were used in most of the cases in ancient days but in modern days the use of Hundies is almost negligible due to the working by means of banks. Hundies had an important role in inland trade of India the Hundies used be written for payment of goods purchased on credit, for mutual financial help and for acquisition of loan a businessman used to meet his short term financial necessities by listing Hundies. And purchase goods without making cash payment. Hundies are helpful in enhancing the business.

Proforma of Hundi

<p>॥ श्री लक्ष्मी जी सदा सहाय ॥</p>
<p>संख्या 125</p> <p>सिद्ध श्री जयपुर शुभ स्थाने भाई राधा मोहन लिखी निवाई से मोहन लाल की राम राम बचना जी। अपंरच हुण्डी नग एक आपके आं पर करी। रु. 5000 अंकेन पांच हजार जिसके नीमे दो हजार पांच सौ के दूने पूरे यहां रखे भाई सोहनचन्द जयपुर वालों के पास मित्ती फाल्गुन सुदी दशमी के तीस दिन पिछे नामे नाम जोग हुण्डी चलन कलदार देना। हुण्डी लिखी फाल्गुन सुदी पं.सं. 2044।</p> <p style="text-align: right;">द. मोहन लाल</p>

फाल्गुन सुदी हुण्डी के पृष्ठ भाग पर

नीमे के नीमे रु. एक हजार दो सौ पचास के चौगुने चौकस कर देना।

श्री पन्नी भाई राधामोहन

टिकट

जयपुर

₹. 5000

Bills receivable and bills payable books

Where transactions relating to bill of exchange are large in numbers separate books of original entry are maintained in place of Journal. The bill books are just like other subsidiary books, e.g. cash book, purchase book, sales book, purchase return and sales return book etc. The bill book may be of two types –

1. Bills Receivable book
2. Bills Payable book

These books are also used for promissory notes and Hundies. If the number of bill receivable and payables are less in number, the entries relating to them are passed in journal or may be recorded in journal proper, but the number of bill transactions are large in numbers the same should be recorded in separate books to be kept for bill receivables and payables in order to save time.

Keeping separate books for bill receivables and bill payables will help in rewarding particulars in separate books called Bills Receivable and Bills Payable books. These books help in keeping record of various acceptances at one place.

1. **Bills Receivable book** – Acceptances received are recorded in this book. A specimen Performa of this book is of this book is given below –

Bills Receivable book

S.No.	Date of Receipts	From Whom Received	Drawer	Acceptor	Date of Bill	Term	Due date	L.F.	Amount (₹)	Remarks
1	2	3	4	5	6	7	8	9	10	11

- 2- **Bills Payable book** - this is also a book of original entry and the details regarding acceptances given by the business are recorded in this book. Its specimen of format is as under –

Bills Payable book

S.No.	Date given	To Whom given	Payee	Where Payable	Date of Bill	Term	Due date	L.F.	Amount (₹)	Remarks
1	2	3	4	5	6	7	8	9	10	11

Illustration 14: Enter the following transactions in bill books –

2017

March 6 Mohit Bros. accepted a bill for Rs 1000 at 2 months date

March 7 Received a bill from Geeta Trading Company at 2 months date Rs. 1450

March 8 Accepted a bill at 2 months for Rs. 1250 drawn by Hansraj.

March 9 Received a bill for Rs. 960 at 3 months duly accepted by Mohan.

March 10 Accepted Prateek's draft at 3 months for Rs.1680 for the payment of which would be given to Mahesh

March 15 Accepted a bill draw by Gyan chand Rs. 600 at one month.

Solution:

Bills Receivable book

S.No.	Date of Receipts	From Whom Received	Drawer	Acceptor	Date of Bill	Term	Due date	L.F.	Amount	Remarks
1	2	3	4	5	6	7	8	9	10	11
1	2017 March 6	Mohit Bros	Self	Mohit	March 6	2 Months	2017 May 9		1000	
2	March 7	Geeta trading co.	Self	Geeta trading co.	March 7	2 Months	May 10		1450	
3	March 9	Mohan	Self	Mohan	March 9	3 Months	June 12		960	
		B/R a/c Dr							3410	

