

# Bills of Exchange

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## Bills of Exchange and Promissory Note

### Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Bill of Exchange
- Features of Bill of Exchange
- Parties to Bill of Exchange
- Advantages of Bill of Exchange
- Meaning of Promissory Note
- Features of a Promissory Note
- Parties to a Promissory Note
- Distinction of Bill of Exchange and Promissory Note

### Introduction

We know that more often goods are sold and purchased either in cash or on credit. In case of cash sales, the seller is more secured as he receives the cash on the spot; hence such sales involve low risks. On the other hand, in case of credit sales, the seller is not so certain about getting the payment. Thus, in this sense, we can say that credit sales involve higher risk. Here, comes the role of Bills of Exchange and Promissory Notes. These act as tools to assure the seller regarding the receipt of sale proceeds and thereby, reducing the risk involved.

In this lesson and forthcoming lessons, we will mainly focus on various aspects of Bills of Exchange and Promissory Notes.

### Meaning of Bill of Exchange

From the above discussion, we can interpret that a Bill of Exchange is something that reduces our credit risk, Let's understand this concept better with the help of an example; Omkar being the seller sold goods worth Rs 10,000 to Ishaan being the buyer on credit. In the given case, Omkar has sold goods to Ishaan believing that on some future date he will make payment. Now, we can analyse that Omkar is little skeptical regarding the certainty of receipt and time of such payment. In order to set an exact date of payment and to make his transaction legally valid, Omkar will draw a document in writing. Such a document is called Bills of Exchange. Hence, we can derive the meaning of Bills of Exchange from this example, It is a document in writing given by seller to buyer, directing buyer to pay his debt amount on a date mentioned in it. In simple words, a Bill of Exchange is a credit instrument. As per Negotiable Instrument Act, 1881, "*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."*

For Example: Arjun sold goods to Sahil worth Rs 10,000 on July 18, 2013. On the same day, Arjun drew a bill of Rs 10,000 on Sahil for 90 days which is duly accepted on the same date. Below is a representative format of the Bill.

Bill of Exchange	
Faridabad, 18 July 2013	Amount - Rs 10,000
At <u>90 days after sight</u> pay against this Sole Bill of Exchange to the	
order of <u>Ourselves</u> the sum of <u>Rupees Ten Thousand</u> for value <u>Received</u>	
To: Sahil Azadpur, Delhi 110033  Drawn under Arjun & Associates Faridabad, Haryana 121001	<div>ACCEPTED</div> For and on behalf of: Arjun & Associates  Arjun, Owner

### Forms of Bills of Exchange

Bills of exchange are majorly of two types:

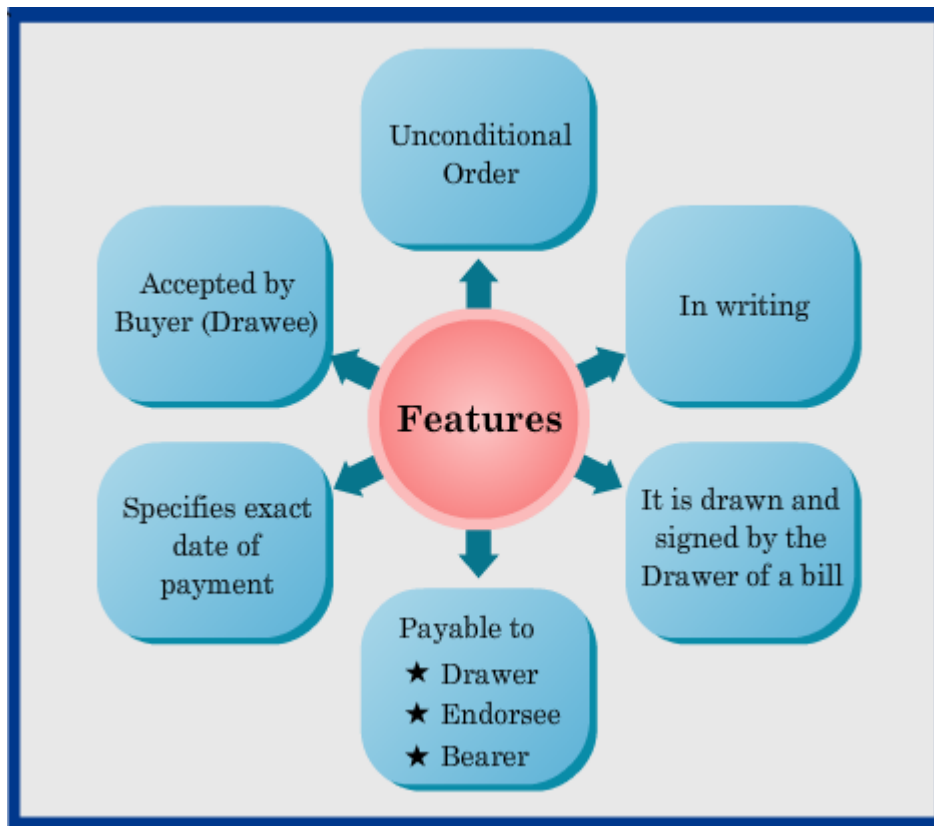
**1) Trade Bill:** Trade as we know means an exchange between two or more parties whereby all of them have something or the other to offer in a transaction. Hence, it is either drawn in case of exchange of good or when a loan is given. Therefore, the drawer of such a bill is the seller or creditor and the drawee is the buyer or debtor. Banks also discount (i.e. pay the amount written in the bill before the due date) such bills willingly. Also, a legal action can be initiated in case of a default because it works as an evidence of the transaction between the parties involved.

**2) Accommodation Bill:** It is only drawn and accepted when funds are provided to one of the parties or both parties involved. Hence, is drawn with the motive of mutually helping each other. No legal remedy is available for such kinds of bill as they are self drawn bills.

### Features of Bills of Exchange

1. It is an **unconditional order directing a certain person** to pay amount specified in it.
2. It is always in **writing**.

3. It is drawn and signed by the Drawer of the bill.
4. This amount is ***to be paid either to person whose name is specified in the bill (Drawer) or on to order of that person (Endorsee) or bearer of instrument.***
5. It should be ***accepted by buyer.***
6. It also specifies ***exact date*** till which amount is to be paid.

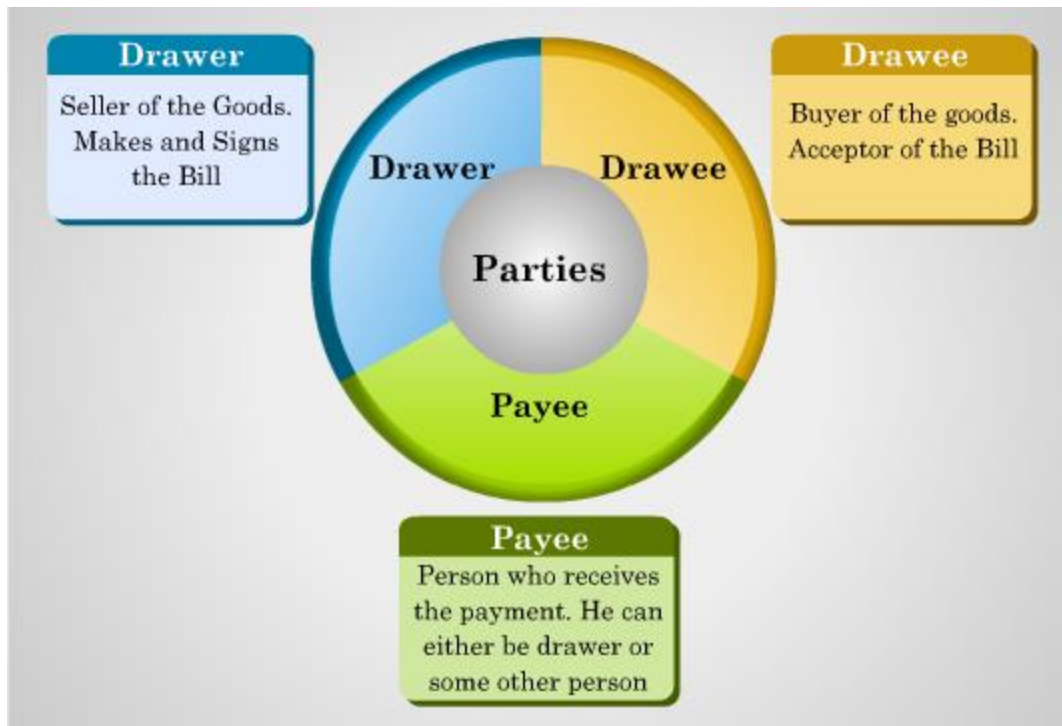


### Parties to Bills of Exchange

**Drawer:** The Person who makes and signs the Bill of Exchange is known as Drawer. He/ She is the seller of the goods.

**Drawee:** The Person who accepts the Bill of Exchange is known as Drawee. He/ She is the buyer of the goods.

**Payee:** Payee is the Person whose name is mentioned in the Bill of Exchange, to whom the payment is to be made. Payee can be either Drawer or some other person.



## Advantages of Bills of Exchange

The advantages of bills of exchange are listed below.

- 1. Legally Valid:** It is a legally valid written, signed and stamped acceptance of the debt by the Drawee. In case of a failure on part of Drawee to honour his commitment a suit against him/her can be filed in the court of law on the basis of the Bill.
- 2. Can be Endorsed:** Bill of Exchange can be easily endorsed (or transferred) in favour of Creditors or Suppliers or any other person.
- 3. Ensures timely payment:** As date of payment is fixed in the Bill of Exchange, so this ensures seller that he/she will receive his/her payment in full and in time. Due to this certainty he/she can plan his future cash flows.
- 4. No fear of dishonour, easily recoverable:** As Bill of Exchange is a legally acceptable document, so in case it gets dishonoured then the debt can be easily recovered as compared to other debts.
- 5. Can be discounted:** It can be discounted with the bank any time before its maturity. It provides liquidity to the instrument because, whenever drawer requires cash then he/she can discount the bill of exchange with the Bank. Bank will deduct some amount of discounting charges and pay the remaining amount to Drawer.

## Meaning of Promissory Note

A promissory note is an unconditional promise in writing given by buyer (or creditor) to seller (or debtor) to pay amount of money specified therein to the seller or to the order of seller or to bearer.

As per Negotiable Instrument Act, 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 only to or to the order of a certain person or to the bearer of the instrument”.

For Example : Shri Amal sold goods to Shri Ram worth Rs 10,000 on July 12, 2013 . On the same day Shri Ram drew a promissory note of Rs 10,000 to be paid 3 months after date. Below is a representative format of the bill.

Promissory Note	
Rs. 10,000	Guwahati June 12, 2013
Three months after date, I Shri Ram promise to pay Shri Amal or order a sum of Rupees Ten Thousand, value received.	
To: Shri Amal, Nalbari	For and on behalf of: Shri Ram & Associates <b>Ram</b> Ram, Owner

### Features of Promissory Note

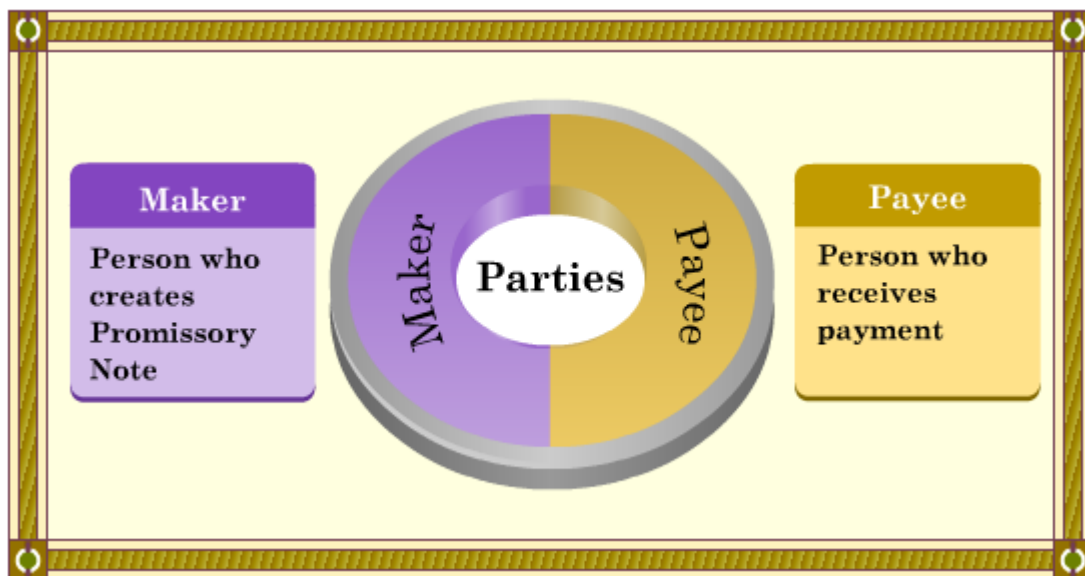
1. It is an **unconditional promise** in writing.
2. It is a promise to pay **Specified Amount on demand or at a determinable future date**.
3. It pays amount to the person **whose name is specified (Payee) or to his order (Endorsee) or to bearer**.
4. It is drawn as well as **signed by maker**.



### Parties to Promissory Note

**Maker:** He is the person who creates Promissory Note and promises to pay amount to the debtors.

**Payee:** He is the person who is entitled to receive payment. Payee can be seller or person who is specified by seller or bearer.



### Distinction between Bills of Exchange and Promissory Note

The major points of difference between Bills of Exchange and Promissory Note have been tabulated below.

Basis of Distinction	Bills of Exchange	Promissory Note
Number of Parties	Parties involved:	Parties involved:

	a. Drawer b. Drawee c. Payee	a. Maker b. Payee
Drawn by	Creditor or Drawer or Purchaser	Debtor (Maker)
Order / Promise	It is an order to pay debt.	It is a promise to pay debt.
Requirement of Acceptance	It attains validity only when it is accepted by the drawee.	It does not require any acceptance.
Liability of drawer	Drawer's liability is of secondary nature i.e. it will arise only if acceptor fails to pay.	Drawer (maker) Liability is of primary nature.
Drawer and Payee	Drawer and payee can be the same person.	Drawer (maker) and payee cannot be same person
Noting in case of Dishonour	Compulsory	Not compulsory
Number of Copies	If there are foreign bills, three copies are required and in other cases, only one copy is required.	Single copy is prepared; whether, it is a foreign bill or any other type of bill.
Stamping	Stamp is necessary for all types of bills. However, if bill is payable on demand, then stamp is not required.	Stamp is required for promissory note.

## Meaning of Important terms used in Bills of Exchange

### Objective

After going through this lesson, you shall be able to understand the following concepts.

Meaning of Important terms used in chapter of Bills of Exchange.

- Drawer
- Drawee
- Payee
- Term of a Bill
- Days of Grace
- Due Date
- Date of Maturity
- Bill at Sight or Demand
- Bill after Date / after Sight
- Discounting of Bill

Endorsement of Bill  
Bills sent for Collection  
Dishonour of Bill  
Noting of Bill

### ***Introduction***

After gaining an insight on the basic concepts regarding the Bills of Exchange and Promissory Notes in the first lesson, let us try and understand the basic terminology to be used while dealing in Bills of Exchange.

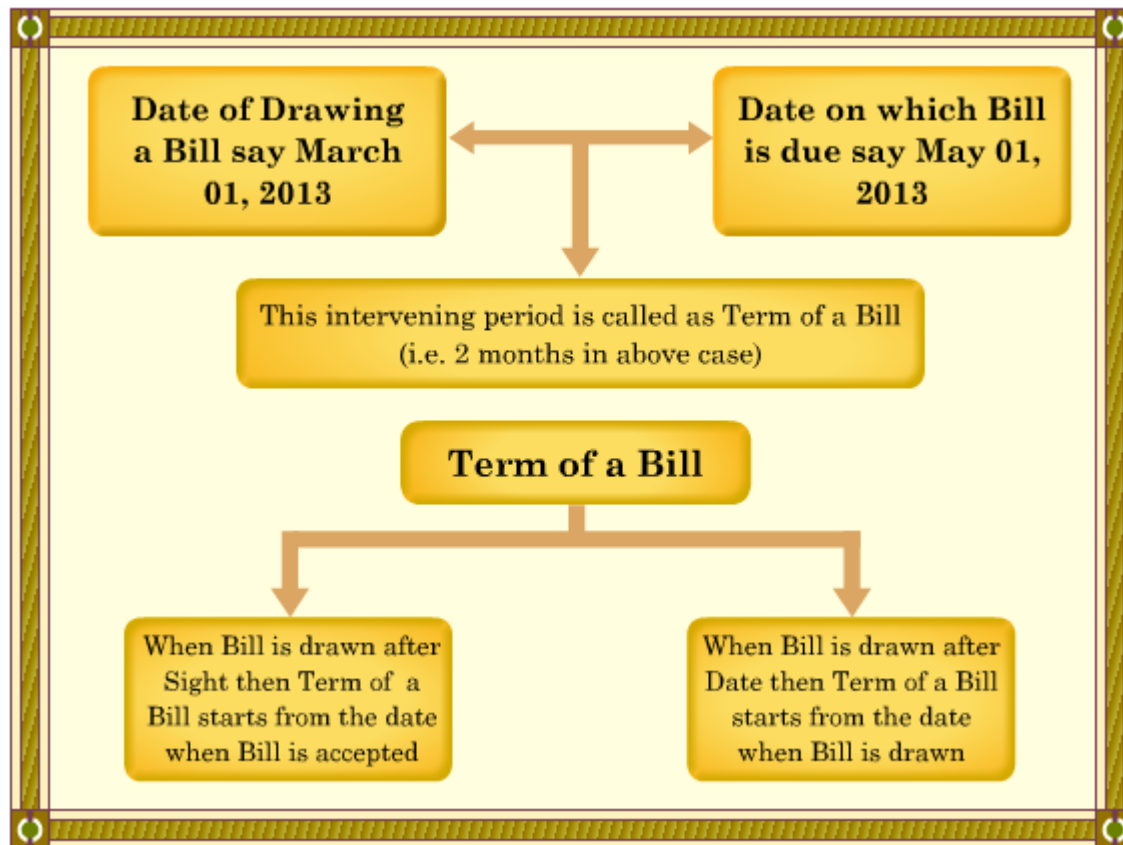
**Drawer:** He/She is the seller or creditor who has sold goods on credit and is entitled to recover money from the buyer or debtor. A drawer draws the Bill of Exchange upon the buyer /debtor. After writing the Bill of Exchange the drawer has to sign it as the maker of the Bill of Exchange.

**Drawee:** He/She is the purchaser / debtor of goods on whom Bill of Exch is drawn. When he gives his acceptance to the drawn bill of exchange he becomes the Drawee.

