Bill of Exchange

8

Learning Objectives

After studying this chapter, you will be able to :

- *state the meaning of bill of exchange and a promissory note;*
- *distinguish between a bill of exchange and a promissory note;*
- *state the advantages of bill of exchange;*
- *explain the meaning of different terms involved in the bill transaction,*
- *record bill of exchange transactions in journal;*
- *record transactions relating to dishonour, retirement and renewal of bill;*
- *describe the uses of bill receivable and bill payable book;*
- *state the meaning and use of accommodation bill.*

Goods can be sold or bought for cash or on credit. When goods are sold or bought for cash, payment is received immediately. On the other hand, when goods are sold/bought on credit the payment is deferred to a future date. In such a situation, normally the firm relies on the party to make payment on the due date. But in some cases, to avoid any possibility of delay or default, an instrument of credit is used through which the buyer assures the seller that the payment shall be made according to the agreed conditions. In India, instruments of credit have been in use since time immemorial and are popularly known as *Hundies*. The hundies are written in Indian languages and have a large variety (refer box1).

Box 1

Hundies and its Types

There are a variety of hundies used in our country. Let us discuss some of the most common ones. *Shahjog Hundi*: This is drawn by one merchant on another, asking the latter to pay the amount to a Shah. Shah is a respectable and responsible person, a man of worth and known in the bazaar. A shah-jog hundi passes from one hand to another till it reaches a shah, who, after reasonable enquiries, presents it to the drawee for acceptance of the payment.

Darshani Hundi: This is hundi payable at sight. It must be presented for payment within a reasonable time after its receipt by the holder. It is similar to a demand bill.

Dev Prakash Sharma/VIII Proof/19/05/2020

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Muddati Hundi: A muddati or miadi hundi is payable after a specified period of time. This is similar to a time bill.
There are few other varieties of hundies like *Nam-jog hundi, Dhani-jog hundi, Jawabee hundi, Hokhami hundi, Firman-jog hundi*, and so on.

Now a days these instruments of credit are called bills of exchange or promissory notes. The bill of exchange contains an unconditional order to pay a certain amount on an agreed date while the promissory note contains an unconditional promise to pay a certain sum of money on a certain date. In India these instruments are governed by the Indian Negotiable Instruments Act 1881.

8.1 Meaning of Bill of Exchange

According to the Negotiable Instruments Act 1881, a bill of exchange is defined as 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. The following features of a bill of exchange emerge out of this definition.

- A bill of exchange must be in writing.
- It is an order to make payment.
- The order to make payment is unconditional.
- The maker of the bill of exchange must sign it.
- The payment to be made must be certain.
- The date on which payment is made must also be certain.
- The bill of exchange must be payable to a certain person.
- The amount mentioned in the bill of exchange is payable either on demand or on the expiry of a fixed period of time.
- It must be stamped as per the requirement of law.

A bill of exchange is generally drawn by the creditor upon his debtor. It has to be accepted by the drawee (debtor) or someone on his behalf. It is just a *draft* till its acceptance is made.

For example, Amit sold goods to Rohit on credit for Rs. 10,000 for three months. To ensure payment on due date Amit draws a bill of exchange upon Rohit for Rs. 10,000 payable after three months. Before it is accepted by Rohit it will be called a draft. It will become a bill of exchange only when Rohit writes the word "accepted" on it and append his signature thereto communicate his acceptance.

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8.1.1 Parties to a Bill of Exchange

There are three parties to a bill of exchange:

(1) Drawer is the maker of the bill of exchange. A seller/creditor who is entitled to receive money from the debtor can draw a bill of exchange upon the buyer/debtor. The drawer after writing the bill of exchange has to sign it as maker of the bill of exchange.

(2) Drawee is the person upon whom the bill of exchange is drawn. Drawee is the purchaser or debtor of the goods upon whom the bill of exchange is drawn.

(3) Payee is the person to whom the payment is to be made. The drawer of the bill himself will be the payee if he keeps the bill with him till the date of its payment. The payee may change in the following situations:
   (a) In case the drawer has got the bill discounted, the person who has discounted the bill will become the payee;
   (b) In case the bill is endorsed in favour of a creditor of the drawer, the creditor will become the payee.

Normally, the drawer and the payee is the same person. Similarly, the drawee and the acceptor is normally the person. For example, Mamta sold goods worth Rs.10,000 to Jyoti and drew a bill of exchange upon her for the same amount payable after three months. Here, Mamta is the drawer of the bill and Jyoti is the drawee. If the bill is retained by Mamta for three months and the amount of Rs. 10,000 is received by her on the due date then Mamta will be the payee. If Mamta gives away this bill to her creditor Ruchi, then Ruchi will be the payee. If Mamta gets this bill discounted from the bank then the bankers will become the payee.

In the above mentioned bill of exchange, Mamta is the *drawer* and Jyoti is the *drawee.* Since Jyoti has accepted the bill, she is the *acceptor.* Suppose in place of Jyoti the bill is accepted by Ashok then Ashok will become the *acceptor.*

Mamta — New Delhi
Rs.10,000 — April 01, 2014

Three months after date pay to me or my order, the sum of Rupees Ten Thousand only, for value received.

Stamp

Accepted
(signed)
Jyoti
1.4.2014
73-B, Mahipalpur
New Delhi 110 037

(Signed)
Mamta
196, Karol Bagh
New Delhi

To
Jyoti
73-B, Mahipalpur
New Delhi 110 037

Figure 8.1 : Showing specimen of bills of exchange

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Test Your Understanding - I

Write 'Ture' or 'False' against each statement regarding a bill of exchange:

(i) A bill of exchange must be accepted by the payee.
(ii) A bill of exchange is drawn by the creditor.
(iii) A bill of exchange is drawn for all cash transaction.
(iv) A bill payable on demand is called Time bill;
(v) The person to whom payment is to be made in a bill or exchange is called payee.
(vi) A negotiable instrument does not require the signature of its maker.
(vii) The *hundi* Payable at sight is called *Darshani hundi*.
(viii) A negotiable instrument is not freely transferable.
(ix) Stamping of promissory note is not mandatory.
(x) The time of payment of a negotiable instrument need not be certain.

8.2 Promissory Note

According to the Negotiable Instruments Act 1881, a promissory note is defined as 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. However, according to the Reserve Bank of India Act, a promissory note payable to bearer is illegal. Therefore, a promissory note cannot be made payable to the bearer.