Bills Receivable book

S. No.	Date of given	To Whom given	Payee	Where Payable	Date of Bill	Term	Due date	L.F.	Amount	Remarks
1	2	3	4	5	6	7	8	9	10	11
1	2017 March 8	Hans Raj	Self	-	March 8	2 Months	2017 May 11		1250	
2	March 10	Pareek	Self	-	March 10	3 Months	June 13		1680	
3	March 15	Gyanchand	Self	-	March 15	1 Months	April 18		600	
		B/P a/c Cr							3530	

Posting from bills receivable book into ledger –

Posting from bills receivable book is made in bill receivable account and the person at accounts of those persons who have accepted the bills. In B/R a/c on debit side the words “To Sundries” as per B/R book is written. Similarly personal accounting of those persons from whom various acceptances are received will be recorded on credit side as “By B/R account” and the related amount is written in amount column.

Posting from bills Payable book into ledger –

Posting from bills payable book is made in B/P a/c and in personal account of persons to whom bills are given. The book shows names of the persons or parties who have received bills from us. These persons are the receivers of bills so posting will be made on the debit side in their accounts by writing “To B/P a/c”. Total of bill the B/P will be credited in Bills payable a/c by writing “By sundries as Bills payable Book”.

Illustration 15 : Post into ledger the entries recorded in B/R and B/P Books in Illustration 14.

Solution:

Ledger

Dr.

Bills Receivable A/c

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017 March 31	To Sundries as per B/R Book		3410				

Mohit Bros's A/c

				2017 March 6	By B/R a/c		1000
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Geeta Trading Co's A/c

				2017 March 7	By B/R a/c		1450
--	--	--	--	-----------------	------------	--	------

Mohan's A/c

				2017 March 9	By B/R a/c		960
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Bills Payable A/c

				2017 March 31	By Sundries as Per B/P Book		3530
--	--	--	--	------------------	--------------------------------	--	------

Hans Raj's A/c

2017 March 8	To B/P a/c		1250				
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Pareek's A/c

2017 March 10	To B/P a/c		1680				
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Gyanchand's A/c

2017 March 15	To B/P a/c		600				
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Summary

- Bill of exchange is an instrument in writing an unconditional order signed by the drawer directing the drawee to pay a certain sum of money to him or to his order of a certain person or to the bearer.
- Bill of Exchange has 3 parties –
 - (1) Drawer or creditor
 - (2) Drawee or Debtor
 - (3) Payee or Receiver
- Types of Bill of Exchange
 - (1) On the basis of period – (1) Term bill, (2) Sight bill.
 - (2) On the basis of place – (1) Inland bill (2) Foreign bill
 - (3) On the basis of objective – (1) Trade bill, (2) Accommodation bill
- Merits of Bill of Exchange
 - (1) Suitable for expanded field of trade
 - (2) Evidence of Debt
 - (3) Legal Document
 - (4) Endorsement possible
 - (5) Discounting facility
 - (6) Convenient mode of foreign payment
 - (7) Convenient for the buyer of goods

- (8) Relief from sending reminders.
- Days of grace – 3 days of grace are added to find out date of maturity of the Bill.
- B/R and B/P- It is B/R for the receiver or the Drawer
It is B/P for the person who is to make payment.
- Drawer of Bill may use acceptance in following ways.
 - (1) He may retain the bill till due date.
 - (2) He may get it discounted from the bank.
 - (3) He may endorse it to his creditors.
 - (4) He may send it to bank for collection.
- Subsidiary books for Bills of Exchange
 - (1) Bills Receivable Books
 - (2) Bill payable book
- Promissory Note – It is an instrument in writing with an unconditional undertaking signed by the Maker to pay certain sum of money to or to the order of certain person.
- There are only two parties in promissory Note.
 - (1) Maker,
 - (2) Receiver or payee.
- Hundi is a sort of Bill written in local language. It is a document in which the Drawer orders for payment of certain sum of money after a specified period to himself or to a person named there in.
- Two types of hundies –
 - (1) Darshni Hundi
 - (2) Term or Mudawati Hundi

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- Subsidiary books for Bills of Exchange

- ### (1) Bills Receivable Books

- (2) Bill payable book

- **Promissory Note** – It is an instrument in writing with an unconditional undertaking signed by the Maker to pay certain sum of money to or to the order of certain person.

- There are only two parties in promissory Note.

- (1) Maker, (2) Receiver or payee.

- Hundi is a sort of Bill written in local language. It is a document in which the Drawer orders for payment of certain sum of money after a specified period to himself or to a person named there in.