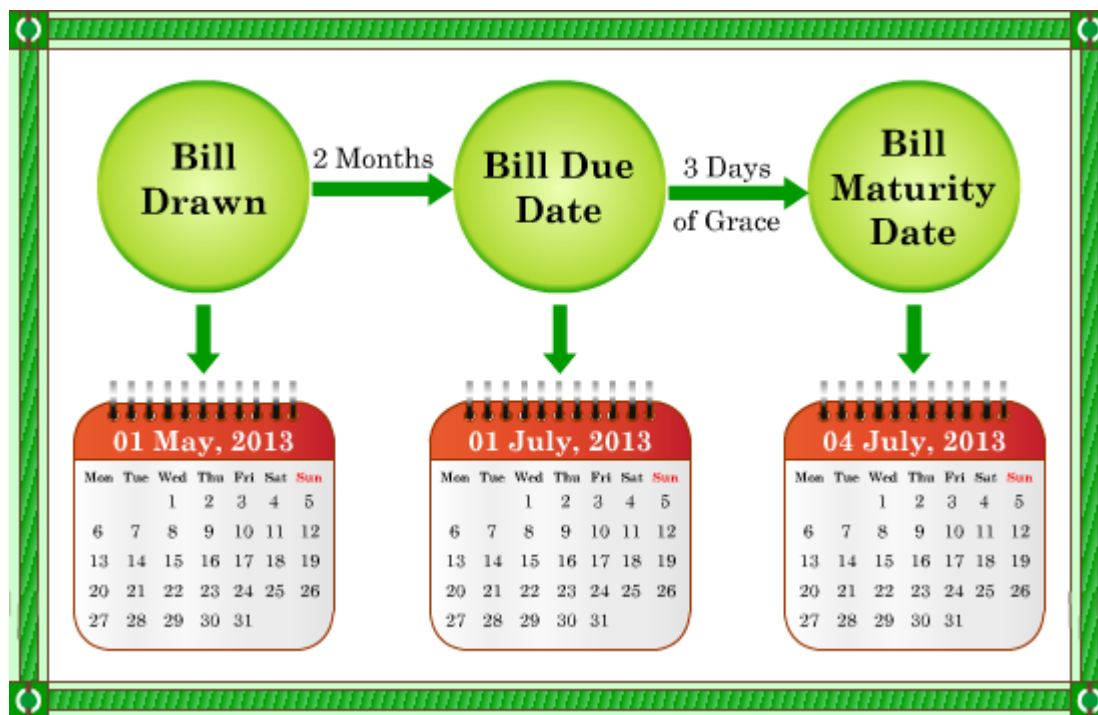
**Payee:** He/She is the person to whom payment has to be made and his/her name is mentioned on the Bill of Exchange .Usually Drawer is the payee but it is not necessary in all cases.

**Term of Bill:** Term of a Bill refers to the time period in-between the Date of drawing the bill and due date of the bill. In case the bill is drawn after sight then Term of a Bill starts from the date of acceptance of the bill, where as when the bill is drawn after date then term of bill starts from the date when the bill is drawn.





**Days of Grace:** It is compulsory to add 3 days of grace while calculating the due date of a bill. Initially the three days of grace were granted as a matter of kindness towards the drawee but now according to the Negotiable Instrument Act three days of grace are a legal right of the Drawee. Days of Grace are not allowed when the Bill is payable “on demand”.



**Example 1:** Ajay draws a one month bill on Bhaskar on May 01, 2013. Calculate due date and the maturity date of this Bill of Exchange.

**Solution:**

Due date of bill will be = May 01, 2013 + 1 month = June 01, 2013.

Maturity Date of Bill = Due date + 3 days of grace = June 01, 2013 + 3 days = June 04, 2013

***In a case where the date of Maturity is to fall on a Public Holiday, then bill is to be paid on the preceding working day. If the date of maturity is declared as an emergency holiday then the due date falls on the succeeding date.***

**Example 2:** Mr X drew a bill on Mr Y for 3 months on May 12, 2013 . Calculate the due date and maturity date of this Bill of Exchange.

**Solution:**

Due date of bill will be: May 12 , 2013 + 3 months = August 12, 2013

Maturity Date of bill = Due Date + 3 days = August 15, 2013

As 15 August is a Public Holiday the correct maturity date will be August 14, 2013

**Example 3:** Mr Amit drew a bill on Mr Anand for 1 month on April 16, 2013 . Calculate the due date and maturity date of this bill of exchange (19 May is a Sunday)

**Solution:**

Due date of bill will be : April 16, 2013 + 1 month = May 16, 2013

Maturity Date of bill = Due Date + 3 days = May 19, 2013  
As May 19, 2013 is a Sunday the correct maturity date will be May 18, 2013.

**Example 4:** Lali drew a bill on Kali for 2 months on May 12, 2013 . Calculate the due date and maturity date of this bill of exchange (July 15 ,2013 is declared as an emergency holiday )

***Solution:***

Due date of bill will be : May 12 , 2013 + 2 months = July 12, 2013  
Maturity Date of bill = Due Date + 3 days = July 15, 2013  
As 15 July is declared as an emergency holiday the correct maturity date will be July 16, 2013.

**Important note:** In case Bill is payable on demand (or at sight) then Days of Grace is not added.

**Due Date:** It is a date on which bill stands payable. In the above example 1- June 01, 2013 is the due date.

**Date of Maturity:** It is a maximum time upto which bill must be paid. It is calculated by adding days of grace in the due date of bill. In the above example 1 June 04, 2013 is the maturity date of bill.

***Important Points:***

(i) If tenure of bill is given in days then maturity date will also be calculated in days. While calculating maturity date in terms of days payment date is included but date on which transaction occurs is not included.

**For example:** A draws 60 days bill on B on May 01, 2013. Calculate maturity date of bill.

**Solution**

Due Date of Bill = May 01, 2013 + 60 days (i.e. 30 days of May + 30 days of June) = June 30, 2013  
Maturity date of Bill = June 30, 2013 + 3 days of grace = July 03, 2013.

(ii) If tenure of bill is given in months then maturity date will also be calculated in months ignoring the number of days in a month.

**For example:** A draws a bill on B on Jan 01, 2013 for 3 months. Calculate maturity date of bill.

**Solution**

Due Date of Bill = Jan. 01, 2013 + 3 months = Apr. 01, 2013

Maturity date of Bill = Apr. 01, 2013 + 3 days of grace = Apr. 04, 2013.

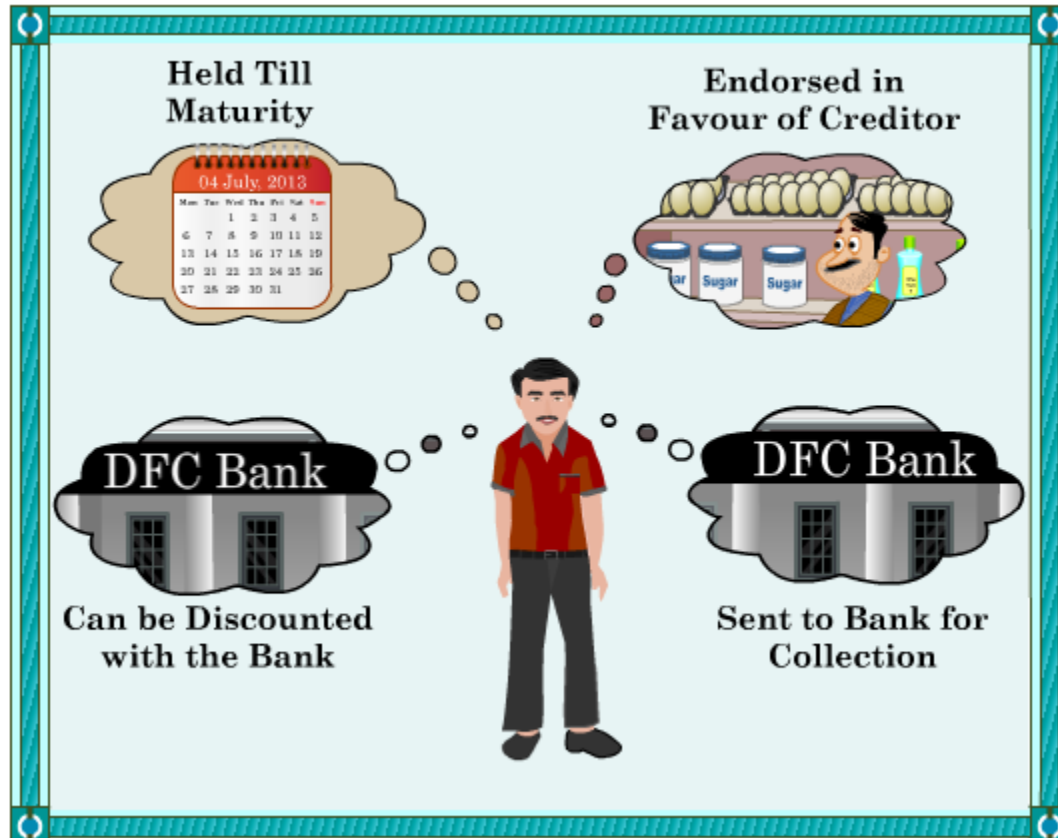
**Bill at Sight or Demand:** It is an instrument that is payable on demand by holder. No time is mentioned on such a bill for payment i.e. Holder of such a bill can demand Drawee to discharge such a bill at his/her will.

**Bill After Sight:** The period of bill is calculated from the date on which such a bill is accepted by the Drawee.

**Bill After Date:** The period of bill is calculated from the date of drawing the bill.

**Discounting of Bill:** It may happen that the holder of bill could be in urgent need of cash and he/she can't wait till the Date of Maturity of the bill. So, in such a situation he/she can obtain an amount from the bank against such bill. This is called Discounting of Bill with bank. Bank would charge a certain amount of Discounting charges based on Discounting Rates (or Interest Rate) and period of maturity. Discounting Charges are always calculated for the period starting from date of discounting till the due date of bill.

**Endorsement of Bill:** Transfer of a Bill of Exchange or Promissory Note to another person is known as Endorsement of Bill. The one who receives the bill is known as Endorsee and the one endorses the bill is known as Endorser. The Endorsee on endorsement of a bill by Endorser becomes authorized to receive payment.



**Bills Sent for Collection:** Sometimes a drawer may give bill to a bank and orders them to retain and realise the same on maturity date, such an activity is known as Bills Sent for Collection .

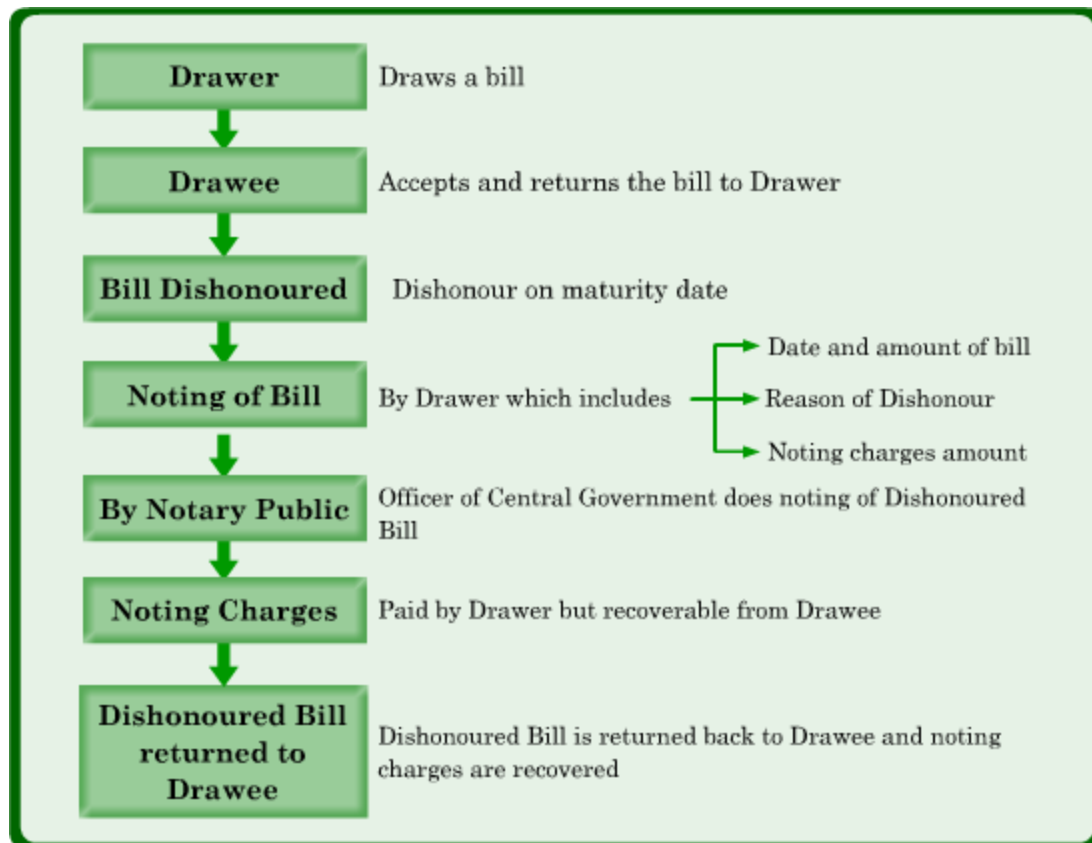
**Dishonour of a Bill:** A Bill is dishonoured when the acceptor of the bill fails to make the payment on the date of maturity of the bill. Hence, liability of the acceptor is restored. Entries made for recording dishonour of the Bill of Exchange are reverse of the entries of recording drawing of the bill.

**Noting of Bill:** When a bill is presented for payment and acceptor fails to make the payment, the bill gets dishonoured. In order to keep a legal proof of dishonour, the bill gets noted by the Notary public (which is approved by Central or State Government). In exchange of the Notary service, Notary public charges fees, known as Noting charges. Notary public notes the following facts:

1. Date and amount of the bill
2. Reasons for dishonour
3. Amount of Noting charges

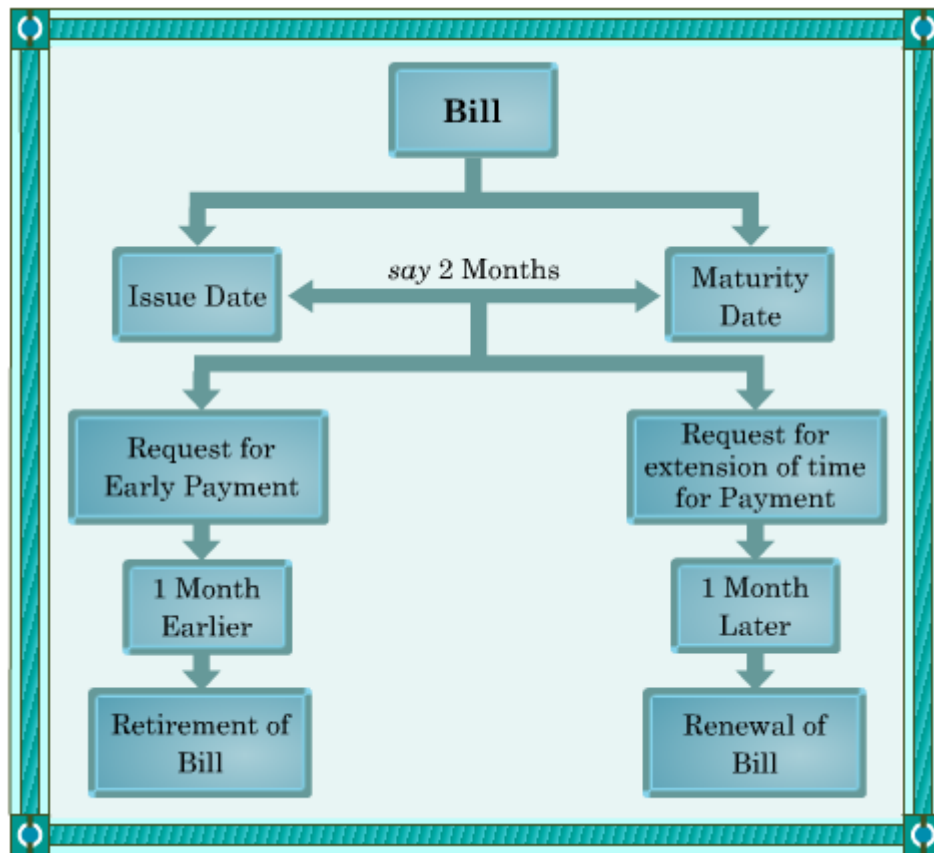
**Notary Public:** He is an officer appointed by the Central or State Government who has the power of noting Negotiable Instruments at the time of their Dishonour.

**Noting Charges:** These are charges paid to Notary Public for noting the Negotiable Instruments at the time of their Dishonour.



**Renewal of Bill:** When an acceptor of a bill does not have sufficient fund to meet the obligations of the bill on time, he/she may request the drawer for an extension of time for payment. If the drawer agrees, then a new bill is drawn this is known as Renewal of Bill. Generally, a bill is renewed on the condition that the Drawee has to pay interest for the extended period.

**Retirement of Bill:** When a holder receives the amount of a bill before its maturity date it is called Retirement of Bill of Exchange. Holder of the bill may give discount for such early payment. This discount is termed as 'Rebate'.



## Retention of Bill till Maturity- Accounting Treatment with Examples

### Objective

After going through this lesson, you shall be able to understand the Accounting Treatment of Bills of Exchange and Promissory Note in the books of Drawer (or seller) as well as Drawee (or purchaser), ***When a bill is retained till the date of maturity.***

### Introduction

Till now we have understood the meaning, features and various advantages of Bills of Exchange and Promissory Note. Also, we are now well acquainted with different terminologies used in the context of Bills of Exchange and Promissory Notes. Now, we are in a position to understand their Accounting Treatment. In this lesson, our main focus will be on the Accounting Treatment of Bills of Exchange\* both in the books of Drawer (or seller) as well in the books of Drawee (or purchaser). A Drawer can proceed with various ways with the bill. These ways are:

- Hold the bill till its maturity date.
- Get the bill discounted with the bank.

- Endorsement of Bill in favour of other person
- Sent bill for collection

***\*Note- It should be noted that the Accounting Treatment of Bills of Exchange and that of the Promissory Notes are exactly the same.***

**Accounting Treatment of Bills of Exchange and Promissory Note in the books of Drawer as well as Drawee, when a bill is retained till the date of maturity**

Drawer (*or seller*) is the person who writes or draws Bills of Exchange and the person on whom this bill is drawn is known as Drawee (*or purchaser of goods*). Procedure for drawing a bill is described in following steps:

- (1) Seller sold goods to Purchaser on Credit.
- (2) Now Seller (or Drawer) to avoid its credit risk draws a Bill of Exchange on the Purchaser (or Drawee).
- (3) This Bill is accepted by the Drawee and returned back to Drawer. By accepting the bill Drawee has admitted a liability which is payable at some fixed date in future. So, it will be treated as Bills Payable for Drawee.
- (4) On getting back bill after its acceptance from Drawee, it becomes an asset for Drawer and is recorded as Bills Receivable in his/her books.