This definition suggests that when a person gives a promise in writing to pay a certain sum of money unconditionally to a certain person or according to his order the document is called is a promissory note.

Following features of a promissory note emerge out of the above definition:

- It must be in writing
- It must contain an unconditional promise to pay.
- The sum payable must be certain.
- It must be signed by the maker.
- The maker must sign it.
- It must be payable to a certain person.
- It should be properly stamped.

A promissory note does not require any acceptance because the maker of the promissory note himself promises to make the payment.

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Ashok Kumar — New Delhi
Rs. 30,000 — 01 April, 2014

Three months after date I promise to pay Sh. Harish Chander or order a sum of Rupees Thirty Thousand only for value received.

Stamp

To
Harish Chander
24, Ansari Road
Darya Ganj
New Delhi 110 002

Ashok Kumar
2, Dariba Kalan
Candani Chowk
Delhi 110 006

Fig. 8.2 : *Showing specimen of promissory note*

8.2.1 Parties to a Promissory Note

There are two parties to a promissory note.

- *Maker or Drawer* is the person who makes or draws the promissory note to pay a certain amount as specified in the promissory note. He is also called the promisor.
- *Drawee or Payee* is the person in whose favour the promissory note is drawn. He is called the promisee.

Generally, the drawee is also the payee, unless, it is otherwise mentioned in the promissory note. In the specimen of promissory note(refer figure 8.2), Ashok Kumar is the drawer or maker who promises to pay Rs.30,000 and Harish Chander is the drawee or payee to whom payment is to made. If Harish Chander endorses this promissory note in favour of Rohit then Rohit will become the payee. Similarly, if Harish Chander gets this promissory note discounted from the bank then the bank will become the payee.

Box 2
Distinction between a Bill of Exchange and Promissory Note

Both a bill of exchange and a promissory note are instruments of credit and are similar in many ways. However, there are certain basic differences between the two.

S. No	Basis	Bill of Exchange	Promissory Note
1	Drawer	It is drawn by the creditor	It is drawn by the debtor
2	Order or Promise and Parties	It contains an order to make payment. There can be three parties to it, viz. the drawer, the drawee and the payee.	It contains a promise to make payment. There are only two parties to it, viz. the drawer and the payee.

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3	Acceptance	It requires acceptance by the drawee or someone else on his behalf.	It does not require any acceptance.
4.	Payee	Drawer and payee can be the same party.	Drawer cannot be the payee of it.
5.	Notice	In case of its dishonour due notice of dishonour is to be given by the holder to the drawer	No notice needs to be givenin case of its dishonour.

Fig. 8.3 *Distinction between bills of exchange and promissory note*

8.3 Advantages of Bill of Exchange

The bills of exchange as instruments of credit are used frequently in business because of the following advantages:

- *Framework for relationships*: A bill of exchange represents a device, which provides a framework for enabling the credit transaction between the seller/ creditor and buyer/debtor on an agreed basis.
- *Certainty of terms and conditions*: The creditor knows the time when he would receive the money so also debtor is fully aware of the date by which he has to pay the money. This is due to the fact that terms and conditions of the relationships between debtor and creditor such as amount required to be paid; date of payment; interest to be paid, if any, place of payment are clearly mentioned in the bill of exchange.
- *Convenient means of credit*: A bill of exchange enables the buyer to buy the goods on credit and pay after the period of credit. However, the seller of goods even after extension of credit can get payment immediately either by discounting the bill with the bank or by endorsing it in favour of a third party.
- *Conclusive proof:* The bill of exchange is a legal evidence of a credit transaction implying thereby that during the course of trade buyer has obtained credit from the seller of the goods, therefore, he is liable to pay to the seller. In the event of refusal of making the payment, the law requires the creditor to obtain a certificate from the Notary to make it a conclusive evidence of the happening.
- *Easy transferability*: A debt can be settled by transferring a bill of exchange through endorsement and delivery.

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Test Your Understanding - II

Fill in the blanks with suitable word(s)

(i) The person to whom the amount mentioned in the promissory note is payable is known as _____.

(ii) Transfer of a negotiable instrument to another person by signing on it, is known as _____.

(iii) In a promissory note, the person who makes the promise to pay is called as _____.

(iv) A person who endorses the promissory note in favour of another is known as_____.

8.4 Maturity of Bill

The term maturity refers the date on which a bill of exchange or a promissory note becomes due for payment. In arriving at the maturity date three days, known as *days of grace,* must be added to the date on which the period of credit expires instrument is payable. Thus, if a bill dated March 05 is payable 30 days after date it, falls due on April 07, i.e. 33 days after March 05 If it were payable one month after date, the due date would be April 08, i.e. one month and 3 days after March 05. However, where the date of maturity is a public holiday, the instrument will become due on the preceding business day. In this case if April 08, falls on a public holiday then the April 07 will be the maturity date. But when an emergent holiday is declared under the Negotiable Instruments Act 1881, by the Government of India which may happen to be the date of maturity of a bill of exchange, then the date of maturity will be the next working day immediately after the holiday. For example, the Government declared a holiday on April 08 which happened to be the day on which a bill of exchange drawn by Gupta upon Verma for Rs.20,000 became due for payment, Since April 08, has been declared a holiday under the Negotiable Instruments Act, therefore, April 09, will be the date of maturity for this bill.

8.5 Discounting of Bill

If the holder of the bill needs funds, he can approach the bank for encashment of the bill before the due date. The bank shall makes the payment of the bill after deducting some interest (called discount in this case). This process of encashing the bill with the bank is called discounting the bill. The bank gets the amount from the drawee on the due date.

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8.6 Endorsement of Bill

Any holder may transfer a bill unless its transfer is restricted, i.e. the bill has been negotiated containing words prohibiting its transfer. The bill can be initially endorsed by the drawer by putting his signatures at the back of the bill along with the name of the party to whom it is being transferred. The act of signing and transferring the bill is called *endorsement.*

8.7 Accounting Treatment

For the person who draws the bill of exchange and gets it back after its due acceptance, it is a bill receivable. For the person who accepts the bill, it is a bills payable. In case of a promissory note for the maker it is a bills payable and for the person in whose favour the promissory note is drawn it is a bills receivable. Bills receivables are assets and Bills payable are liabilities. Bills and Notes are used interchangeably.

8.7.1 In the Books of Drawer/Promissor

A bill receivable can be treated in the following four ways by its receiver.