- Two types of hundies—

- (1) Darshni Hundi (2) Term or Mudawati Hundi

Important Words

- (1) Bill of Exchange
- (2) Promissory Note
- (3) Drawer
- (4) Drawee or Acceptor
- (5) Accommodation Bill
- (6) Bill at sight
- (7) Tenure Bill
- (8) Bills Receivable
- (9) Bills payable
- (10) Days of grace
- (11) Discounting
- (12) Endorsement
- (13) Dishonor
- (14) Renewal of Bill

- (2) Promissory Note

- (3) Drawer

- (4) Drawee or Acceptor

- (5) Accommodation Bill

- (6) Bill at sight

- (7) Tenure Bill

- (8) Bills Receivable

- (9) Bills payable

- (10) Days of grace

- ## (11) Discounting

- (12) Endorsement

- (13) Dishonor

- (14) Renewal of Bill

- (15) Noting charges
- (16) Insolvency
- (17) Promissory Note
- (18) Hundi
- (19) Date of Maturity.

Questions for exercise

Multiple choice questions or objective type questions

1. Bills of Exchange is paid
 - (A) By Acceptor
 - (B) By Endorser
 - (C) By Maker
 - (D) By Endorser
2. Bills which are drawn and accepted in one country are called-
 - (A) Inland Bills
 - (B) Darshni Bill
 - (C) Foreign Bill
 - (D) Accommodation Bill
3. How many days of grace are added to find out the due date of the bill?-
 - (A) Four Days
 - (B) Two Days
 - (C) Three Days
 - (D) None of these
4. Promising Note is a
 - (A) Order letter
 - (B) Payment Letter
 - (C) Promissory letter
 - (D) Acceptance letter
5. An acceptance written on 12th May, 2016 of 3 months will mature on-
 - (A) 15 August, 2016
 - (B) 14 August, 2016
 - (C) 16 August, 2016
 - (D) 12 August, 2016
6. Name the Account debited by the Acceptor on payment of bill on due date –
 - (A) Drawer's A/C
 - (B) B/PA/C
 - (C) Payee's A/C
 - (D) B/RA/C
7. Noting Charges are paid-
 - (A) On Endorsing of Bill
 - (B) On Discounting of Bill
 - (C) On collection of Bill
 - (D) As evidence for bill being dishonored
8. An acceptance of ₹. 3,000 for 4 months was immediately discounted @ 5% per annum discount. The amount of discount is-
 - (A) ₹. 200
 - (B) ₹. 100
 - (C) ₹. 60
 - (D) ₹. 50
9. Bill of Exchange is a-
 - (A) Real A/C
 - (B) Normal A/C
 - (C) Personal A/C
 - (D) unreal A/C

10. The due date of an acceptance written on 31st March, 2016 for a period of 3 months is-
- (A) July 3, 2016 (B) June 10, 2016
(C) June 6, 2016 (D) July 5, 2016

Answers

1(A), 2(A), 3(C), 4(C), 5(B), 6(B), 7(D), 8(D), 9(A), 10(A).

Very short Answer Type Question

1. Write two characteristics of bill of exchange.
2. How many parties are there in promissory Note?
3. What is meant by sight Bill?
4. Write two merits of bill of exchange.
5. Give Journal Entry for discounting the bill from the bank.
6. Which type of Account is bill of exchange? Name them.
7. Name the parties in a bill of exchange.
8. What will be the Journal Entry for the endorsement of bill?
9. How many types of Bill of Exchange Books are there? Name.
10. Find out due date of a Bill written on 2nd October, 2003 for 2 months after date.
11. What is meant by renewal of a bill?
12. Name the officer who certifies dishonor of an Acceptance.
13. Write two points of difference between bill of exchange and Promissory Note.
14. Mahesh paid to Ashok the amount of his Bills payable worth ₹1, 000 after deducting ₹ 20, one month before the date of maturity. Make Journal Entry in the books of Ashok.
15. When is noting charges paid?

Short Answer Type Questions:

1. Give a definition of bill of exchange.
2. Define Promissory Note.
3. Write two differences between sight Bill and Term Bill.
4. Fill in the blanks-
Cash A/C Dr
Cash A/C Dr
 To Bills payable A/C
 (Bill met before maturity)
5. Give format of B/R Book.
6. Give Specimen of bill of exchange.
7. What is meant by Discounting of a bill?
8. Give format of Bills payable Book.