To record the above transactions following Journal Entries will be passed in the books of Drawer and Drawee

Journal			
S.No.	Transaction	In the Books of Drawer	In the Books of Drawee
1	Goods sold on Credit	Party's Name (Purchaser)      Dr. To Sales A/c (Goods were sold on credit)	Purchases A/c      Dr. To Party's Name (Seller) (Goods were purchased on credit)
2	When bill is drawn, accepted and received*	Bills Receivable A/c      Dr. To Party's Name (Purchaser) (Acceptance received against amount due)	Party's Name (Seller)      Dr. To Bills Payable A/c (Acceptance given)
3	When bill is retained by Drawer till maturity date and it is duly honoured	Cash A/c      Dr. To Bills Receivable A/c	Bills Payable A/c      Dr. To Cash A/c



		(Amount received on maturity date of bill)	(Amount paid on maturity date of bill)
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**\* Note: In the course of real trade, there exists a time gap between occurrence of different activities such as drawing a bill by Drawer, acceptance to that bill by Drawee and thereafter returning it back to Drawer. But for accounting purpose we always assume that all these activities (*i.e.* Drawing, accepting and receiving back) took place on the same day.**

**Example 1** On February 01, 2013 Anand sold goods to Amit for Rs 15,000. On the same date, Anand drew a Bill of Exchange upon Amit at 3 months for Rs 15,000. Amit accepted the bill and this bill was met on the due date. Pass the Journal Entries in the books of Anand and Amit.

***Solution***

Books of Anand Journal					Books of Amit Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 Feb.01	Amit Dr. To Sales A/c (Goods sold on credit)		15,000	15,000	2013 Feb.01	Purchases A/c Dr. To Anand (Goods purchased on credit)		15,000	15,000
Feb.01	Bills Receivable Dr. A/c To Amit  (Acceptances received against amount due)		15,000	15,000	Feb.01	Anand Dr. To Bills Payable A/c (Acceptances given)		15,000	15,000
May 04	Cash A/c Dr.  To Bills Receivable A/c (Bill honoured on its due date)		15,000	15,000	May 04	Bills Payable Dr. A/c To Cash A/c (Amount paid on maturity date of bill)		15,000	15,000

**Example 2** On April 01, 2013 Mandeep sold goods to Vikas for Rs 20,000, of which 50% is received in cash immediately and for the remaining balance 2 month bill was drawn. Mandeep accepted the bill. On the due date, Bill was met. Pass the Journal Entries in the books of both Mandeep and Vikas.

**Solution**

**Books of Mandeep  
Journal**

**Books of Vikas  
Journal**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 April 01	Vikas Dr. Cash A/c Dr. To Sales A/c (Goods sold on cash and credit)		10,000 10,000	20,000	2013 April 01	Purchases A/c Dr. To Cash A/c To Mandeep (Goods purchased on cash and credit)		20,000	10,000 10,000
April 01	Bills Receivable A/c Dr. To Vikas (Acceptances received from Vikas, for the balance 50%)		10,000	10,000	April 01	Mandeep Dr. To Bills Payable A/c (Acceptances given for the balance 50%)		10,000	10,000
June 04	Cash A/c Dr. To Bills Receivable A/c (Bill honoured on its due date)		10,000	10,000	June 04	Bills Payable A/c Dr. To Cash A/c  (Amount paid on maturity date of bill)		10,000	10,000

**Example 3** Mohit sold goods to Shiv for Rs 16,000 on August 01, 2013 and drew upon him a 3 month bill. Shiv accepted the bill and returned it to Mohit. Date of maturity of bill was declared as emergency holiday by the Central Government. Bill was met as per the provisions of Negotiable Instrument Act, 1881. Pass the Journal Entries in the books of both Shiv and Mohit

**Solution**

Books of Mohit Journal					Books of Shiv Journal				
Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 Aug. 01	Shiv Dr.  To Sales A/c  (Goods sold on credit)		16,000	16,000	2013 Aug. 01	Purchases A/c Dr. To Mohit  (Goods purchased on credit)		16,000	16,000
Aug. 01	Bills Receivable A/c Dr. To Shiv  (Acceptances received against amount due)		16,000	16,000	Aug. 01	Mohit Dr.  To Bills Payable A/c (Acceptances given)		16,000	16,000
Nov. 05	Cash A/c Dr.  To Bills Receivable A/c (Bill honoured on its due date)		16,000	16,000	Nov. 05	Bills Payable A/c Dr. To Cash A/c  (Amount paid on)		16,000	16,000

						maturity date of bill)			
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**Note:** As emergency holiday was declared on the due date of the bill which was Nov.04, 2013, so in this case the due date as per Negotiable Instrument Act will be one day later which is Nov. 05, 2013.

**Example 4** Rakesh purchased goods from Sukesh for Rs 25,000 on January 01, 2013. On the same date, Rakesh drew a Promissory Note payable after 2 months in the favour of Sukesh. Rakesh met the Promissory Note on its due date. Pass the Journal Entries in the books of Sukesh and Rakesh.

**Solution**

Books of Sukesh Journal					Books of Rakesh Journal				
Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 Jan. 01	Rakesh Dr.  To Sales A/c  (Goods sold on credit)		25,000	25,000	2013 Jan. 01	Purchases Dr. A/c To Sukesh  (Goods purchased on credit)		25,000	25,000
Jan. 01	Bills Receivable Dr. A/c To Rakesh  (Promissory Note received against amount due)		25,000	25,000	Jan. 01	Sukesh Dr.  To Bills Payable A/c (Promissory Note drawn in favour of Sukesh )		25,000	25,000

Mar. 04	Cash A/c Dr.	25,000		Mar. 04	Bills Payable A/c Dr.	25,000	
	To Bills Receivable A/c (Bill honoured on its due date)		25,000		To Cash A/c  (Amount paid on maturity date of bill)		25,000

**Example 5** On July 01, 2013 Raj sold goods to Rahul for Rs 30,000. Rahul pays 60% of the amount due immediately and receives a discount of Rs 1,000. For the balance amount Raj draws a bill of exchange on Rahul payable after 2 months. Rahul accepts the bill and return it back to Raj. On the due date, bill was met. Pass the Journal Entries in the books of Raj and Rahul.

**Solution**

Books of Raj Journal					Books of Rahul Journal				
Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 July 01	Rahul Dr.  To Sales A/c  (Goods sold on credit)		30,000	30,000	2013 July 01	Purchases A/c Dr. To Raj  (Goods purchased on credit)		30,000	30,000
July 01	Cash A/c Dr.		17,000		July 01	Raj (60% ×) Dr.		18,000	

**Example 5:** On 1st April, 2018 Poonam sold goods to Sheetal worth Rs. 80,000 plus CGST and SGST @ 6% each. On the same date, Sheetal accepted a bill drawn upon her by Poonam at 4 months. On the due date, the Bill was met. Pass the necessary Journal entries in the books of both the parties.

### Poonam's (Drawer) Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr.(Rs.)
2018 Apr.1	Sheetal's A/c Dr. To Output CGST A/c To Output SGST A/c To Sales A/c (Being goods sold to Sheetal)		89,600	80,000 4,800 4,800
Apr.1	Bills Receivable A/c Dr. To Sheetal's A/c (Being bill of exchange received by Sheetal)		89,600	89,600
Aug.1	Cash A/c Dr. To Bills Receivable A/c (Being amount received against Sheetal's acceptance)		89,600	89,600

#### Sheetal's (Drawee) Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr.(Rs.)
2018 Apr.1	Purchases A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Poonam's A/c (Being goods purchased from Poonam)		80,000 4,800 4,800	89,600
Apr.1	Poonam's A/c Dr. To Bills Payable A/c (Being the acceptance for the amount given to Poonam)		89,600	89,600
Aug.1	Bills Payable A/c Dr. To Cash A/c (Being the payment of the bill made on due date)		89,600	89,600

### Discounting of Bill- Accounting Treatment with Examples

#### Objective

After going through this lesson, you shall be able to understand the concept of 'Accounting Treatment when bill is discounted with the bank'.

## Introduction

We discussed in the previous lessons that drawer or holder of the bill carries certain ways to proceed with the bill. These ways are:

- Hold the Bill till its Maturity Date
- Get the Bill Discounted with the Bank
- Endorsement of Bill in favour of other person
- Send Bill for Collection

In the last lesson, we discussed Accounting Treatment in the Books of Drawer and Drawee when the drawer holds the bill till its maturity date. In this lesson, our discussion will be on Accounting Treatment in the Books of Drawer and Drawee when the drawer gets bill discounted with the bank.

### Accounting Treatment when bill is discounted with the bank

Sometimes it happens that holder of the bill is in need of cash and he/she can't wait till the maturity date of bill. So in this case, he/she decides to obtain amount from Bank against such bill. This is called Discounting of Bill with bank. Bank will charge certain amount of discounting charges based on Discounting Rate (or Interest Rate) and period of maturity. Discounting Charges are always calculated for the period starting from date of discounting till the due date of bill. Therefore it is calculated as:

Discounting Charges = Amount of Bill × Rate of Interest × Remaining period of bill (*i.e.* from discounting date to due date of bill).

**Example:** Bill of Rs 12,000 payable after 4 months was discounted @ 6% p.a. by holder after 1 month, in this case remaining period will be 3 months (4 – 1) and discounting charges will be

$$12,000 \times \frac{6}{100} \times \frac{3}{12} \text{ that is Rs 180.}$$

Following Journal Entries will be passed in the books of Drawer and Drawee.

Journal		
S.No.	In the Books of Drawer	In the Books of Drawee
1	<i>At the time of sale of goods on credit</i>	<i>At the time of purchase of goods on credit</i>
	Party's Name (Purchaser)      Dr. To Sales A/c (Goods sold on credit)	Purchases A/c      Dr. To Party's Name (Seller) (Goods purchased on credit)



2	<b><i>When bill is drawn and received</i></b>	<b><i>When bill is accepted and sent to drawer</i></b>
	Bills Receivable A/c Dr. To Party's Name (Purchaser) (Acceptances received against amount due)	Party's Name (Seller) Dr. To Bills Payable A/c (Acceptances given)
3	<b><i>When Bill is discounted with Bank</i></b>	<b><i>When Bill is discounted with Bank</i></b>
	Cash / Bank A/c Dr. Discounting Charges A/c Dr. To Bills Receivable A/c (Bill discounted with Bank and Discounting Charges were charged)	<b>NO ENTRY</b>
4	<b><i>At the time of Maturity of Bill</i></b>	<b><i>At the time of Maturity of Bill</i></b>
	<b>NO ENTRY</b>	Bills Payable A/c Dr. To Cash A/c (Amount paid on maturity date of bill)

**Example 1** Ankit sold goods to Sameer worth of Rs 15,000 on May 01, 2013. Ankit draws a 3 months bill on Sameer for the amount due. Ankit discounted this @ 6% p.a. with Bank on the same day. On the due date bill was honoured. Pass the necessary Journal Entries in the books of both the parties.

**Solution**

**Books of Ankit  
Journal**

**Books of Sameer  
Journal**

Date	Particulars	L · F ·	Deb it Am oun t (Rs )	Cre dit Am oun t (Rs )		Date	Particulars	L · F ·	Deb it Am oun t (Rs )	Cre dit Am oun t (Rs )
20 13						20 13				

Ma y 01	Sameer Dr. To Sales A/c (Goods sold on credit)	15,000	15,000	Ma y 01	Purchases A/c Dr. To Ankit (Goods purchased on credit)	15,000	15,000
Ma y 01	Bills Receivable A/c Dr. To Sameer (Acceptance received against amount due)	15,000	15,000	Ma y 01	Ankit Dr. To Bills Payable A/c (Acceptance given)	15,000	15,000
Ma y 01	Cash A/c Dr. Discounting Charges A/c (WN) Dr. To Bills Receivable A/c (Bill discounted with the bank)	14,775 225	15,000	Au g. 04	Bills Payable A/c Dr. To Cash A/c (Amount paid on maturity of bill)	15,000	15,000

### Working Note:

*Calculation of Discounting Charges:*

$$\text{Discounting Charges} = 15,000 \times \frac{6}{100} \times \frac{3}{12} = 225$$

**Example 2** On July 01, 2013 Sumit sold goods of Rs 12,000 to Gautam. Sumit draws a bill on Gautam for the amount payable three months after date. Gautam accepts bill and thereafter return it to Sumit. On September 01, 2013 Sumit discounted this bill with bank @ 5% p.a. At the date of maturity, bill was duly honoured. Record the Journal Entries in the books of Sumit and Gautam.

### Solution

**Books of Sumit  
Journal**

**Books of Gautam  
Journal**

Da te	Particulars	L · F ·	Deb it Am oun t (Rs )	Cre dit Am oun t (Rs )	Da te	Particulars	L · F ·	Deb it Am oun t (Rs )	Cre dit Am oun t (Rs )
20 13 Jul y 01	Gautam Dr.  To Sales A/c  (Goods sold on credit)		12, 000	12, 000	20 13 Jul y 01	Purchases Dr. A/c  To Sumit  (Goods purchased on credit)		12, 000	12, 000
Jul y 01	Bills Receivable Dr. A/c  To Gautam  (Acceptance received against amount due)		12, 000	12, 000	Jul y 01	Sumit Dr.  To Bills Payable A/c (Acceptance given)		12, 000	12, 000
Sep t 01	Cash A/c Dr.  Discounting Charges Dr. A/c ( <b>WN</b> ) To Bills Receivable A/c (Bill discounted with the bank)		11, 950  50	12, 000	Oct .04	Bills Payable Dr. A/c  To Cash A/c  (Amount paid on maturity of bill)		12, 000	12, 000

**Working Note:**

*Calculation of Discounting Charges:*

$$\text{Discounting Charges} = 12,000 \times \frac{5}{100} \times \frac{1}{12} = 50$$

**Example 3** On January 01, 2013 Samrat received acceptances for Rs 6,000 from Karan at 2 months. On February 09, 2013 Samrat discounted these acceptances @ 8% p.a. from the Bank. On the due date Karan honoured the bill. Pass the necessary Journal Entries in the books of Samrat and Karan.

**Solution**

Books of Samrat Journal					Books of Karan Journal				
Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
Jan. 01	Bills Receivable Dr. A/c  To Karan  (Acceptance received against amount due)		6,000	6,000	Jan. 01	Samrat Dr.  To Bills Payable A/c (Acceptance given)		6,000	6,000
Feb. 09	Cash A/c Dr.  Discounting Charges A/c (WN) To Bills Receivable A/c (Bill discounted with the bank)		5,970  30	6,000	Mar 1	Bills Payable A/c Dr.  To Cash A/c (Amount paid on maturity of bill)		6,000  6,000	

**Working Note:***Calculation of Discounting Charges:*

$$\text{Discounting Charges} = 6,000 \times \frac{8}{100} \times \frac{23^*}{365} = 30 \text{ (approx.)}$$

Discounting Charges = 6,000 × 8/100 × 23/365 = 30 (approx.)

\* Remaining days are calculated from Feb 09 (*discounting date*) to March 04 (*maturity date*) that is 23 days.

**Example 4:** Pramod received from Harish an acceptance for Rs. 40,000 on 1st October, 2018 at 4 months. Pramod got this acceptance discounted on 1st November, 2018 @14% p.a. plus CGST and SGST @9% each. On the due date, Harish paid the required amount. Pass necessary Journal entries in the books of both the parties.

**Answer:****Pramod's Journal**

Date	Particulars	L.F.	Dr. (Rs.)	Cr.(Rs.)
2018 Oct.1	Bills Receivable A/c Dr. To Harish's A/c (Being acceptance received)		40,000	40,000
Nov.1	Bank A/c Dr. Discounting Charges A/c (WN1) Dr. Input CGST A/c Dr. Input SGST A/c Dr. To Bills Receivable A/c (Being bill discounted from bank @ 14% p.a. plus CGST and SGST @9% each)		38,348 1,400 126 126	40,000

**Working Notes:**

1) Discounting Charges Paid to the bank (based on months left until maturity)	= (40,000 x 14/100 x 3/12) = Rs. 1,400
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**Harish's Journal**

Date	Particulars	L.F.	Dr. (Rs.)	Cr.(Rs.)
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2018 Oct.1	Pramod's A/c To Bills Payable A/c (Being the acceptance for the amount given to Pramod)	Dr.	40,000	40,000
2019 Feb.1	Bills Payable A/c To Cash A/c (Being the payment of the bill made on due date)	Dr.	40,000	40,000

## Endorsement of Bill- Accounting Treatment with Examples

### Objective

After going through this lesson, you shall be able to understand the concept of 'Accounting Treatment when bill is endorsed in favour of a creditor'.

### Introduction

In the last lesson, we discussed the Accounting Treatment in the Books of Drawer, when he/she gets the bill discounted with the bank. In this lesson, our discussion will be on the Accounting Treatment in the Books of Drawer, Drawee and Endorsee (*i.e.* person to whom the bill is endorsed), when the bill is endorsed or negotiated in favour of a creditor.

### Accounting Treatment when bill is endorsed or negotiated in the favour of creditors

Sometimes holder (or drawer) of the bill uses Bill of Exchange for paying off his/her debt. This is done by transferring the bill in favour of Creditors. Amount due to creditors will get reduced to the extent of bill amount. Person who is transferring the bill will be called as **Endorser** and person in whose favour this bill has been transferred will be termed as **Endorsee**. In simple terms by transferring Bill in favour of Creditors, Drawer becomes Endorser and Creditor of drawer becomes Endorsee.

Following entries will be passed to record the transactions of endorsement.

Journal			
S. N o.	In the Books of Drawer	In the Books of Drawee	In the Books of Endorsee
1	<i>At the time of sale of goods on credit</i>	<i>At the time of purchase of goods on credit</i>	<i>At the time of purchase or sale of goods on credit</i>

	Party's Name                      Dr. (Purchaser)                      r. To Sales A/c (Goods sold on credit)	Purchases A/c                      Dr. To Party's Name (Seller) (Goods purchased on credit)	<b>NO ENTRY</b>
2	<b><i>When Bill is drawn and received</i></b>	<b><i>When Bill is accepted and sent to drawer</i></b>	<b><i>When bill is drawn, accepted and received</i></b>
	Bills Receivable                      Dr. A/c                      r. To Party's Name (Purchaser) (Acceptance received against amount due)	Party's Name                      Dr. (Seller) To Bills Payable A/c (Acceptance given)	<b>NO ENTRY</b>
3	<b><i>When Bill is endorsed in favour of Creditor</i></b>	<b><i>When bill is endorsed in favour of Creditor</i></b>	<b><i>When bill is endorsed in favour of Creditor</i></b>
	Party's Name                      Dr. (Creditor/Endorsee)                      r. To Bills Receivables A/c (Bill endorsed in favour of creditor)	<b>NO ENTRY</b>	Bills Receivable A/c                      Dr.  To Party's Name (Endorser) (Bill received)
4	<b><i>Bill held till Maturity Date</i></b>	<b><i>Bill held till Maturity Date</i></b>	<b><i>Bill held till Maturity Date</i></b>
	<u><i>At the time of Maturity of Bill</i></u>  <b>NO ENTRY</b>	<u><i>At the time of Maturity of Bill</i></u>  Bills Payable A/c                      Dr. To Cash/Bank A/c (Amount paid on maturity of bill)	<u><i>At the time of Maturity of Bill</i></u>  Cash/Bank A/c                      Dr. To Bills Receivable A/c (Amount received on maturity of bill)
5	<b><i>When Bill is discounted with Bank</i></b>	<b><i>When Bill is discounted with Bank</i></b>	<b><i>When Bill is discounted with Bank</i></b>
	<u><i>At the time of discounting bill</i></u>  <b>NO ENTRY</b>	<u><i>At the time of discounting bill</i></u>  <b>NO ENTRY</b>	<u><i>At the time of discounting bill</i></u>  Cash / Bank A/c                      Dr. Discounting Charges A/c                      Dr.