1. He can retain it till the date of maturity, and
   (a) get it collected on date of maturity directly, or
   (b) get it collected through the banker.
2. He can get the bill discounted from the bank.
3. He can endorse the bill in favour of his Creditor.

The accounting treatment in the books of receiver under all the four alternatives is given below under the assumption that the bill is duly honoured on maturity by the acceptor.

(1) When the bill of exchange is retained by the receiver with him till date of its maturity:

On receiving the bill

Bills Receivable A/c	Dr.	
To Debtors A/c		

On maturity of the bill

Cash/Bank A/c	Dr.	
To Bills Receivable A/c		

However, when the bill of exchange is retained by the receiver with him and sent to bank for collection a few days before maturity, the following two entries are recorded:

On sending the bill for collection

Bills Sent for Collection A/c	Dr.	
To Bills Receivable A/c		

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On receiving the advice from the bank that the bill has been collected

Bank A/c	Dr.	
To Bills Sent for Collection A/c		

(2) When the receiver gets the bill discounted from the bank:

On receiving the bill

Bills Receivable A/c	Dr.	
To Debtors A/c		

On discounting the bill

Bank A/c	Dr.	
Discount A/c	Dr.	
To Bills Receivable A/c		

On Maturity

No entry is recorded because the bill becomes the property of the bank, therefore, the bank collects the amount of the bill from the acceptor and no journal entry is recorded in the books of the drawer.

(3) When the bill is endorsed by the receiver in favour of his creditor:

On receiving the bill

Bills Receivable A/c	Dr.	
To Debtor's A/c		

On endorsing the bill

Creditor's A/c	Dr.	
To Bills Receivable A/c		

On Maturity

No entry is recorded because the bill has been transferred in favour of the creditor, therefore the creditor becomes its owner and will receive the payment on maturity. Hence, no entry is recorded in the books of drawer or endorser.

8.7.2 In the Books of Acceptor/Promissor

The following journal entries are recorded in the books of the acceptor or promisesor under all the four alternatives. It makes no difference whether the bill is retained discounted, endorsed or pledged.

On accepting the bill

Creditor's A/c	Dr.	
To Bills Payable A/c		

On Maturity of the bill

Bills Payable A/c	Dr.	
To Bank A/c		

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Box 3

1. When the drawer retains the bill with him till the date of its maturity and gets the same collected directly

Transaction	Books of Creditor/Drawer	Books of Debtor/ Acceptor
Sale/Purchase of goods	Debtor's A/c Dr. To Sales A/c	Purchases A/c Dr. To Creditor's A/c
Receiving/Accepting the bill	Bills Receivable A/c Dr. To Debtor's A/c	Creditor's A/c Dr. To Bills Payable A/c
Collection of the bill	Cash/Bank A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Cash/Bank A/c

2. When the bill is retained by the drawer with him and sent to bank for collection a few days before maturity

Transaction	Books of Creditor/Drawer	Books of Debtor/ Acceptor
Sale/Purchase of goods	Debtor's A/c Dr. To Sales A/c	Purchases A/c Dr. To Creditor's A/c
Receiving /Accepting the bill	Bills Receivable A/c Dr. To Debtor's A/c	Creditor's A/c Dr. To Bills Payable A/c
Sending the bill for collection	Bills sent for collection A/c Dr. To Bill Receivable A/c	*No entry*
On Receiving from the bank advice that the bill has been collected	Bank A/c Dr. To Bill Sent for Collection A/c	Bills Payable A/c Dr. To Bank A/c

3. When the drawer gets the bill discounted from the bank

Transaction	Books of Creditor/Drawer	Books of Debtor/ Acceptor
Sale/Purchase of goods	Debtor's A/c Dr. To Sales A/c	Purchases A/c Dr. To Creditor's A/c
Receiving /Accepting the bill	Bills Receivable A/c Dr. To Debtor's A/c	Creditor's A/c Dr. To Bills payable A/c
Discounting the bill	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c	*No entry*
On maturity of the bill	*No entry*	Bills payable A/c Dr. To Bank A/c

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4. When the bill is endorsed by the drawer in favour of his creditor

Transaction	Books of Creditor/Drawer	Books of Debtor/ Acceptor
Sale/Purchase of goods	Debtor's A/c Dr. To Sales A/c	Purchase A/c Dr. To Creditor's A/c
Receiving /Accepting the bill	Bills Receivable A/c Dr. To Debtor's A/c	Creditor's A/c Dr. To Bills payable A/c
Endorsing the bill	Creditor's A/c Dr. To Bills Receivable A/c	*No entry*
On maturity of the bill	*No entry*	Bills payable A/c Dr. To Bank A/c

The journal entries to be recoded in the books of the drawer and the acceptor under all the four cases have been summarised below.

Illustration 1

Amit sold goods for Rs.20,000 to Sumit on credit on Jan 01, 2015. Amit drew a bill of exchange upon Sumit for the same amount for three months. Sumit accepted the bill and returned it to Amit. Sumit met his acceptance on maturity. Record the necessary journal entries under the following circumstances:

(i) Amit retained the bill till the date of its maturity and collected directly

(ii) Amit discounted the bill @ 12% p.a from his bank

(iii) Amit endorsed the bill to his creditor Ankit

(iv) Amit retained the bill and on March, 31 2015 Amit sent the bill for collection to its bank. On April 05, 2015 bank advice was received.

Solution

Books of Amit
Journal

(i) When the bill was retained till its maturity.

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Jan 01	Sumit's A/c Dr. To Sales A/c (Sold goods to Sumit's on credit)		20,000	20,000
Jan 01	Bills Receivable A/c Dr. To Sumit's A/c (Received Sumit's acceptance payable after three months)		20,000	20,000

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Apr.05	Bank A/c Dr. To Bills Receivable A/c (Sumit met his acceptance on maturity)		20,000	 20,000

(ii) When the bill was discounted from the book.

Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Jan 01	Sumit's A/c Dr. To Sales A/c (Sold goods to Sumit's)		20,000	 20,000
Jan 01	Bills Receivable A/c Dr. To Sumit's A/c (Received Sumit's acceptance three months)		20,000	 20,000
Jan 01	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Sumit's acceptance discounted with the bank)		19,400 600	 20,000

(iii) When Amit endorsed the bill in favour of his creditor Ankit.

Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Jan. 01	Sumit's A/c Dr. To Sales A/c (Sold goods to Sumit's on credit)		20,000	 20,000
Jan. 01	Bills Receivable A/c Dr. To Sumit's A/c (Received Sumit's acceptance for three months)		20,000	 20,000
Jan. 01	Ankit's A/c Dr. To Bills Receivable A/c (Sumit acceptance endorsed in favour of Ankit)		20,000	 20,000

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(iv) When the bill was sent for collection by Amit to the bank.

Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Jan. 01	Sumit's A/c Dr. To Sales A/c (Sold goods to Sumit's on credit)		20,000	20,000
Jan. 01	Bills Receivable A/c Dr. To Sumit's A/c (Received Sumit's acceptance payable after three months)		20,000	20,000
Mar. 31	Bills Sent for Collection A/c Dr. To Bills Receivable A/c (Bills sent for collection)		20,000	20,000
Apr. 05	Bank A/c Dr. To Bills sent for collection A/c (Bills sent for collection collected by the bank)		20,000	20,000

The following journal entries will be made in the books of Sumit under all the four circumstances:

In the books of Sumit
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Jan. 01	Purchases A/c Dr. To Amit's A/c (Purchases goods from Amit on credit)		20,000	20,000
Jan. 01	Amit's A/c Dr. To Bill's Payable A/c (Accepted bill drawn by Amit payable after three months)		20,000	20,000
Apr. 04	Bills payable A/c Dr. To Bank A/c (Met acceptance maturity)		20,000	20,000

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Illustration 2

On March 15, 2015 Ramesh sold goods for Rs. 8,000 to Deepak on credit. Deepak accepted a bill of exchange drawn upon him by Ramesh payable after three months. On April, 15 Ramesh endorsed the bill in favour of his creditor Poonam in full settlement of her debt of Rs. 8,250. On May 15, Poonam discounted the bill with her bank @ 12% p.a. On the due date Deepak met the bill. Record the necessary journal entries in the books of Ramesh, Deepak, Poonam.

Books of Ramesh
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015				
Mar. 15	Deepak A/c Dr.		8,000	
	To Sales A/c			8,000
	(Sold goods to Deepak on credit)			
Mar. 15	Bills Receivable A/c Dr.		8,000	
	To Deepak A/c			8,000
	(Received Deepak's acceptance for three months)			
Apr. 15	Poonam's A/c Dr.		8,250	
	To Bills Receivable A/c			8,000
	To Discount Received A/c			250
	(Bill endorsed in favour of Poonam in full settlement of her debt of Rs. 8,250)			

Book of Deepak
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015				
Mar. 05	Purchases A/c Dr.		8,000	
	To Ramesh A/c			8,000
	(Sold goods to Deepak on credit)			
Mar. 05	Ramesh's A/c Dr.		8,000	
	To Bills Payable A/c			8,000
	(Accepted Ramesh's draft payable after three months)			
Jun. 18	Bills Payable A/c Dr.		8,000	
	To Bank A/c			8,000
	(Met the acceptance in favour of Ramesh on maturity)			

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Books of Poonam
Journal

Date	*Particulars*		*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015					
Mar.15	Bills Receivable A/c	Dr.		8,000	
	Discount Allowed A/c	Dr.		250	
	To Ramesh's A/c				8,250
	(Ramesh endorsed Deepak's acceptance in our favour for discharge his dept of Rs. 8,250 in full settlement)				
Mar.15	Bank A/c	Dr.		7,920	
	Discount Allowed A/c	Dr.		80	
	To Bills Receivable A/c				8,000
	(Biils receivable encashed on maturity)				

8.8 Dishonour of a Bill

A bill is said to have been dishonoured when the drawee fails to make the payment on the date of maturity. In this situation, liability of the acceptor is restored. Therefore, the entries made on the receipt of the bill should be reversed. For example, Anju received bill of exchange duly accepted by Manju, which was dishonoured. The entries of dishonour will be as follows in the books of Anju (receiver):

When the bill was kept by Anju with her till maturity

Manju's A/c Dr.
  To Bill Receivables A/c

When the bill had been endorsed by Anju in favour of Sandhya

Manju's A/c Dr.
  To Sandhaya's A/c

When the bill was discounted by Anju with his bank

Manju's A/c Dr.
  To Bank A/c

When the bill was sent for collection by Anju

Manju's A/c Dr.
  To Bill Sent for Collection A/c

Illustration 3

On Jan 01, 2015 Shieba sold goods to Vishal for Rs. 10,000 and drew upon him a bill of exchange for 2 months. Vishal accepted the bill and returned it to Shieba. On the date of maturity the bill was dishonoured by Vishal. Record the necessary entries in all the cases listed below in the books of Shieba and Vishal:

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(i) When the bill kept by Shieba till its maturity;
(ii) When the bill is discounted by Shieba for Rs. 200;
(iii) When the bill is endorsed to Lal Chand by Shieba.

Solution

(i) When the bill was kept by Shieba till its maturity.

Books of Shieba
Journal

Date	*Particulars*		*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Jan.01	Vishal's A/c	Dr.		10,000	
	To Sales A/c				10,000
	(Sold goods to Vishal)				
Jan. 01	Bills Receivable A/c	Dr.		10,000	
	To Vishal's A/c				10,000
	(Received Vishal's acceptance)				
Mar. 04	Vishal's A/c	Dr.		10,000	
	To Bills Receivable A/c				10,000
	(Vishal dishonoured his acceptance)				

(ii) When the bill was discounted by shieba

Journal

Date	*Particulars*		*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Jan.01	Vishal's A/c	Dr.		10,000	
	To Sales A/c				10,000
	(Sold goods to Vishal)				
Jan. 01	Bills Receivable A/c	Dr.		10,000	
	To Vishal's A/c				10,000
	(Received Vishal's acceptance)				
Jan. 01	Bank A/c	Dr.		9,800	
	Discount A/c	Dr.		200	
	To Bills Receivable A/c				10,000
	(Vishal's Bill dishonoured his acceptance)				
Mar.04	Vishal's A/c	Dr.		10,000	
	To Bank A/c				10,000
	(Discounted bill dishonoured by Vishal)				

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(iii) When the bill was endorsed by Shieba to Lal Chand

Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Jan.01	Vishal's A/c Dr. To Sales A/c (Sold goods to Vishal)		10,000	10,000
Jan. 01	Bills Receivable A/c Dr. To Vishal's A/c (Received Vishal's acceptance)		10,000	10,000
Jan. 01	Lal Chand A/c Dr. To Bills Receivable A/c (Vishal's acceptance endorsed in favour of Lal Chand)		10,000	10,000
Mar.04	Vishal's A/c Dr. To Lal Chand A/c (Endorsed bill dishonoured by Vishal)		10,000	10,000

Whereas, in the book of Vishal, the following entries will be recorded

Books of Vishal
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Jan.01	Purchases A/c Dr. To Shieba's A/c (Purchased good from shieba)		10,000	10,000
Jan. 01	Shieba's A/c Dr. To Bills Payable A/c (Accepted Shieba's draft)		10,000	10,000
Mar. 04	Bills Payable A/c Dr. To Shieba's A/c (Acceptance in favour of shieba dishonoured)		10,000	10,000

8.8.1 Noting Charges

A bill of exchange should be duly presented for payment on the date of its maturity. The drawee is absolved of his liability if the bill is not duly presented.

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Proper presentation of the bill means that it should be presented on the date of maturity to the acceptor during business working hours. To establish beyond doubt that the bill was dishonoured, despite its due presentation, it may preferably to be *got noted* by Notary Public. Noting authenticates the fact of dishonour. For providing this service, a fees is charged by the Notary Public which is called *Noting Charges*.

The following facts are generally noted by the Notary:

- Date, fact and reasons of dishonour;
- If the bill is not expressly dishonoured, the reasons why he treats it as dishonoured and;
- The amount of noting charges.

The entries recorded for noting charges in the drawers book are as follows:

When Drawer himself pays

Drawee's A/c	Dr.	
To Cash A/c		

Where endorsee pays

Drawee's A/c	Dr.	
To Endorsee A/c		

When the bank pays on discounted bill

Drawee's A/c	Dr.	
To Bank A/c		

When the bank pays in the event of sending the bill for collection to the bank

Drawee's A/c	Dr.	
To Bank A/c		

It may be noticed that whosoever pays the noting charges, ultimately these have to be borne by the drawee. That is why the drawee is invariably debited in the drawer's books. This is because he is responsible for the dishonour of the bill and, hence, he has to bear these expenses. For recording the noting charges in his book the drawee opens *Noting Charges Acccount*. He debits the Noting Charges Account and credits the *Drawer's Account*. For example, Azad sold goods for Rs. 15,000 to Bunty and immediately drew a bill upon him on Jan. 01, 2015 payable after 3 months. On maturity the bill was dishonoured and Rs. 50 were paid by the holder of the bill as noting charges. The journal entries will be recorded in the books of Azad and Bunty as given below under the following circumstances:

(a) When the bill was kept by Azad till maturity.

(b) When the bill was discounted by Azad with his bank immediately @ 12% p.a.

(c) When the bill was endorsed by Azad in favour of his creditor Chitra.

In the books of Azad, entries will be recorded as:

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(i) When the bill was retained till its maturity

Books of Azad
Journal

Date	*Particulars*		*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015					
Jan.01	Bunty's A/c	Dr.		15,000	
	To Sales A/c				15,000
	(Sold goods to Bunty)				
Jan. 01	Bills Receivable A/c	Dr.		15,000	
	To Bunty's A/c				15,000
	(Received Bunty's acceptance)				
Apr. 04	Bunty's A/c	Dr.		15,050	
	To Bills Receivable A/c	Dr.			15,000
	To Cash A/c				50
	(Bunty dishonoured his acceptance and paid Rs. 50 as noting charges)				

(ii) When the bill was discounted with the bank.

Journal

Date	*Particulars*		*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015					
Jan.01	Bunty's A/c	Dr.		15,000	
	To Sales A/c				15,000
	(Sold goods to Bunty)				
Jan. 01	Bills Receivable A/c	Dr.		15,000	
	To Bunty's A/c				15,000
	(Received Bunty's acceptance payable after three months)				
Jan. 01	Bank A/c	Dr.		14,550	
	Discount A/c	Dr.		450	
	To Bills Receivable A/c				15,000
	(Bunty's acceptance discounted)				
Apr. 04	Bunty's A/c	Dr.		15,050	
	To Bank A/c				15,050
	(Bunty dishonoured his acceptance on maturity and bank paid noting charges)				

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(iii) When the bill was endorsed to Chitra

Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015				
Jan. 01	Bunty's A/c Dr.		15,000	
	To Sales A/c			15,000
	(Sold goods to Bunty)			
Jan.01	Bill's Receivable A/c Dr.		15,000	
	To Bunty's A/c			15,000
	(Received Bunty's acceptance)			
Jan. 01	Chitra's A/c Dr.		15,000	
	To Bills Receivable A/c			15,000
	(Bunty's acceptance endorsed in favour of Chitra)			
Apr. 04	Bunty's A/c Dr.		15,050	
	To Chitra's A/c			15,050
	(Bunty dishonoured his acceptance on maturity and chitra paid Rs. 50 as noting charges)			

The following journal entries will be made in the books of Bunty in all the three cases.

Book of Bunty

Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015				
Jan.01	Purchases A/c Dr.		15,000	
	To Azad's A/c			15,000
	(Purchase goods from Azad)			
Jan. 01	Azad's A/c Dr.		15,000	
	To Bills Payable A/c			15,000
	(Accepted Azad's draft)			
Apr. 04	Bills Payable A/c Dr.		15,000	
	Noting charges A/c Dr.		50	
	To Azad's A/c			15,050
	(Acceptance in favour of Azed dishonoured)			

8.9 Renewal of the Bill

Sometimes, the acceptor of the bill foresees that it may be difficult to meet the obligation of the bill on maturity and may, therefore, approach the drawer with the request for extension of time for payment. If it is so, the old bill is

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cancelled and the fresh bill with new terms of payment is drawn and duly accepted and delivered. This is called renewal of the bill. Since the cancellation of bill is mutually agreed upon noting of the bill is not required.

The dreawee may have to pay interest to the drawer for the extended period of credit. The interest is paid in cash or may be included in the amount of the new bill. Sometimes, a part of the amount due may be paid and the new bill may be drawn only for the balance. For example, a bill of Rs. 10,000 is cancelled on a cash payment of Rs. 3,000 and acceptance of a new bill for the balance of Rs. 7,000 plus interest as agreed between the parties. The journal entries in the books of the drawer and the drawee will be the same as that of dishonour of bill. As for the interest invalued, if it is not paid in cash, the drawer debits the drawee's account and credits the interest account, and the drawee debits the interest and credits the drawer's account in his books.