9. On which side of which Account the total of Bill Receivable is posted ?
10. What Journal entry will be passed in the books of Endorser When an endorsed acceptance is dishonored?
11. What are Noting charges? Who pays these expenses?
12. What is a foreign Bill of Exchange?
13. Find out the due date of a Bill which was drawn on March 12, 2016 but accepted on March 20, 2016 for 30 days after date.
14. Sita Ram draws a Bill on Mahesh on 23-07-2016 for a period of 6 months. What will be the date of maturity of this Bill .
15. Write types of Bill of Exchange on the basis of period.
16. Bill for Collection A/C Dr
 To Bills receivable A/C
 When does the trader pass this entry?

Essay type Questions:

1. What is meant by Bill of Exchange? What are its advantages? Illustrate.
2. Explain the difference between bill of exchange and promissory Note.
3. What do you understand by dishonor of an acceptance? Explain.
4. Explain the process of calculating Due Date in detail giving examples.
5. What do you understand by acceptance of a Bill? Write various types of Acceptances.

Numerical Questions:

1. Calculate due dates of bills in the following cases-

Date of Bill	Period of Bill
(1) 23 October, 2016	3 months
(2) 15 November, 2016	60 days
(3) 12 July, 2016	1 month
(4) 29 May, 2016	2 months
(5) 29 December, 2016	2 months
(6) 30 June, 2016	3 months

Answer: (1) 25 January, 2017 (2) 17 January, 2017 (3) 14 August, 2016
 (4) 1 August, 2016 (5) 3 March, 2017 (6) 3 October, 2016.

2. On 1st Jan. 2017 Ram sold goods on credit to Shyam for ₹ 10000 and drew a bill upon Shyam for two months which was accepted by Shyam on due date met the bill. Give Journal entries in the books of both the parties.
3. On 1st April 2016 a bill for ₹ 8000 was drawn for three months by Ravi on Mangal who accepted the bill, Ravi discounted the bill on 4th April 2016 at 5% per annum with his bankers. The bill was duly met on maturing make entries in the Journal of both the parties.

4. On 15th May, 2016 Paras draws a bill on Ashok at four months for Rs. 60000 due from latter. Ashok accepts the bill and returns it. On 20th June, 2016 Paras endorsed the bill to Indra on payment of his debt. On due date the bill is met. Pass the necessary Journal entries in the books of Paras . Ashok and Indra.
5. A is indebted ₹ 3000 to B on 20th Jan ,2016 for which he accepts a bill for three months drawn by B deposits the bill into his collection . The bill is duly paid on maturity. Pass journal entries in the books of A&B.
6. X drew a bill of ₹. 8000 on Y. Y returned it to X after acceptance. show that entries will be passed in the books of X if:
 - (1) It is retained by x till maturity and amount is received on due date. Or
 - (2) It is discounted with the bankers for ₹ 7500, or
 - (3) It is endorsed to Z, one of his creditors.
7. With reference to the information given in Question No. 6, give entries in the books of X and Y assuming that bill is dishonored on due date.
8. On 20th Oct. 2016 Priya sold goods to Ritu for ₹ 20000 and drew a bill for it upon Ritu for four months. Which was accepted by Ritu . Having surplus funds, Ritu paid off the bill on 23rd Dec, 2016 after deducting rebate at 12% per annum. Pass the journal entries in the books of Priya and Ritu.
9. On 15th Dec., 2016 Raju draws a bill on Naman for ₹ 50000 for three months and the same is returned to Raju after acceptance. Naman dishonored the bill on due date. Record the transaction in the books of Raju and Naman .
10. On 20th Aug, 2016 Ankit sold goods for ₹ 9000 to Prakash and accepted a bill from him for the same amount for four months. On 28 Aug. 2016 Ankit endorsed this bill in favour of Shiv. On the date of maturity the bill was dishonoured and the Shiv paid noting charges ₹ 100. Enter the transaction in the Journal of Ankit , Prakash and Shiv.
11. On 1st Jan. 2016 Ramesh sold goods for Rs 70000 to Ganesh and Ganesh accepted a bill of Ramesh for it for three months. On 4th Jan. 2016 Ramesh discounted the bill with his Bankers at discount at 12 per annum. On due date he did not honour the bill and bank paid Rs. 800 as noting charges. Record these transactions in the Journal of Ramesh and Ganesh .
12. On 1st June 2016 Sawan sold goods for ₹. 15000 to Jagan and drew upon him a bill for four months. Jagan accepted the bill and returned it to Sawan . On 1st Oct. 2016 Jagan expressed his inability to meet the bill on due date and requested to Sawan to draw a fresh bill for three months with ₹.500 as interest. Sawan agreed and received a new acceptance from Jagan for ₹. 15500. Pass Journal entries in the books of Sawan and Jagan .