			To Bills Receivable A/c (Bill discounted with bank and discounting charges were charged)
<u>On the date of Maturity of Bill</u>	<u>On the date of Maturity of Bill</u>	<u>On the date of Maturity of Bill</u>	
<b>NO ENTRY</b>	Bills Payable A/c Dr. To Cash A/c (Amount paid on maturity date of bill)	<b>NO ENTRY</b>	

**Example 1** Vipul sold goods of Rs 12,500 to Himanshu on April 01, 2013. On the same date, Vipul draws a 2 month bill of Rs 12,000 on Himanshu in full settlement of his debt. Bill was accepted and returned back to Vipul. After 25 days, Vipul endorse the bill in favour of his creditor Shashank. Bill was met on the due date. Pass the necessary Journal Entries in the books of all the three parties.

### Solution

Books of Vipul Journal				Books of Himanshu Journal				Books of Shashank Journal			
Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)
2013 April 01	Himanshu Dr.	12,500		2013 April 01	Purchases A/c Dr.	12,500		2013 April 26	Bills Receivable A/c Dr.	12,000	



	To Sales A/c			12,500		To Vipul			12,500		To Vipul			12,000
	(Goods sold on credit)					(Goods purchased on credit)					(Bill received from Vipul)			
April 01	Bills Receivable A/c	D	12,000		April 01	Vipul	D	12,500		June 04	Cash A/c	D	12,000	
	Discount Allowed A/c	D	500			To Bills Payable A/c		12,000			To Bills Receivable A/c		12,000	
	To Himanshu			12,500		To Discount Received A/c (Acceptance given)			500		(Amount paid on maturity of bill)			
	(Acceptance received against amount due)													
April 26	Shashank	D	12,000		June 04	Bills Payable A/c	D	12,000						
	To Bills Receivable A/c (Bill endorsed in favour of Shashank)		12,000			To Cash A/c (Amount paid on maturity of bill)		12,000						

**Example 2** On Sept 01, 2013 Mitali sold goods of Rs 20,000 to Chaaya. On the same date Mitali gave a Bill of Rs 20,000 to Chaaya payable after 3 months. Bill was accepted and returned back to Mitali. Immediately on receiving the bill back she endorsed it in the favour of Amita in order to clear her debt. On Nov.01, 2013 Amita discounted this bill with bank @6%. Bill was duly honoured on its due date. Record the Journal Entries in the books of all the parties involved.

**Solution:**

Books of Mitali Journal					Books of Chaaya Journal					Books of Amita Journal							
D a t e	Particulars		D e b i t A m o u n t (R s)	C r e d i t A m o u n t (R s)		D a t e	Particulars		D e b i t A m o u n t (R s)	C r e d i t A m o u n t (R s)		D a t e	Particulars		L · F ·	D e b i t A m o u n t (R s)	C r e d i t A m o u n t (R s)
2 0 1 3 S e p t .0 1	Chaaya	D r.	2 0, 0 0 0			2 0 1 3 S e p t .0 1	Purcha ses A/c	D r.	2 0, 0 0 0			2 0 1 3 S e p t .0 1	Bills Receiv able A/c	D r.		2 0, 0 0 0	
	To Sales A/c			2 0, 0 0 0			To Mitali			2 0, 0 0 0			To Mitali				2 0, 0 0 0
	(Goods sold on credit)						(Goods purchased on credit)						(Bill received from Mitali)				
S e p t .0 1	Bills Receivabl e A/c	D r.	2 0, 0 0 0			S e p t .0 1	Mitali	D r.	2 0, 0 0 0			N o v. 0 1	Cash A/c	D r.		1 9, 9 0 0	
	To Chaaya			2 0, 0 0 0			To Bills Payable A/c			2 0, 0 0 0			Discou nting Charge s A/c	D r.		1 0 0	

	(Acceptance received against amount due)				(Acceptance given)					To Bills Receivable A/c			20,000
										(Bill discounted with bank)			
S e p t .0 1	Amita	D r.	20,000		D ec .0 4	Bills Payable A/c	D r.	20,000					
	To Bills Receivable A/c			20,000		To Cash A/c			20,000				
	(Bill endorsed in favour of Amita)					(Amount paid on maturity of bill)							

### Working Note:

*Calculation of Discounting Charges:*

$$\text{Discounting Charges} = 20,000 \times 6100 \times 112 = 100 \quad \text{Discounting Charges} = 20,000 \times 6100 \times 112 = 100$$

**Example 3** On May 21, 2013 Pawan sold goods to Sanjay for Rs 35,000 and drew a 3 month bill upon Sanjay for the amount due. Sanjay gives his acceptances on bill and return it back to Pawan. On the same date, just after receiving acceptances Pawan endorsed the bill in favour of Hem Chand in payment of his debt. On June 21, 2013 Hem Chand discounted the bill @ 12% from the bank. The bill is met on the due date. Pass necessary Journal Entries in the books of Pawan, Sanjay and Hem Chand.

### Solution

**Books of Pawan  
Journal**

**Books of Sanjay  
Journal**

**Books of Hem Chand  
Journal**

D a t e	Particulars	De bit A m o u n t (R s)	C r e d i t A m o u n t ( R s )	D a t e	Particulars	Deb it Am oun t (Rs)	Cr ed it A m ou nt (R s)	D a t e	Particulars	De bit A m ou nt (R s)	Cr ed it A m ou nt (R s)
20 13 M ay 21	Sanjay Dr.  To Sales A/c  (Goods sold on credit)	35,000	35,000	20 13 M ay 21	Purchases Dr. A/c To Pawan  (Goods purchased on credit)	35,000	35,000	20 13 M ay 21	Bills Receivable Dr. A/c To Pawan  (Bill received from Mitali)	35,000	35,000
M ay 21	Bills Receivable Dr. A/c To Sanjay  (Acceptance received against amount due)	35,000	35,000	M ay 21	Pawan Dr. To Bills Payable A/c  (Acceptance given)	35,000	35,000	Ju ne 21	Cash A/c Dr.  Discounting Charges A/c Dr.  To Bills Receivable A/c	34,300 700	35,000

M ay 21	Hem Chand	Dr.	35,000		Au g 24	Bills Payable A/c	D r .	35,000			(Bill discounted with bank @12% for two months)		
	To Bills Receivable A/c			35,000		To Cash A/c			35,000				
	(Bill endorsed in favour of Hem Chand)					(Amount paid on maturity of bill)							

**Working Note:**  
*Calculation of Discounting Charges:*

$$\text{Discounting Charges} = 35,000 \times \frac{12}{100} \times \frac{2}{12} = 700$$

**Bill is sent to Bank for Collection-Accounting Treatment with Examples**

**Objective**

After going through this lesson, you shall be able to understand the concept of 'Accounting Treatment when the bill is sent to bank for collection'.

**Introduction**

In the last lesson, we discussed the Accounting Treatment in the books of Drawer and Drawee when the drawer endorsed the bill in favour of a third party. In this lesson, we will discuss about the Accounting Treatment when the bill is sent to bank for collection.

**Accounting Treatment when bill is sent to bank for collection**

When the bill is received the person may retain the bill till maturity, but sometimes the bill is sent to the bank with instructions that the bill should be retained till maturity and realised on its due date. Thus, when bill is sent to bank with such instructions it is known as Bill Sent to Bank for Collection. Here, the entry will be made in the books of Drawer and not in the books of Drawee. In the books of Drawee entry will be made at the time of making the payment.

Following Journal Entries will be passed in the books of Drawer and Drawee

# Journal

S.No.	In the Books of Drawer	In the Books of Drawee
1	<b><i>At the time of sale of goods on credit</i></b>	<b><i>At the time of purchase of goods on credit</i></b>
	Party's Name (Purchaser) Dr. To Sales A/c (Goods sold on credit)	Purchases A/c Dr. To Party's Name (Seller) (Goods purchased on credit)
2	<b><i>When bill is drawn and received</i></b>	<b><i>When bill is accepted and sent to drawer</i></b>
	Bills Receivable A/c Dr. To Party's Name (Purchaser) (Acceptance received against amount due)	Party's Name (Seller) Dr. To Bills Payable A/c (Acceptance given)
3	<b><i>When Bill is sent to bank for collection</i></b>	<b><i>When Bill is sent to bank for collection</i></b>
	Bills Sent for Collection A/c Dr. To Bills Receivable A/c (Bill is sent to bank for collection)	<b>NO ENTRY</b>
4	<b><i>At the time of Maturity of Bill</i></b>	<b><i>At the time of Maturity of Bill</i></b>
	Bank A/c Dr Bank Charges A/c Dr To Bills Sent for Collection A/c (Amount collected by bank for the bill sent to bank for collection)	Bills Payable A/c Dr. To Cash A/c/Bank A/c (Amount paid on maturity date of bill)

**Example 1** On 1<sup>st</sup> May 2013 X draws a three month bill on Y for Rs 30,000 for the goods sold on credit. After its acceptance, X sends the bill to his bank for collection. On the due date the bill is honoured. Pass the necessary Journal Entries in the books of both the parties.

### ***Solution***

Books of X Journal					Books of Y Journal					
Da te	Particulars	L · F ·	De bit Am ou nt	Cre dit Am ou nt		Da te	Particulars	L · F ·	De bit Am ou nt	Cre dit Am ou nt

			(Rs )	(Rs )				(Rs )	(Rs )
20 13 May 01	Y Dr.  To Sales A/c  (Goods sold on credit)		30, 00 0	30, 00 0	20 13 May 01	Purchases Dr A/c .  To X  (Goods purchased on credit)		30, 00 0	30, 00 0
May 01	Bills Receivable A/c Dr.  To Y  (Acceptance received against amount due)		30, 00 0	30, 00 0	May 01	X Dr .  To Bills Payable A/c  (Acceptance given)		30, 00 0	30, 00 0
May 01	Bills Sent for Collection A/c Dr.  To Bills Receivable A/c  (Bill is sent to Bank for collection on due date)		30, 00 0	30, 00 0	Aug. 04	Bills Payable Dr A/c .  To Cash or Bank A/c  (Amount paid on maturity of bill)		30, 00 0	30, 00 0
Aug 04	Bank A/c Dr  To Bills Sent for Collection A/c  (Amount collected by the bank for the bill sent for collection)		30, 00 0	30, 00 0					

**Example 2:** On 1<sup>st</sup> March 2013 Ram sold goods to Shyam worth Rs 65,000 and drew a two months bill on him for this amount. Immediately after receiving its acceptance, Ram sends the bill to bank for collection. Bill was duly honoured on due date and bank charged commission of Rs 600 from Ram. Pass the necessary journal entries in the books of both the parties.

**Solution**

Books of Ram Journal					Books of Shyam Journal				
Date	Particulars	L · F ·	De bit Am ount (Rs )	Cre dit Am ount (Rs )	Date	Particulars	L · F ·	De bit Am ount (Rs )	Cre dit Am ount (Rs )
20 13 Mar 01	Shyam Dr.  To Sales A/c  (Goods sold on credit)		65, 000	65, 000	20 13 Mar 01	Purchases Dr. A/c  To Ram  (Goods purchased on credit)		65, 000	65, 000
Mar 01	Bills Receivable Dr. A/c  To Shyam  (Acceptances received against amount due)		65, 000	65, 000	Mar 01	Ram Dr.  To Bills Payable A/c (Acceptances given)		65, 000	65, 000
Mar 01	Bills Sent for Dr. Collection A/c  To Bills Receivable A/c (Bill is sent to bank for collection)		65, 000	65, 000	May 04	Bills Dr. Payable A/c  To Cash or Bank A/c (Amount paid on maturity of bill)		65, 000	65, 000



Ma y 04	Bank A/c Dr		64,400						
	Bank Charges A/c Dr		600						
	To Bills Sent for Collection A/c (Amount collected by bank)			65,000					

**Example 3** On June 01, 2013 A received acceptances for Rs 60,000 from B at 2 months. After one month A sends the bill to bank for collection. The bill was duly honoured on due date and bank charged 1% commission. Pass the necessary journal entries in the books of A and B.

**Solution**

Books of A Journal					Books of B Journal				
Date	Particulars	L · F ·	De bit Am oun t (Rs )	Cre dit Am oun t (Rs )	Date	Particulars	L · F ·	De bit Am oun t (Rs )	Cre dit Am oun t (Rs )
20 13					20 13				
Jun 01	Bills Receivable Dr. A/c To B  (Acceptances received against amount due)		60,000	60,000	Jun .01	A Dr.  To Bills Payable A/c (Acceptances given)		60,000	60,000
Jul y 01	Bills Sent for Dr Collection A/c  To Bills Receivable A/c (Bill is sent to bank for collection)		60,000	60,000	Au g 04	Bills Dr. Payable A/c To Cash or Bank A/c (Amount paid on maturity of bill)		60,000	60,000

Aug 04	Bank A/c	Dr	59,400						
	Bank Charges A/c		600						
	To Bills Sent for Collection A/c			60,000					
	(Amount is collected by Bank)								

**Example 4:** On 1st July, 2018, P sold goods to Q for Rs. 30,000 plus IGST @ 12% and draws a bill of exchange on him for 3 months on the same date. Q accepts the bill. The bill is sent to the bank for collection. The bill was duly paid by Q and the bank charged a commission of 2% for this service from P. Pass the necessary Journal entries in the books of both the parties.

**Answer:**

**P's Journal**

Date	Particulars	L.F.	Dr.(Rs.)	Cr.(Rs.)
2018 Jul.1	Q's A/c Dr. To Sales A/c To Output IGST A/c (Being inter-state sale of goods to P and IGST charged @12%)		33,600	30,000 3,600
Jul.1	Bills Receivable A/c Dr. To Q's A/c (Being bill accepted by Q)		33,600	33,600
Jul.1	Bills Sent to Bank for Collection A/c Dr. To Bills Receivable A/c (Being bill sent to bank for collection)		33,600	33,600
Oct.1	Bank A/c Dr. Bank Charges A/c Dr. To Bills Sent to Bank for Collection A/c (Being amount collected by Bank)		32,928 672	33,600

**Q's Journal**

Date	Particulars	L.F.	Dr.(Rs.)	Cr.(Rs.)
2018 Jul.1	Purchases A/c Dr. Input IGST A/c To P's A/c (Being goods purchased and IGST paid)		30,000 3,600	33,600

Jul.1	P's A/c To Bills Payable A/c (Being the acceptance for the amount given to Pramod)	Dr.		33,600	33,600
Oct.1	Bills Payable A/c To Cash A/c (Being the payment of the bill made on due date)	Dr.		33,600	33,600

## Dishonour of Bill- Accounting Treatment with Examples

### Objective

After going through this lesson, you shall be able to understand the concept of 'Accounting Treatment on dishonour of bill'.

### Introduction

Till now, we have learnt the Accounting Treatment of Bill of Exchange in case of holding the bill till its maturity, Discounting of Bill, Bills sent to Bank for Collection and in case of Endorsement of Bill. In all cases, bill was honoured on its due date. But sometimes, there may be a case when drawee refuses to pay or is not in a position to pay the amount on the maturity date, this is known as Dishonour of Bill. In this lesson, we will discuss accounting treatment when a bill is dishonoured.

### Dishonour of a Bill

Dishonour in simpler words means state of disgrace, where one does not value his words. Normally bill is honoured by Drawee at its maturity date but in some cases he/she may refuse to pay the amount or becomes insolvent. Under such circumstances bill is not met on its due date and which leads to dishonour of a bill. When a Bill is dishonoured then the drawer must have some evidence regarding its dishonour, for this he/she gets the dishonoured bill noted from the Notary Public. Although it is not mandatory to get a bill noted at the time of its dishonour but to be on a safer side Drawer or Holder is advised to do this.

Notary Public charges certain amount of fees for providing service of Noting, this fees is termed as Noting Charges. It is payable by the holder of bill, however he/she recovers it along with the bill amount from the Drawee.

### Accounting Treatment when bill is dishonoured

When the bill is dishonoured it is accounted in the books of Drawer and Drawee in the following manner.

- (a) In the books of Drawer:** When the bill which is held till its maturity gets dishonoured, it has two effects in the books of Drawer. Firstly, Bills Receivable

Account is credited as Bill (asset) as no bill exists now, on the other hand Drawee's Account is debited with the bill amount as Drawee will again become the debtor of the Drawer. Similarly, in all the other cases of Bills of Exchange Drawee's Account will be debited in case of dishonour whereas Bank Account is credited when the bill which is discounted with the bank gets dishonoured, Endorsee Account is credited when the bill is endorsed and Bills sent for collection and Cash Account (with the amount of noting charges) is credited in the last case. If Noting Charges are paid by the Drawer, then for this he/she will debit Drawee's Account (as noting charges are recoverable from the Drawee) and credit Cash Account with the amount of Noting Charges. Point to be noted here, is that although Noting Charges is paid by Drawer but he/she is also recovering the same from Drawee, so it will not be treated as an expense in the books of Drawer.

**(b) In the books of Drawee:** When bill gets dishonoured it has two effects in the books of Drawee as well. Firstly due to dishonour, Bills Payable is debited as no bill exists now and on the other hand Creditor's Account is credited as the liability is to be recreated. In case bill is noted by Drawer then, Noting Charges are to be debited because it is an expense for the Drawee. On the other hand, Creditor's Account will be credited as these charges are to be paid back to Drawer (or Creditor).

Following Journal Entries will be passed in the books of Drawer and Drawee on the dishonour of a bill.

Journal		
S.No	In the Books of Drawer	In the Books of Drawee
1	<i>At the time of sale of goods on credit</i>	<i>At the time of purchase of goods on credit</i>
	Party's Name (Purchaser) Dr. To Sales A/c (Goods sold on credit)	Purchases A/c Dr. To Party's Name (Seller) (Goods purchased on credit)
2	<i>When bill is drawn and received</i>	<i>When bill is accepted and sent to drawer</i>
	Bills Receivable A/c Dr. To Party's Name (Purchaser) (Acceptances received against amount due)	Party's Name (Seller) Dr. To Bills Payable A/c (Acceptances given)
3	<i>When Bill is held till its maturity</i>	<i>When Bill is held till its maturity</i>
	<u>On dishonour of bill on the due date</u>	<u>On dishonour of bill on the due date</u>

	<p>Drawee To Bills Receivable A/c (Dishonour of bill)</p> <p><u>Noting Charges paid during the year</u> Drawee To Cash/Bank A/c (Noting Charges recoverable)</p> <p><b><i>Instead of above two entries a Combined entry can be passed</i></b></p> <p>Drawee To Bills Receivable A/c To Cash/Bank A/c (Bill is dishonoured and noting charges paid)</p>	Dr.	<p>Bills Payable A/c To Drawer (Dishonour of bill)</p> <p><u>Noting Charges paid during the year</u> Noting Charges A/c To Drawer (Noting Charges are required to be paid to Drawer)</p> <p><b><i>Instead of above two entries a Combined entry can be passed</i></b></p> <p>Bills Payable A/c Noting Charges A/c To Drawer (Bill is dishonoured and noting charges paid)</p>	Dr.
4	<b><i>When Bill is discounted and thereafter it gets dishonoured</i></b>		<b><i>When Bill is discounted and thereafter it gets dishonoured</i></b>	
	<p><u>When bill is discounted with Bank</u> Cash A/c Discounting Charges A/c To Bills Receivable A/c</p> <p><u>On dishonour of bill</u> Drawee  To Cash or Bank A/c (Dishonour of a discounted bill)</p>	Dr. Dr.	<p><u>When bill is discounted with Bank</u> <b>NO ENTRY</b></p> <p><u>On dishonour of bill</u> Bills Payable A/c  Noting Charges A/c To Drawer (Dishonour of bill)</p>	Dr.  Dr.
5	<b><i>When bill is endorsed to creditors and thereafter it get dishonoured</i></b>		<b><i>When bill is endorsed to creditors and thereafter it get dishonoured</i></b>	
	<p><u>When bill is endorsed in favour of Creditors</u>  Party's Name (Creditor/Endorsee) To Bills Receivable A/c</p> <p><u>On dishonour of bill</u> Drawee To Endorsee (Dishonour of a endorsed bill)</p>	Dr.  Dr.	<p><u>When bill is endorsed in favour of Creditors</u> <b>NO ENTRY</b></p> <p><u>On dishonour of bill</u> Bills Payable A/c Noting Charges A/c To Drawer (Dishonour of bill)</p>	Dr.  Dr.