The journal entries recorded in case of renewal for the cancellation of the old bill, for interest and for the acceptance of the new bill in the books of the drawer and drawee are given below:

Transaction	*Books of Drawer*	*Books of* Drawee
Cancellation of old bill	Drawee's A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Drawer's A/c
Interest	Drawee's A/c Dr. To Interest A/c	Interest A/c Dr. To Drawer's A/c
New bill	Bill Receivable A/c Dr. To Drawee's A/c	Drawer's A/c Dr. To Bills Payable A/c

For example on February 01, 2015 Ravi sold goods to Mohan for Rs.18,000; Rs. 3,000 were paid by Mohan immediately and for the balance he accepted three months bill drawn upon him by Ravi. On the date of maturity of the bill Mohan requested Ravi to cancel the old bill and a new bill upon him for a period of 2 months. He further agreed to pay interest in cash to Ravi @ 12% p.a. Ravi agreed to Mohan's request and cancelled the old bill and drew a new bill. The new bill was met on maturity by Mohan. In this case, the following entries will be recorded in the books of Ravi and Mohan.

Books of Ravi
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Feb. 01	Mohan's A/c Dr. To Sales A/c (Sold goods to Mohan)		18,000	18,000

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Feb. 01	Cash A/c	Dr.		3,000	
	Bills Receivable A/c	Dr.		15,000	
	To Mohan's A/c				18,000
	(Received Rs. 3,000 in cash from Ravi and an acceptance for the balance)				
May 01	Mohan's Account	Dr.		15,300	
	To Bills Receivable A/c				15,000
	To Interest A/c				300
	(Cancelled old bill on renewal Rs. 300 as interest)				
May 04	Bill's Receivable A/c	Dr.		15,000	
	Cash A/c	Dr.		300	
	To Mohan's A/c				15,300
	(Received new acceptance from Mohan)				
Jul. 07	Bank A/c	Dr.		15,000	
	To Bills Receivable A/c				15,000
	(Mohan met his new acceptance)				

Book of Mohan
Journal

Date	*Particulars*		*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015					
Feb. 01	Purchases A/c	Dr.		18,000	
	To Ravi A/c				18,000
	(Purchased goods from Ravi)				
Feb.01	Ravi's A/c	Dr.		18,000	
	To Cash's A/c				3,000
	Bills Payable A/c				15,000
	(Received cash from Ravi and his acceptance)				
May 04	Bill Payable A/c	Dr.		15,000	
	Interest A/c	Dr.		300	
	To Ravi A/c				15,300
	(Old bill cancelled on renewal, Rs. 300 charged as interest)				
May 04	Ravi's A/c	Dr.		15,300	
	To Bills Payable A/c				15,000
	To Cash A/c				300
	(Accepted new bill and paid cash for interest)				
Jul. 07	Bill Payable A/c	Dr.		15,000	
	Bank A/c				15,000
	(Met acceptance of the new bill on maturity)				

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8.10 Retiring of the Bill

There are instances when a bill of exchange is arranged to be retired before the due date by mutual understanding between the drawer and the drawee. This happens when the drawee of the bill has funds at his disposal and makes a request to the drawer or holder to accept the payment of the bill before its maturity. If the holder agrees to do so, the bill is said to have been *retired*.

The retiring of a bill draws a curtain on the bill transactions before the expiry of its normal term. To encourage the retirement of the bill, the holder allows some discount called *Rebate on bills* for the period between date of retirement and maturity. The rebate is calculated at a certain rate of interest.

The accounting treatment on the retirement of a bill is similar to the accounting treatment when a bill is honoured by the acceptor on the due date in the ordinary course. The only difference between the two relates to the granting of rebate. The following journal entries are recorded:

In the books of the holder

On retiring the acceptance and rebate allowed

Cash A/c	Dr.	
Rebate on bills A/c	Dr.	
To Bills Receivables A/c		

In the books of the drawee

Bills Payable A/c	Dr.	
Cash A/c	Dr.	
To Rebate on Bills A/c		

Amit sold goods Rs. 10,000 to Babli on Jan. 01, 2015 and immediately drew a bill on Babli for three month for the same amount, Babli accepted the bill and returned it to Amit. On March 04, 2015 Babli retired her acceptance under rebate of 6% per annum.

In the books of Amit
Journal

Date	*Particulars*		*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015					
Jan. 01	Babli's A/c	Dr.		10,000	
	To Sales A/c				10,000
	(Sold goods to Babli)				
Jan. 01	Bills Receivable A/c	Dr.		10,000	
	To Babli's A/c				10,000
	(Received Babli's acceptance for three months)				
Mar. 04	Bank A/c	Dr.		9,950	
	Rebate on bills A/c	Dr.		50	
	To Bills Receivable A/c				10,000
	(Babli retired her acceptance and rebate allowed to him)				

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The recorded entries will be posted to the following ledger acounts

Babli's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 01	Sales		10,000	2015 Jan 06	Bills Receivable		10,000
			10,000				10,000

Bill Receivable Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 01	Babli		10,000	2015 Mar 04	Cash Rebate on bill		9,950 50
			10,000				10,000

Book of Babli

Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Jan. 01	Purchases A/c Dr. To Amit A/c (Purchased goods from Amit)		10,000	10,000
Jan.01	Amit's A/c Dr. To Bills Payable A/c (Accepted Amit's draft payable after three months)		10,000	10,000
Mar. 04	Bill Payable A/c Dr. To Cash A/c To Rebate on bills A/c (Acceptance in favour of Amit retired and rebate received)		10,000	9,950 50

Amit's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 01	Bills Payable		10,000	2015 Jan. 04	Purchases		10,000
			10,000				10,000

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Bills Payable Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 01	Cash Rebate on bills		9950 50	2015 Jan. 01	Amit		10,000
			10,000				10,000

8.11 Bills Receivable and Bills Payable Books

When large number of bills are drawn and accepted, their recording by means of journal entry for every transaction relating to the bills become a very cumbersome and time consuming exercise. It is then advisable to record them separately in special subsidiary books, the bills receivables in the Bills Receivable Book and the bills payable in the Bills Payable Book. The reason for the use of subsidiary books for recording bill transactions is the same as that in the case of other subsidiary books for cash, purchases, etc. An important point in connection with bill receivables and bills payable books is that they only record the transactions relating to drawing and acceptance of bills, all other transactions do not record the entire range of transactions relating to the bills, e.g. relating to bills discounted, endorsement, retirement, renewal etc.; simply have a passing reference in these books and the entries relating thereto are recorded as usual in the journal. It may be noted that the entry relating to honouring of bills appear in cash book.