13. Vikas sold goods to Akash for ₹.16000 13th June 2016 for which the later accepted 4 bills of ₹. 4000 each payable after 2 months, 3 months, 6 months and 8 months respectively. Vikas retained the first bill till maturity. The second bill was sent to bank for collection. The third bill was endorsed in favor of Mahesh. The fourth bill was discounted with his bankers at 12% per annum. The first bill was met on the due date. As regards the second bill the drawee approached Vikas on 23rd September 2016, paid him Rs. 3000 and requested him to draw a fresh bill for the balance together with interest at 12% per annum. The term of this bill was 3 months and the bill was duly paid on maturity as had been the third bill before it. Akash was declared insolvent on 31st December 2016 and Vikas's bankers accordingly debited Vikas on that day in respect of the forth bill. Only 50 paisa in a rupee could be recovered from Akash's estate on 15th January 2017. Make necessary Journal entries in the books of Vikas and Akash .
14. A sold goods to the value of ₹. 2000 to B taking a bill at three months for the amount. A discounted the bill at 5% p.a. with his bank. On maturity the bill was returned by the bank dishonored with ₹. 5 as noting charges. B paid ₹. 500 and the noting charges and gave another bill at three months for ₹. 1500 together with 5% p.a. interest. Before maturity he became bankrupt and ultimately paid to his creditors 75 paisa in a rupee. Pass entries in the books of A and B and prepare B's Account in the books of A.
15. Journalize the following transactions relating to bills in the books of Dalveer.
- Dalveer's acceptance to Kumar for ₹. 8000 was discharged by an immediate cash payment ₹. 3000 and an acceptance of a fresh bill for the balance plus ₹. 50 interest.
 - Kamlesh's acceptance to Basu for ₹. 6000 was discharged by an immediate cash payment at a Discount of ₹. 200.
 - Dalveer's acceptance to Sem for ₹. 5000 was discharged by Basu acceptance to Dalveer for a similar amount.
 - An acceptance received by Dalveer for ₹. 9000 which was sent to the bank for collection was returned by the bank as being dishonored .
 - Suresh's acceptance to Dalveer for ₹. 10000 which was endorsed to Naresh was dishonored by non-payment.
16. Enter the following transaction in the bills Receivable and Bills payable Books of Ashok Kumar 2017
- | | | ₹ |
|--------|---|------|
| Jan 1 | Received from Ravi his acceptance at 2 months | 400 |
| Jan 5 | Accepted Shyam's draft for 3 months | 2500 |
| Jan 10 | Received a bill from Ram for 3 months | 4000 |
| Jan 16 | Acceptance given to Kamlesh at 2 months | 2000 |

Jan 18	Received a bill from Mahesh for 5 months	2500
Jan 21	received a promissory Note from Satish for 3 months	2050
Jan 22	Satish's promissory Note discounted with bank for ₹. 2000	
Jan 30	Accepted Vijay's draft for ₹. 7600 payable after 4 months.	

17. Prepare Swati's Bills Receivable book from the following transaction and post them into ledger.
2016

Oct 2	Acceptance Received from Ashok at three months	₹. 1500
Oct 10	Received a bill duly accepted by Monu at 2 months for	₹.2500
Oct 20	Drew a bill upon Suresh at four months for ₹. 3000, which accepted by him.	
Oct 25	Received a bill duly accepted by Mamta Payable after 90 days for	₹. 1800
Oct 30	Received a 2 months promissory note of ₹. 1300 from Ajay.	

18. Enter the following transactions into the Bills Payable book of Ankit and Post them into Ledger
2016

Nov 5	Accepted a bill of Manisha for ₹. 800 payable after two months.
Nov 15	An acceptance given to Ankita at three months for ₹. 2500.
Nov 22	Accepted a 60 days bill of Rekha for ₹. 4000.