6	<p><b><i>When bill is sent to bank for collection and thereafter it get dishonoured</i></b></p> <p>Bills Sent for Collection A/c Dr.  To Bills Receivable A/c  (Bill is sent to bank for collection)</p> <p><i>On dishonour of bill</i>  Drawee Dr.  To Bills Sent for Collection A/c  To Cash or Bank A/c  (Bill sent for collection is dishonoured)</p>	<p><b><i>When bill is sent to bank for collection and thereafter it get dishonoured</i></b></p> <p>NO ENTRY</p> <p><i>On dishonour of bill</i>  Bills Payable A/c Dr.  Noting Charges A/c Dr.  To Drawer  (Bill dishonoured and noting charges are paid)</p>
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**Example 1** Preetam sold goods to Anu for Rs 24,500 on April 01, 2013. On the same day Preetam drew a 2 month bill for the same amount and it was duly accepted. On the due date bill got dishonoured and Preetam paid Rs 1,000 as noting charges. Pass the Journal Entries in the Books of Preetam and Anu.

**Solution**

Books of Preetam Journal					Books of Anu Journal				
Date	Particulars	L · F ·	De bit Am oun t (Rs )	Cre dit Am oun t (Rs )	Date	Particulars	L · F ·	De bit Am oun t (Rs )	Cre dit Am oun t (Rs )
2013 Apr il 01	Anu Dr.  To Sales A/c  (Goods sold on credit)		24,500	24,500	2013 Apr il 01	Purchases Dr. A/c  To Preetam  (Goods purchased on credit)		24,500	24,500

Apr il 01	Bills Receivable Dr. A/c	24, 500		Apr il 01	Preetam Dr. .	24, 500	
	To Anu		24, 500		To Bills Payable A/c		24, 500
	(Acceptance received against amount due)				(Acceptance given)		
Jun e 04	Anu Dr.	25, 500		Jun e 04	Bills Payable Dr. A/c	24, 500	
	To Bills Receivable A/c		24, 500		Noting Charges A/c	1,0 00	
	To Cash A/c		1,0 00		To Preetam		25, 500
	(Bill dishonoured and noting charges paid)				(Amount paid on maturity of bill)		

**Example 2** On March 01, 2013 Sonu sold goods to Rinku of Rs 20,000. On same day Sonu draws a bill of the amount payable at 3 months, Rinku accepts it and return back to Sonu. On April 01, 2013 Sonu discounts this bill with bank @ 9% p.a. On the due date bill was dishonoured and Noting Charges of Rs 200 were paid by the bank. Pass the Journal Entries in the books of Sonu and Rinku.

**Solution**

Books of Sonu Journal					Books of Rinku Journal				
Date	Particulars	L. F.	Debit Amount (Rs )	Credit Amount (Rs )	Date	Particulars	L. F.	Debit Amount (Rs )	Credit Amount (Rs )
2013 Mar ch 01	Rinku Dr.  To Sales A/c		20,0 00	20,0 00	20 13 Ma r 01	Purchases Dr. A/c  To Sonu		20,0 00	20,0 00

	(Goods sold on credit)					(Goods purchased on credit)			
Mar ch 01	Bills Receivable Dr A/c .	20,0 00			Ma r 01	Sonu Dr . .	20,0 00		
	To Rinku		20,0 00			To Bills Payable A/c		20,0 00	
	(Acceptance received against amount due)					(Acceptance given)			
Apri l 01	Cash A/c Dr . .	19,7 00			Jun e 04	Bills Dr Payable .	20,0 00		
	Discounting Dr Charges A/c .	300				Noting Dr Charges .	200		
	To Bills Receivable A/c		20,0 00			To Sonu		20,2 00	
	(Bill Discounted with Bank @ 9%)					(Bill dishonoured on the due date and Noting Charges were paid)			
June 04	Rinku Dr . .	20,2 00							
	To Bank A/c		20,2 00						
	(Discounted bill dishonoured)								

### Working Note:

*Calculation of Discounting Charges:*

Discounting Charges =  $20,000 \times 9100 \times 212 = 300$  Discounting Charges =  $20,000 \times 9100 \times 212 = 300$

**Example 3** Kapil drew a bill of Rs 16,500 on May 01, 2013 on Vishal payable after 4 months. Vishal accepted this bill and return back to Kapil. On June 15, 2013 Kapil endorsed this bill in favour of Ajay one of his Creditor. On the due date, bill was dishonoured and



noting charges of Rs 250 were paid. Pass the Journal Entries in the books of Kapil, Vishal and Ajay.

**Solution**

Books of Kapil Journal				Books of Vishal Journal				Books of Ajay Journal			
D a t e	P a r t i c u l a r s	D e b i t A m o u n t (R s)	C r e d i t A m o u n t (R s)	D a t e	P a r t i c u l a r s	D e b i t A m o u n t (R s)	C r e d i t A m o u n t (R s)	D a t e	P a r t i c u l a r s	D e b i t A m o u n t (R s)	C r e d i t A m o u n t (R s)
2013 May 01	Bills Receivable A/c  To Vishal  (Acceptances received from Vishal)	16,500	16,500	2013 May 01	Kapil Dr.  To Bills Payable A/c  (Acceptances were given to Kapil)	16,500	16,500	2013 June 15	Bills Receivable A/c  To Kapil  (Endorsement were received from Kapil)	16,500	16,500
June 15	Ajay Dr.	16,500		Sept 04	Bills Payable A/c Dr.	16,500		Sept 04	Kapil Dr.	16,750	

Sept · 0 4	To Bills Receivable A/c		1 6, 5 0 0 0		Noting Charge s A/c	D r.	2 5 0			To Bills Receivable A/c		1 6, 5 0 0 0 0
	(Bill endorsed in favour of Ajay)				To Kapil			1 6, 7 5 0		To Cash A/c		2 5 0
					(Bill dishonoured on maturity date)					(Bill dishonoured on maturity date)		
	Vishal D r.		1 6, 7 5 0 0									
	To Ajay		1 6, 7 5 0 0									
	(Bill dishonoured and noting charges paid)											

**Example 4** Rekha owed Rs 30,000 to Sushma. On Oct.01, 2013 Sushma drew a 3 month bill on Rekha equal to amount due. Rekha accepted the bill and return it back to Sushma. On Oct 15, 2013 Sushma endorsed the bill in favour of Jaya in order to clear her debt. After 16 days, Jaya discounts the bill with bank @7%. On the due date, bill was dishonoured and noting charges of Rs 300 were paid. Pass the Journal Entries in the books of all the parties.

**Solution**

Books of Sushma Journal	Books of Rekha Journal	Books of Jaya Journal
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Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)
2013 Oct 01	Bills Receivable A/c	30,000		2013 Oct 01	Sushma R.	30,000		2013 Oct 15	Bills Receivable A/c	30,000	
	To Rekha		30,000		To Bills Payable A/c		30,000		To Sushma		30,000
	(Acceptances received from Rekha)				(Acceptances were given to Sushma)				(Endorsement were received from Sushma)		
Oct 15	Jaya R.	30,000		2014 Jan 04	Bills Payable A/c	30,000		Nov 01	Cash A/c	29,650	
	To Bills Receivable A/c		30,000		Noting Charges A/c	300			Discounting Charges A/c	350	

	(Bill endorsed in favour of Jaya)				To Sushma	3 0, 3 0 0		To Bills Receivable A/c	3 0, 0 0 0
2 0 1 4					(Bill dishonoure d on maturity date)			(Bill discounted from bank @7%)	
Ja n. 0 4	Rekha	D r.	3 0, 3 0 0				2 0 1 4		
	To Jaya		3 0, 3 0 0				Ja n. 0 4	Sushma	D r.
	(Bill dishonoured and noting charges paid)							To Bank A/c	3 0, 3 0 0
								(Bill dishonoured and noting charges paid)	3 0, 3 0 0

### Working Note:

*Calculation of Discounting Charges:*

Discounting Charges =  $30,000 \times 7100 \times 212 = 350$  Discounting Charges =  $30,000 \times 7100 \times 212 = 350$

**Example 5** On 1<sup>st</sup> May 2013 L draws a three month bill on M for Rs 30,000 for the goods sold on credit. After its acceptance, L sends the bill to his bank for collection. On the due date the bill is dishonoured and bank charged Rs 100 as noting charges. Pass the necessary Journal Entries in the books of both the parties.

### Solution

**Books of L  
Journal**

**Books of M  
Journal**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 May 01	M Dr.  To Sales A/c  (Goods sold on credit)		30,000	30,000	2013 May 01	Purchases A/c Dr.  To L  (Goods purchased on credit)		30,000	30,000
May 01	Bills Receivable A/c Dr.  To M  (Acceptance received against amount due)		30,000	30,000	May 01	L Dr.  To Bills Payable A/c  (Acceptance given)		30,000	30,000
May 01	Bills Sent for Collection A/c Dr.  To Bills Receivable A/c  (Bill is sent to bank for collection on due date)		30,000	30,000	Aug 04	Bills Payable Dr. A/c  Noting Charges Dr. A/c  To Cash or Bank A/c (Bill dishonoured on due date)		30,000  100	30,100
Aug 04	M Dr.  To Bills Sent for Collection A/c		30,100	30,000					

To Cash A/c			10					
(Bill dishonoured on due date)			0					

**Example 6** On July 01, 2013 Rachna decides to draw a bill of 3 months on Yamini for the due amount, it was duly accepted and then returned by her. Bill was dishonoured on the due date and Noting Charges were Rs 300. Pass the Journal Entries in the books of Rachna under the following cases:

- (1) Bill was held till maturity date
- (2) Bill was endorsed in the favour of Priya on July 25, 2013.
- (3) Bill was discounted @10% p.a. on August 01, 2013.

**Solution**

**Case (1) Bill was held till maturity date.**

**Books of Rachna  
Journal**

Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)
2013 July 01	Bills Receivable A/c Dr. To Yamini (Acceptance received from Yamini)		45,000	45,000
Oct.04	Yamini Dr. To Bills Receivable A/c To Cash A/c (Bill dishonoured on the maturity date and noting charges were paid)		45,300	45,000 300

**Case (2) Bill was endorsed in the favour of Priya on July 25, 2013.**

**Books of Rachna  
Journal**

Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)
2013 July 01	Bills Receivable A/c Dr. To Yamini (Acceptance received from Yamini)		45,000	45,000
July 25	Priya Dr. To Bills Receivable A/c (Bill endorsed in favour of Priya)		45,000	45,000

Oct.04	Yamini To Priya (Bill dishonoured on the maturity date and noting charges were paid)	Dr.	45,300	45,300
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**Case (3) Bill was discounted @10% p.a. on August 01, 2013.**

**Books of Rachna  
Journal**

Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)
2013 July 01	Bills Receivable A/c To Yamini (Acceptance received from Yamini)	Dr.	45,000	45,000
Aug. 01	Bank A/c Discounting Charges A/c To Bills Receivable A/c (Bill discounted with the Bank)	Dr. Dr.	44,250 750	45,000
Oct. 04	Yamini To Bank (Bill dishonoured on the maturity date and noting charges were paid)	Dr.	45,300	45,300

**Working Note:**

*Calculation of Discounting Charges:*

Discounting Charges =  $45,000 \times 10 \times \frac{100}{100} \times \frac{212}{360} = 750$

**Example 6:** Moti sold goods to Rita on 1st April, 2018 for Rs. 80,000 plus CGST and SGST @9% each. A bill of exchange was drawn for 4 months and was duly accepted by Rita. However, on the due date the bill was dishonored and noting charges were paid were Rs. 200. Give Journal entries in the books of Moti and Rita.

**Answer:**

**Moti's Journal**

Date	Particulars	L.F.	Dr.(Rs.)	Cr.(Rs.)
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2018 Apr.1	Rita's A/c To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold to Rita plus CGST & SGST paid @ 9% each)	Dr.		94,400		80,000 7,200 7,200
Apr. 1	Bills Receivable A/c To Rita's A/c (Being acceptance received)	Dr.		94,400		94,400
Aug.1	Rita's A/c To Bills Receivable A/c To Cash/Bank A/c (Being bill dishonored and noting charges paid)	Dr.		94,600		94,400 200

#### Rita's Journal

Date	Particulars	L.F.	Dr.(Rs.)	Cr.(Rs.)
2018 Apr.1	Purchases A/c Input CGST A/c Input SGST A/c To Moti's A/c (Being goods purchased plus CGST and SGST paid @ 9%)	Dr. Dr. Dr.	80,000 7,200 7,200	94,400
Apr.1	Moti's A/c To Bills Payable A/c (Being bill accepted)	Dr.	94,400	94,400
Aug.1	Bills Payable A/c Noting Charges A/c To Moti's A/c (Being bill dishonored and noting charges payable)	Dr. Dr.	94,400 200	94,600

#### Distinction between Noting Charges and Discounting Charges

Basis	Noting Charges	Discounting Charges
1) When Paid?	When a bill is dishonored by the drawee.	When a bill is discounted by the drawer from the bank.
2) Who Pays?	To be paid by the drawee. In case the drawee pays then the same shall be recovered from the debtor or drawee.	To be paid by the drawer. Hence, not recoverable from the drawee.



<b>3) Purpose</b>	It is paid to the notary to record the fact of dishonour of the bill.	It is paid to the bank for paying the bill amount to the drawer before the due date.
<b>4) Timing of the payment</b>	Paid at the due date of the bill.	Paid before the due date of the bill.
<b>5) Disclosure</b>	Entry is passed in the books of drawee.	No entry is passed in the books of drawee.

## **Insolvency of Drawee- Accounting Treatment with Examples**

### **Objectives**

After going through this lesson, you shall be able to understand the following concepts.

- Insolvency of Drawee/Acceptor
- Accounting Treatment of bill when drawee becomes insolvent

### **Introduction**

In the previous lesson, we have extensively studied the accounting treatment of the cases involving Dishonour of a Bill. Moving forward in the same swing, we will now discuss the accounting treatment of a Bill of Exchange particularly when an acceptor becomes insolvent. As you know that Dishonour of a bill is due to the insolvency of the Drawee, so in a way this lesson is an extension of the topic dishonour of a bill.

### **Insolvency of Drawee**

Insolvency is a situation where the person is not able to pay off his/her liabilities or debts. Sometimes a bill may get dishonoured due to the insolvency of the Drawee on the due date. In such a case the Drawer has no option but to recover his dues from the estates of Drawee and in case his estate remains insufficient then the remaining amount would be treated as Bad Debt by the Drawer.

### **Accounting Treatment when drawee (acceptor) is insolvent**

The insolvency of the acceptor will subsequently lead to dishonour of the bill, which will be accounted in the Books of Drawer and Drawee in the following manner.

- (a) In the Books of Drawer:** On Dishonour of bill, entry would remain same as passed in previous lesson. When Drawer recovers his dues from estates of Drawee, Cash Account is debited and any remaining balance is transferred to the Bad Debts Account.
- (b) In the Books of Drawee:** In case a bill is dishonoured its treatment would remain the same as done in the previous lesson. At the time of paying-off part of dues of drawer by drawee from his/her estates, Drawer Account will be debited with

simultaneous credit of Cash Account and Deficiency Account. Deficiency Account refers to Account which contains the amount that remain unpaid by Drawee.

So, Journal Entries for these are:

Journal		
S.No.	(a) In the Books of Drawer	(b) In the Books of Drawee
1	<b><i>On dishonour of bill on the due date</i></b>	<b><i>On dishonour of bill</i></b>
	Drawee Dr. To Bills Receivable A/c To Cash or Bank A/c (Dishonour of bill) Entries for dishonour in other cases are already discussed in the previous lesson.	Bills Payable A/c Dr. Noting Charges A/c Dr. To Creditor or Drawer (Bill dishonoured)
2	<b><i>On recovery of part payment as dividend from Insolvent's Estates</i></b>	<b><i>On recovery of part payment as dividend from Insolvent's Estates</i></b>
	Cash / Bank A/c Dr. Bad Debts A/c Dr. To Drawee (On recovery of part of dues and balance transferred to Bad Debts)	Drawer A/c Dr. To Cash A/c To Deficiency A/c (On payment of part of dues and balance transferred to Deficiency A/c)

**Example -1:** Shiv sold goods to Narayan of Rs 12,000 on July 01, 2013. On the same day, Shiv draws bill of the due amount payable after 3 months. Bill was accepted and returned by Narayan. Shiv get the bill discounted with Bank for Rs 11,500. On the due date bill was dishonoured due to insolvency of Narayan, only 40% was recovered from his estates. Pass the Journal Entries in the Books of Shiv and Narayan.

**Solution**

**Books of Shiv  
Journal**

**Books of Narayan  
Journal**

Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				

July 01	Narayan	Dr.	12,000		July 01	Purchases A/c	Dr.	12,000	
	To Sales A/c			12,000		To Shiv			12,000
	(Goods sold on credit)					(Goods purchased on credit)			
July 01	Bills Receivable A/c	Dr.	12,000		July 01	Shiv	Dr.	12,000	
	To Narayan			12,000		To Bills Payable A/c			12,000
	(Acceptance received from Narayan)					(Acceptance given to Shiv)			
July 01	Bank A/c	Dr.	11,500		Oct. 04	Bills Payable A/c	Dr.	12,000	
	Discounting Charges A/c	Dr.	500			To Shiv			12,000
	To Bills Receivable A/c			12,000		(Bill dishonoured due to insolvency)			
	(Bill discounted with the bank)								
Oct 04	Narayan	Dr.	12,000		Oct. 04	Shiv	Dr	12,000	
	To Bank A/c			12,000		To Bank A/c			4,800
	(Bill dishonoured)					To Deficiency A/c			7,200
						(Payment of 40% part of dues and balance transferred to Deficiency Account)			
Oct 04	Bank A/c	Dr	4,800						
	Bad Debts A/c	Dr	7,200						
	To Narayan			12,000					
	(Recovery of 40% part of dues and balance transferred to Bad Debts A/c)								

**Example-2:** On April 01, 2013 Puneet sold goods to Kamal of Rs 15,000. On same day Puneet draws a bill of the amount payable at 3 months, Kamal accepts it and return back to Puneet. On May 01, 2013 Puneet discounts this bill with bank @ 10% p.a. On the due date bill was dishonoured due to insolvency of Kamal and Noting Charges of Rs 300 were paid by the bank. 30% was recovered from his estates. Pass the Journal Entries in the books of Puneet and Kamal.