8.11.1 Bills Receivable Book

It has been designed as a summary of information regarding a duly accepted bill received by a drawer. All the details of the bill-date, acceptor's name, amount, term, place of payment, etc. are entered in the bills receivable book for presentation and further reference.

The performa of a bills receivable book is given in Figure 8.3:

BillsReceivable Book

No. of Bill	Date Received	Date of Bill	From Whom received	Drawer	Acceptor	Where payable	Term	Due Date	Ledger Folio	Amount	Cash Book Folio	Remarks

Fig. 8.3: *Showing Format of Bills Receivable Book*

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The bills receivable book, like any other subsidiary book, is totaled periodically. This total is debited to the "Bills Receivable Account" whereas the account of every individual debtor whom the bills received is credited in the ledger. The Bills Receivable Account is the account of an asset and would always have a debit balance. This balance on any date would represent the amount of bills receivable unmatured and on hand.

8.11.2 Bills Payable Book

It is maintained like a bills receivable book. It is meant to record all the details, relating to the bills accepted by a person or a party, which are retained for being use in the future, in case of need.
The proforma of a bills payable book is given in Fig.8.4

Bills Payable Book

No. of Bill	Date of Bill	To Whom given	Drawer	Payee	Where payable	Term	Due date	Ledger Folio	Amount paid	Date	Cash Book Folio	Remarks

Fig. 8.4: *Showing specimen Bills Payable Book*

The posting from this books are made to the debit of the account of every creditor to whom acceptance has been given and the periodical total of the books is credited to the 'Bills Payable Account' in the ledger. The bills payable account representing the liability of the acceptor in respect of bills accepted by him, always has a credit balance, if any. The credit balance of this account on any particular date must be the same as the total amount worth of bills payable yet to be presented for payment as ascertained from the bills payable book. For example, consider the following transactions and observe how these are recorded in bill receivable and bills payable book along with postings in the ledger accounts.

2015

(i) Jan. 07
Received from S. Mitra bill duly accepted for Rs. 1,32,500 dated January 04, payable three months after date.

(ii) Jan. 09
Accepted S. Warden's draft for Rs. 9,70,000 at two months.

(iii) Jan. 13
Pradhan drew on his trader at three months date and the same was accepted for Rs. 39,000.

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Bills Receivable Book

No.	*Date of Bill* 2015	*Date Received* 2015	*From Whom of Bill*	*Drawer Whom received*	*Acceptor*	*Where*	*Term payable*	*Due Date* 2015	*Ledger Folio*	*Amount Rs.*	*Cash Book Folio*	*Re-marks*
01	Jan.07	Jan.04	S.Mitra	Self	S.Mitra	Bombay	3 month	Apr.17		1,32,500		
02	Jan.15	Jan.14	R.Rakesh	Do	R.Rakesh	Amritsar	1 month	Feb.17		25,500		
03	Jan.21	Jan.21	G.Ghosh	Do	G.Ghosh	Calcutta	2 month	Mar.24		31,000		
04	Jan.22	Jan.17	D.Dhiman	D.Dhiman	A.vakil	Bombay	3 month	Apr.20		20,000		
05	Jan.23	Jan.23	D.Kanga	Self	K.Kanga	Bangalore	1 month	Feb.26		30,000		
06	Jan.27	Jan.20	C.Shah	M.Meyers	P.Parson	Madras	2 month	Mar.23		35,000		
								Total	**Rs.**	**2,73,500**		

Bills Payable Book

No. of Bill	*Date of Bill*	*To Whom given*	*Drawer*	*Payee*	*Where payable*	*Term*	*Due Date*	*Ledger*	*Amount*	*Date Paid*	*Cash Book Folio*	*Remarks*
	2015						2015					
01	Jan.09	S.Warden	S.Warden	-		2 month	Mar.31		97,000			
02	Jan.13	Pradhan	Pradhan	-		3 month	Apr.16		39,000			
03	Jan.18	S.Parkar	S.Parker	-		2 month	Mar.21		42,000			
04	Jan.31	A.Roberts	A.Robert	-		1 month	Mar.03		21,000			
							Total	**Rs.**	**1,99,500**			

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(iv) Jan. 14
Drew on R. Rakesh at one month for Rs.25,000 and he accepted the next day.

(v) Jan. 18
Gave acceptance at two months for Rs.42,000 to S. Parkar.

(vi) Jan. 21
Received from G.Ghosh his acceptance for Rs.31,000 at two months.

(vii) Jan. 22
Received from D.Dhiman, A.Vakil's acceptance for Rs.20,000 at three months from Jan. 17.

(viii) Jan. 23
K. Kanga accepted my draft at one month for Rs.30,000.

(ix) Jan. 27
Received from C.Shah bill for Rs. 35,000 dated January 20, accepted by P. Parson and drawn by M.Meyers., payable two months after date.

(x) Jan. 31
Gave acceptance for Rs. 21,500 at one month to A. Roberts.

Posting of recorded entries are as follow:

S. Mitra's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 01	Sales		1,32,500	2015 Jan. 07	Bills Receovable		1,32,500
			1,32,500				1,32,500

R. Rakesh's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 14	Sales		25,000	2015 Jan. 15	Bill Receivable		25,000
			25,000				25,000

G. Ghosh's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 21	Sales		31,000	2015 Jan. 21	Bills Receivable		31,000
			31,000				31,000

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D. Dhiman's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 17	Sales		20,000	2015 Jan. 22	Bills Receivable		20,000
			20,000				20,000

K. Kanga's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 23	Sales		30,000	2015 Jan. 23	Bills Receivable		30,000
			30,000				30,000

C. Shah's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 20	Sales		35,000	2015 Jan. 27	Bill Receivable		35,000
			35,000				35,000

Bill Receivables Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 31	Sundries		2,73,500	2015 Jan. 31	Balance c/d		2,73,500
			2,73,500				2,73,500

S. Warden's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 09	Bills payable		97,000	2015 Jan. 09	Purchases		97,000
			97,000				97,000

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Pradhan's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 13	Bills payable		39,000	2015 Jan. 13	Purchases		39,000
			39,000				39,000

S. Parkar's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 18	Bills payable		42,000	2015 Jan. 18	Purchases		42,000
			42,000				42,000

A. Robert's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 31	Bills payable		21,500	2015 Jan. 31	Purchases		21,500
			21,500				21,500

Bill Payables Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015 Jan. 01	Balance c/d		1,99,500	2015 Jan. 04	Sundries Receivable		1,99,500
			1,99,500				1,99,5000

Note: The drawing and acceptance of a bill always pre-supposes some background of sale or purchase transaction. Therefore, in posting bill transactions from the two books to the accounts of debtors and creditors, it is supposed that the necessary sales and purchases entries have been duly recorded.