**Solution**

Books of Puneet Journal					Books of Kamal Journal				
Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 April 01	Kamal Dr. To Sales A/c (Goods sold on credit)		15,000	15,000	2013 April 01	Purchases A/c Dr. To Puneet (Goods purchased on credit)		15,000	15,000
April 01	Bills Receivable A/c Dr. To Kamal (Acceptance received from Kamal)		15,000	15,000	April 01	Puneet Dr. To Bills Payable A/c (Acceptance given to puneet )		15,000	15,000
May 01	Bank A/c Dr. Discounting Charges A/c (WN) Dr. To Bills Receivable A/c (Bill discounted with the bank @ 10%)		14,750 250	15,000	July 04	Bills Payable A/c Dr. Noting Charges A/c Dr. To Puneet (Bill dishonoure		15,000 300	15,300

						d on the due date and Noting Charges were paid)			
July 04	Kamal	D r.	15,300		July 04	Puneet	D r.	15,300	
	To Bank			15,300		To Bank			4,590
	(Bill dishonoured)					A/c To Deficiency A/c (Payment of 30% part of dues and balance transferred to Deficiency Account)			10,710
July 04	Bank A/c (30% × 15,300)	D r.	4,590						
	Bad Debts A/c	D r.	10,710						
	To Kamal			15,300					
	(Recovery of 30% part of dues and balance transferred to Bad Debts)								

**Working Note:**

*Calculation of Discounting Charges:*

$$\text{Discounting Charges} = 15,000 \times \frac{10}{100} \times \frac{2}{12} = 250$$

**Example-3:** On August 01, 2013 Ravi sold goods valued Rs 75,000 to Goldy, in return received cash of Rs 30,000 and two bills of Rs 25,000 and 20,000 of two months each. Both bills were duly accepted by Goldy and returned to Ravi. First bill was discounted with the Bank @ 6% on the date of acceptance whereas second bill was endorsed in favour of Deepak. On the due date both the bills get dishonoured due to insolvency of Goldy. Bank

has paid Rs 350 and Deepak has paid Rs 120 as noting charges. Nothing was realized from the estates of Goldy. Pass the necessary Journal Entries in the books of Ravi and Goldy.

***Solution***

**Books of Ravi  
Journal**

**Books of Goldy  
Journal**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)		Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 Aug 01	Goldy Dr. To Sales A/c (Goods sold on credit)		75,000	75,000		2013 Aug 01	Purchases Dr. A/c To Ravi (Goods purchased on credit)		75,000	75,000
Aug 01	Cash A/c Dr. Bills Receivable (1) A/c Dr. Bills Receivable(2) A/c Dr. To Goldy (Cash & Acceptances received from Kamal)		30,000 25,000 20,000	75,000		Aug 01	Ravi Dr. To Cash A/c  To Bills Payable(1) A/c  To Bills Payable(2) A/c (Acceptances were given to Ravi)		75,000	30,000 25,000 20,000
Aug 01	Bank A/c Dr. Discounting Charges A/c Dr. To Bills Receivable (1) A/c (Bill discounted with the bank )		24,750 250	25,000		Oct 04	Bills Payable(1) A/c Dr. Bills Payable(2) A/c Dr. Noting Charges A/c Dr. To Ravi A/c		25,000 20,000 470	45,470

Aug 01	Deepak Dr.	20,000				Oct 04	(Bill dishonoured on maturity date) Ravi Dr.	45,470	
	To Bills Receivable (2) A/c (Bill endorsed in favour of Deepak)		20,000				To Deficiency A/c		45,470
							(Nothing is paid)		
Oct 04	Goldy Dr.	45,470							
	To Bank A/c		25,350						
	To Deepak (Bill dishonoured and noting charges paid)		20,120						
Oct 04	Bad debts A/c Dr	45,470							
	To Goldy (Amount written off as bad debts)		45,470						

**Example-4:** Rajat accepted a bill of Rs 20,000 for two months on March 1,2013 , drawn by Lalit . Lalit discounted the same with his bank on March 4,2013 at 6% p.a. At maturity the bill was dishonoured and noting charge of Rs 120 was paid. One month after maturity, Rajat paid Rs 5000 to Lalit and accepted a fresh bill for three months including interest at 6% p.a. Please pass the journal entries in the books of Rajat and Lalit.

**Solution**

**Books of Lalit  
Journal**

**Books of Rajat  
Journal**

Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)		Date	Particulars	L. F.	Debit Amount (Rs)	Credit Amount (Rs)
2013						2013				

Mar 01	Bills Receivable A/c To Rajat (Acceptances received from Rajat for two months)	Dr.	20,000		20,000	Mar 01	Lalit To Bills Payable A/c (Acceptances given to Lalit)	Dr.	20,000	20,000
Mar 04	Bank A/c Discounting Charges A/c To Bills Receivable A/c (Bill discounted with the bank)	Dr.	19,800	200	20,000	May 04	Bills Payable A/c Noting Charges A/c To Lalit (Amount paid on maturity of bill)	Dr.	20,000	120
May 04	Rajat To Bank A/c (Bill dishonoured)	Dr.	20,120		20,120	June 04	Lalit To Bank A/c (Being cash paid to Lalit)	Dr.	5,000	5,000
June 04	Bank A/c To Rajat (Being cash received from Rajat)	Dr.	5,000		5,000	June 04	Interest A/c To Lalit (Being interest charged @ 6% p.a.)	Dr.	327	327



June 04	Rajat Dr.	327		June 04	Lalit Dr.	15,447	
	To Interest A/c (Being interest Charged @ 6% p.a.)		327		To Bills Payable A/c (Being the acceptance given for three months)		15,447
June 04	Bills Receivable A/c To Rajat  (Being the acceptance received for three months)	15,447	15,447				

### Working Notes:

#### WN1: Calculation of Interest on the outstanding balance of Bill Dishonoured at maturity:

On Rs 20,120 for 1 month @ 6% =  $20,120 \times 6 \times 100 \times 112 = 100.60$  On Rs 15,120 for 3 months @ 6% =  $15,120 \times 6 \times 100 \times 312 = 226.80$  ∴ Total Interest charged =  $100.60 + 226.80 = \text{Rs } 327$  (Approx.)  
On Rs 20,120 for 1 month @ 6% =  $20,120 \times 6 \times 100 \times 112 = 100.60$  On Rs 15,120 for 3 months @ 6% =  $15,120 \times 6 \times 100 \times 312 = 226.80$  ∴ Total Interest charged =  $100.60 + 226.80 = \text{Rs } 327$  (Approx.)

#### WN2: Calculation of Amount of Fresh Bill Drawn on Renewal

Original Bill	20,000
Add: Noting Charges	120
	20,120
Less: Cash Received	5,000
Outstanding Amount	15,120
Add: Interest Charged	327
Amount of fresh bill issued	15,447

## Renewal and Retirement of Bill- Accounting Treatment with Examples

### Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Renewal of Bill and its Accounting Treatment
- Retirement of Bill and its Accounting Treatment

## Introduction

In the previous lesson, we learnt the accounting treatment in the case when bill is dishonoured due to insolvency of drawee in detail. In this lesson, we will discuss the accounting treatment in case of renewal and retirement of bill.

## Renewal of Bill

In some case it happens that on the due date of bill, drawee is unable to pay the bill amount and request Drawer to cancel it. In place of this cancelled bill he ask Drawer to issue a new bill, this gives him some extra time to pay the debts of Drawer. This whole process is called Renewal of Bill where old bill is replaced by a new bill. Drawer in return of issuing new bill charges interest from Drawee. This interest can either be paid in cash or its value can be included in the value of new bill. This interest is always calculated on the amount of new bill with the given rate for the period equal to new bill period. Point to be remembered here is Interest is always calculated on the amount of New Bill.

Also in case of Renewal of Bill there is no need of noting bill, this is because here cancellation of bill has been made on the request of drawee and not due to any dishonour.

## Accounting Treatment of Renewal of Bill

Following Journal Entries will be passed in the Books of Drawer and Drawee.

Journal		
S. No	In the Books of Drawer	In the Books of Drawee
1	<i>At the time of sale of goods on credit</i>	<i>At the time of purchase of goods on credit</i>
	Party's Name (Purchaser) Dr. To Sales A/c (Goods sold on credit)	Purchases A/c Dr. To Party's Name (Seller) (Goods purchased on credit)
2	<i>When bill is drawn and received</i>	<i>When bill is accepted and sent to drawer</i>
	Bills Receivable A/c Dr. To Party's Name (Purchaser) (Acceptance received against amount due)	Party's Name (Seller) Dr. To Bills Payable A/c (Acceptance given)

3	<b><i>When Original Bill is cancelled and New Bill is issued in its place</i></b>	<b><i>When Original Bill is cancelled and New Bill is issued in its place</i></b>
	<u>On Cancellation of Original Bill:</u> Party's Name (Purchaser) Dr. To Bills Receivable A/c (Cancellation of bill)	<u>On Cancellation of Original Bill:</u> Bills Payable A/c Dr. To Party's Name (Seller) (Cancellation of bill)
	<u>Interest charged on new bill for extended period</u> Party's Name (Purchaser) Dr. To Interest A/c (Interest charged for the extended period)	<u>Interest charged on new bill for extended period</u> Interest A/c Dr. To Party's Name (Seller) (Interest charged for the extended period)
	<u>If part payment of debt is received</u> Cash or Bank A/c Dr. To Party's Name (Purchaser) (Part payment is received)	<u>If part payment of debt is paid</u> Party's Name (Seller) Dr. To Cash or Bank A/c (Part payment is made)
	<u>New Bill drawn</u> Bills Receivable A/c Dr. To Party's Name (Purchaser) (New Bill was drawn)	<u>New Bill accepted</u> Party's Name (Seller) Dr. To Bills Payable A/c (New bill was accepted)
4	<b><i>At the time of Maturity of New Bill</i></b>	<b><i>At the time of Maturity of New Bill</i></b>
	Cash A/c Dr. To Bills Receivable A/c (Amount received on maturity of bill)	Bills Payable A/c Dr. To Cash A/c (Amount paid on maturity date of bill)

**Example 1** Karan sold goods to Kunal of Rs 18,000 on September 01, 2013. On the same day Karan drew a bill of the amount due payable after 3 months. Bill was accepted and returned by Kunal. On November 01, 2013 Kunal requested Karan to cancel the bill, to accept Rs 6,000 as part payment and drew a fresh bill of Rs 12,500 for a further period of two months. Rs 500 is the interest for renewal of bill. Bill was honoured on its due date. Pass the Journal Entries in the Books of Karan and Kunal.

### ***Solution***

#### **Books of Karan Journal**

#### **Books of Kunal Journal**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)		Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
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2013 Sept.01	Kunal Dr.	18,000		2013 Sept.01	Purchases Dr. A/c	18,000	
	To Sales A/c (Goods sold on credit)		18,000		To Karan (Goods purchased on credit)		18,000
Sept.01	Bills Dr. Receivable A/c	18,000		Sept.01	Karan Dr.	18,000	
	To Kunal		18,000		To Bills Payable A/c		18,000
	(Acceptances received from Kunal)				(Acceptances given)		
Nov.01	Kunal Dr.	18,000		Nov.01	Bills Payable Dr. A/c	18,000	
	To Bills Receivable A/c (Bill was cancelled)		18,000		To Karan (Bill was cancelled)		18,000
Nov.01	Cash A/c Dr.	6,000		Nov.01	Karan Dr.	6,000	
	To Kunal (Part payment was received)		6,000		To Cash A/c (Part payment was made)		6,000
Nov.01	Kunal Dr.	500		Nov.01	Interest A/c Dr.	500	
	To Interest (Interest charged for the extended period)		500		To Karan (Interest made due for the extended period)		500
Nov.01	Bill Dr. Receivable A/c	12,500		Nov.01	Karan Dr.	12,500	
	To Kunal		12,500		To Bills Payable A/c		12,500
	(Acceptances of new bill was received)				(Acceptances of New bill were given)		
2014 Jan.04	Cash A/c Dr.	12,500		2014 Jan.04	Bills Payable Dr. A/c	12,500	

	To Bills Receivable A/c (Bill was met on the due date)			12,500			To Cash A/c  (Bill was met on the due date)			12,500
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**Example 2** On May 01, 2013 Ranbir conveys Imran that his acceptances of Rs 16,000 that was endorsed in favour of Arjun by Ranbir was dishonoured, noting charges on this were Rs 200. Imran requested to Ranbir to accept Rs 6,000 in cash and drew a fresh bill of Rs 10,000 at 3 months along with interest of 8% p.a. for the extended period. Ranbir agrees to proposal. Pass the Journal Entries in the books of Ranbir and Imran.

**Solution**

**Books of Ranbir  
Journal**

**Books of Imran  
Journal**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)		Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 May 01	Imran Dr.  To Arjun  (Endorsed Bill dishonoured)		16,200			2013 May 01	Bills Payable Dr. A/c Noting Dr. Charges A/c To Ranbir  (Bill dishonoured and Noting Charges were paid)		16,000  200	    16,200
May 01	Imran Dr.  To Interest A/c (Interest charged for the extended period)		204			May 01	Interest A/c Dr.  To Ranbir (Interest charged for the extended period)		204	  204
May 01	Cash A/c Dr.  Bills Receivable Dr. A/c To Imran		6,000  10,404			May 01	Ranbir Dr.  To Cash A/c To Bills Payable A/c		16,404	  6,000 10,404
				16,404						

(Cash received for part payment and fresh acceptances of balance amount along with interest received from Imran )						(Cash paid for part payment and fresh acceptances of balance amount along with interest sent to Imran )			
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### Working Note:

*Calculation of Interest:*

$$\text{Interest} = 10,200 \times \frac{8}{100} \times \frac{3}{12} = 204$$

### Retirement of Bill

Sometimes Acceptor/Drawee wants to pay the bill before its due date this is called retirement of bill. As a result of early payment the drawer/holder allows Drawee to pay amount lesser than the bill amount. Difference between Bill amount and actual payment amount is termed as Rebate. This rebate is a loss for holder as he/she is getting short payment and it is a gain for Drawee as he has to pay less amount.

### Accounting Treatment of Retirement of Bill

Following Journal Entries will be passed in the Books of Drawer and Drawee.

#### Journal

S.No.	In the Books of Drawer	In the Books of Drawee
1	<b><i>When Bill is retired under Rebate</i></b>	<b><i>When Bill is retired under Rebate</i></b>
	Cash A/c Dr. Rebate A/c Dr. To Bills Receivables A/c (Amount received before due date and rebate allowed)	Bills Payable A/c Dr. To Cash (or Bank) A/c To Rebate A/c (Acceptance met before due date and rebate was received)

**Example 3** On April 01, 2013 Vikas sold goods valued Rs 25,000 to Mohit, in return drew a bill of 5 months. Bill was duly accepted by Mohit and returned to Vikas. On June 04, 2013 Mohit retired bill under the rebate of 8% p.a. Pass the necessary Journal Entries in the books of Vikas and Mohit.

***Solution***

**Books of Vikas  
Journal**

**Books of Mohit  
Journal**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)		Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 April 01	Mohit Dr. To Sales A/c (Goods sold on credit)		25,000	25,000		2013 April 01	Purchases Dr. A/c To Vikas (Goods purchased on credit)		25,000	25,000
April 01	Bills Dr. Receivable A/c To Mohit (Acceptances of the bill were received from Mohit)		25,000	25,000		April 01	Vikas Dr.  To Bills Payable A/c (Acceptances were given to Vikas)		25,000	25,000
June 04	Cash A/c Dr.  Rebate Dr. A/c ( <b>WN</b> ) To Bills Receivable A/c (Amount received before due date and rebate allowed)		24,500  500	25,000		June 04	Bills Payable Dr. A/c To Cash A/c To Rebate A/c  (Acceptance met before due date and rebate was received)		25,000	24,500 500

**Working Note:**

*Calculation of Rebate:*

$$\text{Rebate} = 25,000 \times \frac{8}{100} \times \frac{3}{12} = 500$$

**Example 4:** R sells goods to S for Rs. 60,000 plus CGST and SGST paid @6% each. S accepts a bill for 3 months. Before the due date, S makes a request to R to cancel the bill by accepting a part payment of Rs. 10,000 and drawing another bill for a further period of 2

months. Interest of Rs. 150 is to be paid for the extended period. R agrees to the proposition. The new bill is duly honoured by S. Pass Journal entries in the books of both the parties.

**Answer:**

**Journal of R**

Date	Particulars	L.F.	Dr.(Rs.)	Cr.(Rs.)
	S's A/c Dr. To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold and GST charged)		67,200	60,000 3,600 3,600
	Bills Receivable A/c Dr. To S's A/c (Being acceptance received from S)		67,200	67,200
	S' A/c Dr. To Bills Receivable A/c (Being the bill cancelled for renewal)		67,200	67,200
	Cash/ bank A/c Dr. To S's A/c (Being part payment received)		10,000	10,000
	S's A/c Dr. To Interest A/c (Being interest charged for the extended period)		150	150
	Bills Receivable A/c Dr. To S's A/c (Being new bill drawn for the balance plus the interest)		57,350	57,350
	Bank/Cash A/ Dr. To Bills Receivable A/c (Being the new bill duly honoured)		57,350	57,350

**Journal of S**

Date	Particulars	L.F.	Dr.(Rs.)	Cr.(Rs.)
	Purchases A/c Dr. Input CGST A/c Dr. Input SGST A/c Dr. To R's A/c (Being goods purchased and GST paid)		60,000 3,600 3,600	67,200



	R's A/c To Bills Payable A/c (Being acceptance given)	Dr.		67,200	67,200
	Bills Payable A/c To R's A/c (Being the bill cancelled for renewal)	Dr.		67,200	67,200
	R's A/c To Cash / Bank A/c (Being part payment paid)	Dr.		10,000	10,000
	Interest A/c To R's A/c (Being interest to be paid to R for the extended period)	Dr.		150	150
	R's A/c To Bills Payable A/c (Being new bill drawn)	Dr.		57,350	57,350
	Bills Payable A/c To Cash/Bank A/c (Being new bill duly honoured)	Dr.		57,350	57,350

### Accommodation Bill- Accounting Treatment with Examples

***Important: The topic 'Accommodation Bill' is not a part of syllabus for the academic session 2018-19. The topic has been discussed to enhance students' knowledge and understanding of the different types of bill that exist in real business practices.***

### Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Accommodation of Bill
- Accounting Treatment of Accommodation of Bill
- Distinction between Trade Bill and Accommodation of Bill

### Introduction

In the previous lesson, we have learnt the accounting treatment in case renewal of a bill or its retirement by the drawee. In this lesson, we will gain an understanding about the meaning of an accommodation bill, its accounting treatment and how it differs from a trade bill.

### Accommodation of Bill

When a person is in immediate need of funds and he doesn't have any option of instant borrowing from others. In such a situation he may draw a bill on someone he knows with

required amount and such person gives his acceptance on the bill, by doing this drawer has got a bill of exchange in his hand that can be discounted with the bank. By discounting, the drawer gets money which can be utilised for the required purpose. Before the due date of bill, the drawer (or the orrower) will give the amount to the drawee (or the lender) which is used in meeting the acceptances on the due date. This type of bill is known as accommodation bill which is utilised for the purpose of providing short term finance. It is different from a trade bill, as no trade transaction took place between the parties. In case of accommodation bills there may be a situation where both the parties to bill decides to share proceeds of the bill. If this happens then discounting charges of bank are to be shared between parties in the proportion in which proceeds were shared.

### Accounting Treatment of Accommodation of Bill

Accounting Treatment of accommodation of bill is exactly same as done in normal cases of bills of exchange. It is different only in one case where proceeds were shared by both the parties then, entry for proportionate discount shall be made in the books of each of the parties in respect of their share of discount.

### Difference between Trade Bill and Accommodation Bill

	<b>Basis</b>	<b>Trade Bill</b>	<b>Accommodation Bill</b>
(1)	Feature	It is drawn as a result of Sale or Purchase of Goods.	It is drawn to meet someone's requirement of funds
(2)	Proceeds of Bill	Proceeds are always kept by holder of bill	Proceeds of Bill may sometimes shared by the two parties
(3)	Dishonour of Bill	At the time of dishonour, amount can be recovered through the Court	At the time of dishonour, it is very difficult to pass a suit for recovery of amount.
(4)	Credit period	It is drawn to meet any debt, so bill period is a credit period allowed by Creditor to its debtor.	This bill is not drawn for any debt due, so there is no point of Credit Period

**Example-1:** On January 01, 2013 Nita accepted bill of Rs 12,000 payable after 3 months drawn by Tina for her benefit. Bill was discounted by Tina on January 04, 2013 @ 12%. On the due date Tina paid Rs 12,000 in cash to Nita for honouring the bill. Pass the Journal Entries in the Books of Tina and Nita.

### Solution

#### Books of Tina Journal

#### Books of Nita Journal

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)		Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013						2013				

Jan 01	Bills Receivable A/c To Nita  (Acceptance received from Nita for mutual accommodation)	Dr.	12,000	12,000	Jan.01	Tina  To Bills Payable A/c (Acceptance given to Tina for mutual accommodation)	Dr.	12,000	12,000
Feb.04	Cash A/c  Discounting Charges A/c To Bills Receivable A/c (Bill was discounted with the bank)	Dr.	11,640  360	12,000	April 04	Cash A/c  To Tina  (Amount was received)	Dr.	12,000	12,000
April 04	Nita  To Cash A/c  (Payment was made)	Dr.	12,000	12,000	April 04	Bills Payable A/c To Cash A/c  (Acceptance was honoured on due date)	Dr.	12,000	12,000

### Working Note:

(1) *Calculation of Discounting Charges:*

$$\text{Discounting Charges} = 12,000 \times \frac{12}{100} \times \frac{3}{12} = 360$$

**Example-2:** Sanjay and Salman two friends were in need of immediate funds. For this purpose on May 01, 2013 Sanjay draws a 3 month bill of Rs 30,000 on Salman, which was accepted by him. On the same date, Sanjay discounted this bill with the bank @ 8%. 50% of the proceeds of the bill were remitted to Salman. On the due date of bill, Sanjay pays required amount to Salman so that bill can be duly honoured. Journalise the transactions in

the books of Sanjay and Salman.

***Solution***

**Books of Sanjay  
Journal**

**Books of Salman  
Journal**

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)		Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 May 01	Bill Dr. Receivable A/c To Salman  (Acceptance received from Salman for mutual accommodation)		30,000			2013 May 01	Sanjay Dr.  To Bills Payable A/c (Acceptance given to Sanjay for mutual accommodation)		30,000	30,000
May.01	Cash A/c Dr.  Discounting Dr. Charges A/c To Bills Receivable A/c (Bill was discounted with the bank)		29,400  600			May 01	Cash A/c Dr.  Discounting Dr. Charges A/c To Sanjay  (50% of proceeds of bill was received from Sanjay)		14,700  300	15,000
May 01	Salman Dr. To Cash A/c To Discounting Charges A/c (50% of proceeds were remitted to Salman)		15,000	14,700 300		Aug.04	Cash A/c Dr. To Sanjay (Balance paid to Sanjay)		15,000	15,000
Aug.04	Salman Dr.		15,000			Aug.04	Bills Dr. Payable A/c To Cash A/c		30,000	30,000

To Cash A/c  (Remaining balance of bill was remitted to Salman)			15,000		(Acceptances met)			
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### Working Note:

(1) *Calculation of Discounting Charges:*

Discounting Charges =  $30,000 \times 8100 \times 312 = 600$  Discounting Charges =  $30,000 \times 8100 \times 312 = 600$

*Sometimes under Accommodation of Bill there may be a situation where two persons simultaneously draws and accepts bill of each other. In such cases each one separately discounts their bill and utilize its proceeds. On the due date of bill it is duly honoured by the parties.*

**Example-3:** Raj and Vikky for mutual benefit drew a simultaneous bill of Rs 25,000 on each other payable after 2 months. Bill was drawn on July 01, 2013 and on this date both discounted their bills with bank @ 9%. On the due date bill was honoured by each one of them. Pass Journal Entries in the books of Raj and Vikky.

### Solution

#### Books of Raj Journal

#### Books of Vikky Journal

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013 July 01	Bill Dr. Receivable A/c To Vikky (Acceptances received from Vikky for mutual accommodation)		25,000	25,000	2013 July 01	Bills Dr. Receivable A/c To Raj (Acceptances of the bill were received from Raj)		25,000	25,000
July 01	Vikky Dr. To Bills Payable A/c		25,000	25,000	July 01	Raj Dr. To Bills Payable A/c		25,000	25,000

	(Acceptances were given to Vikky)					(Acceptances were given to Raj)			
July 01	Cash A/c Dr. Discounting Dr. Charges A/c To Bills Receivable A/c (Amount of Bill received and rebate allowed)		24,625 375			July 01	Cash A/c Dr. Discounting Dr. Charges A/c To Bills Receivable A/c (Amount of Bill received and rebate allowed)		24,625 375
				25,000					25,000
Sept.04	Bills Payable A/c Dr. To Cash A/c (Acceptances were met)		25,000			Sept.04	Bills Payable A/c Dr. To Cash A/c (Acceptances were met)		25,000
				25,000					25,000

### Working Note:

*Calculation of Discounting Charges:*

$$\text{Discounting Charges} = 25,000 \times \frac{9}{100} \times \frac{2}{12} = 375$$

**Example-4:** On May 14, 2013 Mr Dhoni draws a bill of Rs 20,000 on Mr Yuvraj at three months for mutual accommodation of both. After acceptance, Mr Dhoni discounts the bill at Rs 15,000 and shares the proceeds in the ratio of 3:2 immediately. On the due date, Mr Dhoni fails to remits his obligation, as he was declared bankrupt and the final dividend @ 50 Paise in a rupee was realized from his estate on August 25, 2013. Please journalise the entries in the books of accounts.

### Solution

#### Books of Mr Dhoni Journal

#### Books of Mr Yuvraj Journal

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)		Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013						2013				

May 14	Bills Receivable A/c To Yuvraj  (Acceptance received from Yuvraj for mutual accommodation)	Dr.	20,000			20,000	
				20,000			
May 14	Bank A/c  Discounting Charges A/c  To Bill Receivable A/c (Being Bill Discounted with Bank )	Dr.  Dr.	15,000  5,000			20,000	
							20,000
May 14	Yuvraj  To Bank A/c To Discounting Charges A/c  (Being two fifth of the proceeds sent and proportionate discount charged)	Dr.	8,000				
				6,000 2,000			
Aug 25	Yujraj A/c  To Bank A/c (50% of Rs 12,000) To Deficiency A/c(50% of Rs 12,000)  (Being the final dividend of @ 50 paisa paid)	Dr.	12,000				
				6,000 6,000			
May 14	Dhoni  To Bills Payable A/c (Acceptance of the bill given to Raj)	Dr.	20,000				20,000
May 14	Bank A/c  Discounting Charges A/c To Dhoni (Being two fifth of proceeds of the bills recived in cash and discount charged)	Dr.  Dr.	6,000  2,000				8,000
Aug 17	Bills payable A/c To Dhoni (Being accommodation bill is dishonoured at maturity)	Dr.	20,000				20,000
Aug 25	Bank A/c  Bad Debts A/c To Dhoni A/c  (Being final dividend @ 50 paisa recived from dhoni)	Dr.  Dr.	6,000  6,000				12,000

### Working Note

Calculation of amount receivable from Dhoni's Estate :

Original bill amount

Bill amount remitted to Yujraj (2/5th of Rs 20,000)

Bill amount enjoyed by Dhoni and that is receivable from his estate

### Comprehensive Examples

**Example 1** Rohit owed Rs 12,000 to Dinesh. On January 01, 2013 Rohit accepted a 3 month bill drawn by Dinesh for the debt amount. Dinesh discounts this bill with bank on January 15, 2013 for Rs 11,200. On March 26, 2013 Rohit requested Dinesh for renewal of Bill. Dinesh agrees on the condition that Rs 2,000 to be paid immediately together with an interest on the remaining amount at 9% p.a. for 2 months and for the remaining balance Rohit should accept a new bill for 2 months. Arrangements were carried out but on the maturity date of the new bill, Rohit get insolvent and only 30% recovered from his estates. Pass the Journal Entries in the books of Dinesh and Rohit.

### Solution

#### Books of Dinesh Journal

#### Books of Rohit Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)		Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2013 Jan.01	Bills Dr. Receivable A/c To Rohit  (Acceptances received from Rohit)		12,000	12,000		2013 Jan.01	Dinesh Dr.  To Bills Payable A/c (Acceptances given)		12,000	12,000
Jan.15	Bank A/c Dr.  Discounting Dr. Charges A/c		11,200  800			Mar 26	Bills Dr. Payable A/c To Dinesh		12,000	12,000



	To Bills Receivable A/c (Bill discounted with bank)			12,000		(Bill was cancelled)			
Mar 26	Rohit Dr.	12,000			Mar 26	Interest A/c Dr.	150		
	To Bank A/c (Bill cancelled due to inability of Rohit to pay the debt)			12,000		To Dinesh (Interest made due for the extended period)			150
Mar 26	Rohit Dr.	150			Mar 26	Dinesh Dr.	2,150		
	To Interest ( <b>WN 1</b> ) (Interest charged for the extended period)			150		To Bank A/c  (Part payment of Rs 2,000 along with interest of Rs 150 will be paid off)			2,150
Mar 26	Bank A/c Dr. (2,000 + 150) To Rohit	2,150			Mar 26	Dinesh Dr.	10,000		
	(Portion of amount due <i>i.e.</i> Rs 2,000 received along with interest of Rs 150)			2,150		To Bills Payable A/c (Acceptances for new bill given)			10,000
Mar 26	Bills Receivable Dr. A/c To Rohit (Acceptances of new bill was received)	10,000			May 29	Bills Payable Dr. A/c To Dinesh (Bill dishonoured due to insolvency)	10,000		
				10,000					10,000
May 29	Rohit Dr.	10,000			May 29	Dinesh Dr.	10,000		

	To Bills Receivable A/c (Bill dishonoured due to insolvency of Rohit)			10,000		To Bank A/c			3,000
						To Deficiency A/c (30% of the amount due was paid and remaining transferred to Deficiency Account)			7,000
May 29	Bank A/c Dr.		3,000						
	Bad Debts A/c Dr. To Rohit (30% of the amount due was received on the bill from Rohit estates)		7,000	10,000					

**Working Note:**

(1) Calculation of Interest:

$$\text{Interest} = 10,000 \times \frac{9}{100} \times \frac{2}{12} = 150$$

**Example 2** Rishi draws two bills on March 01, 2013 for Rs 5,000 and Rs 8,000. Bill for Rs 5,000 is for the three months while bill of Rs 8,000 is for two months. Both the bills were accepted by Piyush. On April 10, 2013 Piyush requested Rishi to renew Rs 5,000 bill with interest @15% for further period of two months. Rishi agrees on this proposal. On April 15, 2013, Piyush retires bill of Rs 8,000 at a rebate of Rs 250. On the due date of renewed bill, Piyush becomes insolvent and only 40 paise in a rupee were recovered from his estates. Pass the Journal Entries in the books of Rishi and Piyush.

**Solution**

**Books of Rishi  
Journal**

**Books of Piyush  
Journal**

D a t e	Particulars	L. F.	Debi t A m o u n t (₹)	Cred it A m o u n t (₹)	D a t e	Particulars	L. F.	Debi t A m o u n t (₹)	Cred it A m o u n t (₹)
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2013 Mar 01	Bills Receivable (No 1) A/c	Dr.	5,000			2013 Mar 01	Rishi	Dr.	13,000		
	Bills Receivable (No 2) A/c	Dr.	8,000				To Bills Payable (No 1) A/c			5,000	
	To Piyush			13,000			To Bills Payable (No 2) A/c			8,000	
	(Acceptances received from Piyush)						(Acceptances given)				
Apr. 10	Piyush	Dr.	5,000			Apr. 10	Bills Payable (No 1) A/c	Dr.	5,000		
	To Bills Receivable (No 1) A/c			5,000			To Rishi			5,000	
	(Bill cancelled for renewal)						(Bill was cancelled)				
Apr. 10	Piyush		125			Apr. 10	Interest A/c		125		
	Dr. To Interest A/c (WN 1)			125			Dr. To Rishi			125	
	(Interest charged for the extended period)						(Interest charged for the extended period)				
Apr. 10	Bills Receivable (No 3) A/c	Dr.	5,125			Apr. 10	Rishi	Dr.	5,125		
	To Piyush			5,125			To Bills Payable (No 3) A/c			5,125	
	(New bill (No 3) drawn together with an interest @15% against cancellation of original bill (no 1) )						(New Acceptance (No 3) were given together with an interest @15% against cancellation of original acceptances (no 1))				
Apr. 15	Bank A/c	Dr.	7,750			Apr. 15	Bills Payable (No 2) A/c	Dr.	8,000		
	Rebate A/c	Dr.	250				To Bank A/c			7,750	
	To Bills Receivable (No 2) A/c			8,000			To Rebate A/c			250	

	(Amount received on retirement of Bill no 2 before its due date)					(Amount paid for retiring bill no 2 before its due date)			
June 13	Piyush Dr.	5,125			June 13	Bills Payable (No 3) Dr.	5,125		
	To Bills Receivable (No 3) A/c		5,125			To Rishi		5,125	
	(Bill dishonoured due to insolvency of Piyush)					(Bill dishonoured due to insolvency)			
June 13	Bank A/c (40% × 5,125) Dr.	2,050			June 13	Rishi Dr.	5,125		
	Bad Debts A/c (5,125 – 2,050) Dr.	3,075				To Bank A/c (40% × 5,125)		2,050	
	To Piyush		5,125			To Deficiency A/c (5,125 – 2,050)		3,075	
	(40 paisa in a rupee were received on the bill amount from Piyush estates)					(40 paisa in a rupee were paid on the bill amount and balance transferred to deficiency account)			

### Working Note:

(1) Calculation of Interest:

$$\text{Interest} = 5,000 \times \frac{15}{100} \times \frac{2}{12} = 125$$

**Example 3** Sachin sold goods to Vinod for Rs 30,000 on April 01, 2013. Sachin immediately receives cash of Rs 12,000 and for remaining amount he draw three bills of equal amount, each payable after 3 months. All the three bills were accepted by Vinod. First bill was discounted with bank at the rate of 10%, second bill was endorsed in favour of Saurav and third bill was send to Bank for collection. On the maturity date all the three bills were dishonoured. Bank pays Rs 300 and Saurav pays Rs 450 as noting charges. Pass the journal entries in the books of Sachin and Vinod.

### Solution

**Books of Sachin**  
**Journal**

**Books of Vinod**  
**Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)	Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2013 Apr. 01	Vinod Dr.		30,000		2013 Apr. 01	Purchases Dr. A/c		30,000	
	To Sales A/c (Goods were sold)			30,000		To Sachin (Goods were purchased)			30,000
Apr. 01	Cash A/c Dr.		12,000		Apr. 01	Sachin Dr.		30,000	
	Bills Receivable (No 1) A/c	Dr.	6,000			To Cash A/c			12,000
	Bills Receivable (No 2) A/c	Dr.	6,000			To Bills Payable (No 1) A/c			6,000
	Bills Receivable (No 3) A/c	Dr.	6,000			To Bills Payable (No 2) A/c			6,000
	To Vinod			30,000		To Bills Payable (No 3) A/c (Cash and acceptances were given)			6,000
	(Cash and acceptances received from Vinod)								
Apr. 01	Cash A/c Dr.		5,850		July 04	Bills Payable (No 1) A/c	Dr.	6,000	
	Discounting Charges A/c	Dr.	150			Bills Payable (No 2) A/c	Dr.	6,000	
	To Bills Receivable (No 1) A/c (Bill no 1 discounted with bank @10% for 3 months)			6,000		Bills Payable (No 3) A/c	Dr.	6,000	
						Noting Charges A/c (300 + 450)	Dr.	750	
						To Sachin (Bill no 1, 2 and 3 were dishonoured)			18,750

						and noting charges of Rs 300 and 450 were payable)			
Apr. 01	Saurav To Bills Receivable (No 2) A/c (Bill no 2 endorsed in favour of creditors)	Dr.	6,000	6,000					
Apr. 01	Bills Sent for Collection A/c To Bills Receivable (No 3) A/c (Bill no 3 sent for collection to the bank)	Dr.	6,000	6,000					
July 04	Vinod (6,300 + 6,450 + 6,000) To Bank A/c (6,000 + 300) To Saurav (6,000 + 450) To Bills Sent for Collection A/c (Bill no1,2 and 3 were dishonoured and noting charges of Rs 300 and 450 were paid by Bank and Saurav respectively)	Dr.	18,750	6,300 6,450 6,000					

**Example 4** On July 01, 2013 Manas discounted a 2 month bill of Rs 15,000 with a bank @12%. On the maturity date, bill was dishonoured and noting charges of Rs 750 were paid by bank. On the same date Sushant, drawee of the bill paid Rs 5,000 in cash and gives his acceptances to a new bill equal to remaining balance amount *plus* interest @ 12% p.a. for two months drawn by Manas. This new bill was discounted immediately by Manas with bank by paying discounting charges of Rs 250. On September 28, 2013 Sushant was declared insolvent and 40 paisa in rupee were declared from his estates. Pass journal entries in the books of Manas and Sushant.

**Solution**

**Books of Manas  
Journal**

**Books of Sushant  
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)		Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2013 July 01	Bank A/c Dr.		14,700			2013 Sept.04	Bills Payable A/c Dr.		15,000	
	Discounting Charges A/c Dr.		300				Noting Charges A/c Dr.		750	
	To Bills Receivable A/c (Bill discounted with bank)			15,000			To Manas (Bill was dishonoured)			15,750
Sept.04	Sushant Dr.		15,750			Sept.04	Manas Dr.		5,000	
	To Bank A/c (Bill dishonoured on its due date and noting charges were paid)			15,750			To Cash A/c (Cash paid to Manas)			5,000
Sept.04	Cash A/c Dr.		5,000			Sept.04	Interest A/c Dr.		215	
	To Sushant (Cash is paid)			5,000			To Manas (Interest payable @ 12% p.a. on the			215

						remaining balance Rs 10,750 for 2 months)			
Sep t.04	Sushant Dr.	215			Sept.04	Manas Dr.	10,965		
	To Interest A/c ( <b>WN 1</b> ) (Interest charged @ 12% p.a. on the remaining balance i.e. Rs 10,750 for 2 months)		215			To Bills Payable A/c  (Acceptances for new bill given)		10,965	
Sep t.04	Bills Receivable A/c (10,750 + 215) To Sushant	10,965			Sept.28	Bills Payable A/c	10,965		
	(Acceptances of new bill was received)		10,965			To Manas  (Bill dishonoured due to insolvency)			10,965
Sep t.04	Bank A/c Dr.	10,715			Sept.28	Manas Dr.	10,965		
	Discounting Charges A/c Dr.	250				To Bank A/c			4,386
	To Bills Receivable A/c (Bill dishonoured due to insolvency of Rohit)		10,965			To Deficiency A/c  (40% of the amount due was paid and remaining transferred to Deficiency Account)			6,579
Sep t.28	Sushant Dr.	10,965							
	To Bank A/c (Bill dishonoured due to insolvency of Sushant)		10,965						
Sep t.28	Bank A/c Dr.	4,386							
	(40% × 10,965) Bad Debts A/c Dr.	6,579							



To Sushant (40% of the amount due was received on the bill from Sushant estates)			10,965						
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### Working Note:

(1) Calculation of Interest:

$$\text{Interest} = 10,750 \times \frac{12}{100} \times \frac{2}{12} = 215$$

**Example 5** On August 01, 2013 Aditya sold goods to Prabhjeet for Rs 25,000 and drew a 3 month bill on him with the due amount. Prabhjeet accepted the bill. On the same date, Aditya purchased goods of Rs 28,000 from Karan. Aditya endorsed Prabhjeet acceptances to Karan in full settlement. On October 01, 2013, Karan purchased goods of Rs 32,200 from Prabhjeet. Karan endorsed bill received from Aditya to Prabhjeet and paid Rs 2,500 in full settlement of amount due to Prabhjeet. On November 01, 2013, Prabhjeet purchased goods of Rs 40,000 from Aditya and he pays amount due to Aditya through a cheque. Pass Journal Entries in the books of Aditya, Prabhjeet and Karan.

### Solution

Books of Aditya Journal				Books of Prabhjeet Journal				Books of Karan Journal			
Date	Particulars	Debit Amount (₹)	Credit Amount (₹)	Date	Particulars	Debit Amount (₹)	Credit Amount (₹)	Date	Particulars	Debit Amount (₹)	Credit Amount (₹)
2013 Aug. 01	Prabhjeet Dr.  To Sales A/c  (Goods were	25,000	25,000	2013 Aug. 01	Purchase Dr. A/c To Aditya  (Goods were	25,000	25,000	2013 Aug. 01	Aditya Dr.  To Sales A/c  (Goods were sold)	28,000	28,000





					d from Karan endors ement were cancelle d)							
No v.0 1	Ban k A/c	Dr .	40, 00 0		No v.0 1	Purc hase s A/c To Aditya	D r .	40, 00 0				
	To Prabhjee t (Cheque received from Prabhjee t against the due amount)			40, 00 0		(Goods were purchas ed)			40, 00 0			
					No v.0 1	Adit ya To Bank A/c (Payme nt were made through cheque)	D r .	40, 00 0		40, 00 0		

**Example 6** Ajay sold goods worth Rs 20,000 to Birju. He further drew a 2 month bill on Birju of Rs 20,000 and this bill was duly accepted by Birju. Ajay endorsed the bill to Chandan. Chandan endorsed it to Deepak. Deepak discounted the bill with bank @ 6% p.a. On the due date, Bill was dishonoured and noting charges of Rs 500 were paid by the bank. Pass the Journal entries in the books of Ajay, Birju, Chandan and Deepak.

**Solution**

Books of Ajay Journal				Books of Birju Journal				Books of Chandan Journal				Books of Deepak Journal			
Particulars		Debit Amount (₹)	Credit Amount (₹)	Particulars		Debit Amount (₹)	Credit Amount (₹)	Particulars		Debit Amount (₹)	Credit Amount (₹)	Particulars		Debit Amount (₹)	Credit Amount (₹)
Birju Dr.		20,000		Purchases A/c Dr.		20,000		Bills Receivable A/c Dr.		20,000		Bills Receivable A/c Dr.		20,000	
To Sales A/c			20,000	To Ajay			20,000	To Ajay			20,000	To Chandan			20,000
(Goods were sold on credit)				(Goods were purchased)				(Bill received from Ajay)				(Bill received from Chandan)			
Bills Receivable A/c Dr.		20,000		Ajay Dr.		20,000		Deepak Dr.		20,000		Bank A/c Dr.		19,800	
To Birju			20,000	To Bills Payable A/c			20,000	To Bills Receivable A/c			20,000	Discounting Charges A/c (WN1)		Dr. 200	
(Acceptances were received)				(Acceptances were given)				(Bill endorsed in favour)				To Bills Receivable A/c			20,000





**Books of Mukesh  
Journal**

**Books of Mahesh  
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)		Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2013 June 01	Mahesh Dr. To Sales A/c (Goods were sold)		32,000	32,000		2013 June 01	Purchases Dr. A/c To Mukesh (Goods were purchased)		32,000	32,000
June 01	Bills Dr. Receivable A/c To Mahesh  (Acceptances received from Mahesh)		32,000	32,000		June 01	Mukesh Dr.  To Bills Payable A/c (Acceptances given)		32,000	32,000
July 01	Bank A/c Dr.  Discounting Dr. Charges A/c ( <b>WN 1</b> ) To Bills Receivable A/c (Bill discounted with bank @12%)		31,360  640	32,000		Sept.04	Bills Dr. Payable A/c Noting Dr. Charges A/c To Mukesh  (Bill dishonoured on its due date and noting charges were payable to Mukesh)		32,000  350	32,350
Sept.04	Mahesh Dr. To Bank A/c (Bill dishonoured on the maturity date and Noting Charges were paid on behalf of Mahesh)		32,350	32,350		Sept.04	Mukesh Dr. To Cash A/c To Bills Payable (No 1) A/c  To Bills Payable (No 2) A/c		32,350	4,500 17,800  10,050



						(Cash of Rs 4,500 were paid and two promissory notes issued)			
Sept.04	Cash A/c	Dr.	4,500			Oct.07	Bills Payable (No 1) A/c	Dr.	17,800
	Bills Receivable (No 1) A/c	Dr.	17,800				To Cash A/c		17,800
	Bills Receivable (No 2) A/c	Dr.	10,050				(Amount paid on the maturity of bill (no 1))		
	To Mahesh (Cash of Rs 4,500 and two promissory notes were received )			32,350					
Oct.07	Cash A/c	Dr.	17,800			Nov.07	Bills Payable (No 2) A/c	Dr.	10,050
	To Bills Receivable (No 1) A/c (Bill (no. 1) honoured on its maturity date)			17,800			To Mukesh		10,050
							(Bill (no. 2) dishonoured due to insolvency)		
Nov.07	Mahesh To Bills Receivable (No 2) A/c (Bill (no. 2) dishonoured on its maturity date)	Dr.	10,050			Nov.07	Mukesh To Bank A/c	Dr.	10,050
				10,050			To Deficiency A/c		2,010
							(20% of the amount due were paid to Mukesh and balance transferred to Deficiency Account)		8,040

Nov.07	Bank A/c (20% × 10,050)	Dr.		2,010						
	Bad Debts A/c (10,050 – 2,010)	Dr.		8,040						
	To Mahesh (20% of the amount due were received from Mahesh estates)				10,050					

**Working Note:**

(1) Calculation of Discounting Charges:

$$\text{Discounting Charges} = 32,000 \times \frac{12}{100} \times \frac{2}{12} = 640$$

**Example 8** Varun and Arun drew a bill on each other for Rs 12,000 Payable in three months on March 1, 2013. The bills were discounted by them immediately at 15% p.a. On maturity, Varun met his obligation but Arun failed to make good of his commitment and Varun had to take it up. Arun then paid Rs 4,000 and accepted a fresh bill for two months together with interest at 15% p.a. on the outstanding balance for the period of extension .

At maturity, Arun was declared insolvent this lead to dishonour of the fresh bill and a final dividend of 30 paise in a rupee was realized from his estate 20 days after the maturity date. Journalize the above transactions in the books of both the parties.

**Solution**

**Books of Varun  
Journal**

**Books of Arun  
Journal**

Date	Particulars	L.F .	Debit Amount (₹)	Credit Amount (₹)	Date	Particulars	L.F .	Debit Amount (₹)	Credit Amount (₹)
20 13 Mar 01	Bills Receivable Dr. A/c  To Arun (Acceptances received from Arun for three months)		12,000	12,000	2013  Mar 01	Bills Receivable Dr. A/c To Varun (Acceptances received)		12,000	12,000

Mar 01	Arun	Dr.	12,000		Mar 01	Varun	Dr.	12,000	
	To Bills Payable A/c (Acceptance given)			12,000		To Bills Payable A/c (Acceptance given)			12,000
Mar 01	Bank A/c	Dr.	11,550		Mar 01	Bank A/c	Dr.	11,550	
	Discounting Charges A/c To Bills Receivable A/c (Bill discounted with the bank)	Dr.	450	12,000		Discounting Charges A/c To Bills Receivable A/c (Bill discounted with bank)	Dr.	450	12,000
June 04	Bills Payable A/c	Dr.	12,000		June 04	Bills Payable A/c	Dr.	12,000	
	To Bank (Payment of the accommodation bill made at maturity)			12,000		To Varun (Bill dishonoured on maturity)			12,000
June 04	Arun	Dr.	12,000		June 04	Varun	Dr.	4,000	
	To Bank A/c (Bill dishonoured)			12,000		To Cash A/c (Cash paid on maturity)			4,000
June 04	Cash A/c	Dr.	4,000		June 04	Interest A/c	Dr.	200	
	To Arun (Cash received from Arun)			4,000		To Varun (interest charged by Varun on outstanding balance of Rs 8,000 at 15% for two months)			200
June 04	Arun A/c	Dr.	200		June 04	Varun A/c	Dr.	8,200	
	To Interest A/c			200		To Bills Payable A/c			8,200

	(The interest charged on outstanding balance of Rs 8,000 at 15% p.a. for two months )					(acceptance given payable after three months)			
June 04	Bill Receivable Dr. A/c	8,200			Aug.07	Bills Payable Dr. A/c	8,200		
	To Arun A/c (The acceptance of bill for three months received)		8,200			To Varun A/c (new bill dishonoured on insolvency)		8,200	
Aug.07	Arun A/c Dr.	8,200			Aug.27	Varun A/c Dr.	8,200		
	To Bills Receivable A/c (Arun's bill dishonoured due to his insolvency)		8,200			To Bank (30% × 8,200) A/c To Deficiency A/c(70% × 8,200)  (Final dividend paid @ 30 paisa in a rupee)		2,460 5,740	
Aug.27	Bank A/c (30% × 8,200) Dr.	2,460							
	Bad Debt A/c Dr. (70% × 8,200) To Arun A/c (Final dividend received @ 30 paisa in a rupee from Arun's estate and balance is written off as Bad debt )	5,740		8,200					

**Example 9** Amir accepted 3 bills on 15<sup>th</sup> April 2013 for Rs 3,000; No.1 for Rs 1,500 for one month; No.2 Rs 1,000 for two months ; and No.3 for Rs 500 for 3 months drawn by Raj. On 20<sup>th</sup> April, 2013 Bill No. 1 was endorsed by Raj to his creditor Rahul to clear his account of Rs 1,650, Bill no. 2 was discounted on 22<sup>nd</sup> April for Rs Rs 900 and retained the third bill till maturity .Bill No. 1 was met on maturity . Bill No.2 was dishonoured on due date. Rs 100 being paid for noting charges. Raj charged Amir Rs 150 for interest and drew on him a

fourth bill of Rs 1,250 for three months and Amir accepted it and returned. Bill No.3 and 4 were met on due date.

Journalise entries in the books of Raj and Amir

***Solution***

**Books of Raj  
Journal**

**Books of Amir  
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)		Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2013 Apr. 15	Bills Dr. Receivable No.1 A/c		1,500			2013 Apr. 15	Raj Dr.		3,000	
	Bills Dr. Receivable No.2 A/c		1,000				To Bills Payable No.1 A/c			1,500
	Bills Dr. Receivable No.3 A/c		500				To Bills Payable No.2 A/c			1,000
	To Amir			3,000			To Bills Payable No.3 A/c (Acceptance given to Raj)			500
	(Acceptances were received from Amir )									
Apr. 20	Rahul Dr.  To Bills Receivable No.1 A/c		1,650	1,500		May 18	Bills Payable Dr. No.1 A/c To Cash A/c		1,500	1,500
	To Discount Received A/c (First bill endorsed in full settlement of Rs 1,650)			150			(Bills payable No.1 paid)			
Apr. 22	Cash A/c Dr.  Discounting Dr. Charges A/c		900  100			June 18	Raj Dr.  Noting Charges A/c		1,000  100	

	To Bill Receivable No.2 A/c (Second bill discounted)			1,000		To Bills Payable No.2 (Second bill dishonoured)			1,000
June 18	Amir Dr.	1,100		1,100	June 18	Interest A/c Dr.	150		150
	To Bank A/c (2 <sup>nd</sup> acceptance dishonoured and noting charges paid)					To Raj (Interest charged on outstanding balance)			
June 18	Amir Dr.	150		150	June 18	Raj Dr.	1,250		1,250
	To Interest A/c  (Interest due on Amir)					To Bills Payable No.4 A/c (Acceptance given)			
June 18	Bills Receivable No.4 A/c To Amir (Being acceptance of 4 <sup>th</sup> bill including noting charges and interest received)	1,250		1,250	July 18	Bills Payable No.3 A/c  To Cash A/c (Being bill No. 3 paid)	500		500
July 18	Cash A/c Dr.	500		500	Sept.21	Bills Payable No.4 A/c To Cash A/c  (Bill No.4 paid)	1,250		1,250
	To Bills Receivable No. 3 A/c (The third bill met on maturity)								
Sept.21	Cash A/c Dr. To Bills Receivable No. 4 A/c (Payment of 4 <sup>th</sup> bill received )	1,250		1,250					

**Example 10** Raju purchased from Bindu goods worth Rs 10,000 on 1<sup>st</sup> January 2013. A bill of exchange for 2 months was drawn on him by Bindu on the same day. Bindu got the bill discounted with the bank @ 18% p.a. The bill was dishonoured at maturity and noting charges of Rs 100 were paid. However, Bindu decided to receive Rs 5,400 in cash from Raju and two promissory notes- one for Rs 2,000 at 1 month and other for Rs 3,000 at 2 months in full settlement .The first promissory note was made good but due to insolvency of Raju second one was dishonoured . Bindu could recover 30% of the amount due to him on 7<sup>th</sup> June, 2013.

Journalise the above in the books of Raju and Bindu.

**Solution**

**Books of Bindu  
Journal**

**Books of Raju  
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)	Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2013 Jan.01	Raju Dr.  To Sales A/c (Credit sales to Raju)		10,000	10,000	2013 Jan 01	Purchases Dr. A/c To Bindu (Credit purchases from Bindu)		10,000	10,000
Jan.01	Bills Receivable Dr. A/c To Raju  (Acceptances received from Raju for three months)		10,000	10,000	Jan.01	Bindu Dr.  To Bills Payable A/c (Acceptances Given)		10,000	10,000
Jan 01	Bank A/c Dr.  Discounting Charges A/c (18% for 2 months)		9,700  300		Mar 04	Bills Payable Dr. A/c Noting Charges Dr. A/c		10,000  100	

	To Bills Receivable A/c (Bill discounted with the bank)			10,000			To Bindu (Bill Dishonoured)			10,100
Mar 04	Raju Dr.		10,100			Mar 04	Interest A/c Dr.		300	
	To Bank A/c (Acceptance of Raju dishonored paid on the due date)			10,100			To Bindu (Cash paid on maturity)			300
Mar 04	Raju Dr.		300			Mar 04	Bindu Dr.		10,400	
	To Interest A/c  (Interest due from Raju)			300			To Bills Payable No.1 A/c To Cash A/c			2,000 5,400
							To Bills Payable No.2 A/c (Cash and promissory note given)			3,000
Mar 04	Cash A/c Dr.		5,400			Apr 07	Bills Payable No.1 A/c Dr.		2,000	
	Bills Receivable No.1 A/c Dr.		2,000				To Cash A/c  (Bill no1 settled)			2,000
	Bills Receivable No.2 A/c Dr.		3,000							
	To Raju (The acceptance received from Raju)			10,400						
April 07	Cash A/c Dr.		2,000			June 07	Bills Payable No.2 A/c Dr.		3,000	
	To Bills Receivable A/c (Being amount received from Raju)			2,000			To Bindu  (For dishonour of acceptance)			3,000





[illegible]

	received written off)															

**Example 12: (With GST)** On April 01, 2018 Mandeep sold goods to Vikas for Rs 20,000 plus CGST and SGST @ 6% each, of which 50% is received in cash immediately and for the remaining balance 2 month bill was drawn. Mandeep accepted the bill. On the due date, Bill was met. Pass the Journal Entries in the books of both Mandeep and Vikas.

**Solution**

**Books of Mandeep  
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2018 April 01	Vikas <b>Dr.</b>  Cash A/c <b>Dr.</b> To Sales A/c To Output CGST A/c To Output SGST A/c (Goods sold on cash and credit)		11,200  11,200	   20,000 1,200 1,200
April 01	Bills Receivable A/c <b>Dr.</b>  To Vikas (Acceptances received from Vikas, for the balance 50%)		11,200	  11,200
June 04	Cash A/c <b>Dr.</b>  To Bills ReceivableA/c (Bill honoured on its due date)		11,200	  11,200

**Books of Vikas  
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2018				

April 01	Purchases A/c	Dr.	20,000	
	Input CGST A/c	Dr.	1,200	
	Input SGST A/c	Dr.	1,200	
	To Cash A/c			11,200
	To Mandeep			11,200
	(Goods purchased on cash and credit)			
April 01	Mandeep	Dr.	11,200	
	To Bills Payable			11,200
	(Acceptances given to Mandeep, for the balance 50%)			
June 04	Bills Payable A/c	Dr.	11,200	
	To Cash A/c			11,200
	(Bill honoured on its due date)			