Illustration 4

On Jan. 15, 2015 Sachin sold goods Rs.30,000 to Narain and drew upon the later a bill for the same amount payable after 3 months. The bill was accepted by Narain. The bill was discounted by Sachin from his bank for Rs.29,250 on Jan. 31, 2015. on maturity the bill was dishonoured. He further agreed to pay Rs.10,500 in cash including Rs. 500 interest and accept a new bill for two months for the remaining Rs.20,000.

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The new bill was endorsed by sachin in favour of his creditor Kapil for settling a debt of Rs. 20,800. The new bill was duly met by Narain on maturity.
Record the necessary journal entries in the books of Sachin and Narain.

Solution

Books of Sachin

Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Jan. 15	Narain A/c Dr. To Sales A/c (Sold goods to Narain)		30,000	30,000
Jan.15	Bill's Receivable A/c Dr. To Narain's A/c (Received Bunty's acceptance)		30,000	30,000
Jan. 31	Bank A/c Dr. Discount A/c To Bill receivable A/c (Narains' acceptance discounted with bank)		29,250 750	30,000
Apr. 19	Narain's A/c Dr. To Bank A/c To Interest A/c (Narain's acceptance cancelled)		30,500	30,000 500
Apr.19	Bank A/c Dr. Bills Receivavble A/c Dr. To Narain A/c (Received cash from Narain and a new acceptance for the balace)		10,500 20,000	30,500
Apr.19	Kapil A/c Dr. To Bill Receivable A/c To Discount Received A/c (Narain's acceptance endorsed in favour of kapil and he allowed discount)		20,800	20,000 800

Books of Narain

Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Jan. 15	Purchases A/c Dr. To Sachin A/c (Purchased goods from sachin)		30,000	30,000

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Jan.15	Sachin A/c	Dr.		30,000	
	To Bills Payable A/c				30,000
	(Accepted Sachin's draft)				
Jan.19	Bill Payable A/c	Dr.		30,000	
	Interest A/c			500	
	To Sachin A/c				30,500
	(Cancelled old bill & Sachin charged interest)				
Apr. 19	Sachin's A/c	Dr.		30,500	
	To Bank A/c				10,500
	To Bill Payable A/c				20,000
	(Paid Sachin and accepted a new draft for the balance)				
Apr.22	Bills Receivavble A/c	Dr.		20,000	
	To Bank A/c				20,000
	(Met new acceptance on Maturity)				

Illustration 5.

Ashok sold goods Rs.14,000 to Bishan on October 30, 2015 and drew three bills for Rs.2,000, Rs.4,000 & Rs.8,000 payable after two, three, and four months respectively. The first bill was kept by Ashok with him till maturity. He endorsed the second bill in favour of his creditor Chetan. The third bill was discounted on December 03, 2015 at 12% p.a. The first and second bills were duly met on maturity but the third bill was dishonoured and the bank paid Rs.50 as noting charges. On March 03, 2016 Bishan paid Rs.4,000 and noting charges in cash and accepted a new bill at two months after date for the balance plus interest Rs.100. The new bill was met on maturity by Bishan.
You are required to give the journal entries in the books of both Ashok ans Bishan and prepare Bishan's account in Ashok's books and Ashok's account in Bishan's books.

Solution

Books of Ashok
Journal

Date	*Particulars*		*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015					
Oct. 30	Bishan's A/c	Dr.		14,000	
	To Sales A/c				14,000
	(Sold goods to Bishan on credit)				
Oct. 30	Bills Receivable A/c	Dr.		14,000	
	To Bishan's A/c				14,000
	(Received three acceptances from Bishan. First for Rs. 2,000 payable after two months, second for Rs. 4,000 payable after three months and the third for Rs. 8,000 payable after four months)				

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Oct. 30	Chetan's A/c Dr. To Bills receivable A/c (Endorsed second bills in favour of creditor Chetan)		4,000	4,000
Dec. 03	Bank A/c Dr. Discount A/c To Bill receivable A/c (Third bill discounted at 12% p.a.)		7,760 240	8,000
2016 Jan.02	Bank A/c Dr. Bills receivable A/c (Bishan met his first acceptance on due date)		2,000	2,000
Mar. 03	Bishan A/c Dr. To Bank A/c (Bishan dishonoured his third acceptance and bank paid Rs.50 as noting charges)		8,050	8,050
Mar. 03	Cash A/c Dr. To Bishan's A/c (Cash received from Bishan)		4,050	4,050
Mar. 03	Bishan's A/c Dr. To Interest A/c (Interest charged from Bishan for the extended period)		100	100
Mar. 03	Bills Receivable A/c Dr. To Bishan's A/c (Received new acceptance from Bishan for two months)		4,100	4,100
May 06	Bank A/c Dr. To bills Receivable A/c (Bishan met his new acceptance on maturity)		4,100	4,100

Bishan's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015				2015			
Oct. 30	Sales		14,000	Oct. 30	Bills Receivable		14,000
2016				2016			
Mar. 03	Bank		8,050	Mar. 03	Cash		4,050
Mar. 09	Interest		100	Mar. 03	Bills Receivable		4,100
			22,150				22,150

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Books of Bishan
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Oct. 30	Purchases A/c Dr. To Ashok's A/c (Purchases goods on credit from Ashok)		14,000	14,000
Oct. 30	Ashok's A/c Dr. To Bills Payable A/c (Accepted three drafts of Ashok, the first for Rs. 2,000 payable after 2 months, second for Rs. 4,000 Payable after 3 months and the third for Rs. 8,000 Payable after 4 months)		14,000	14,000
2016 Jan. 02	Bills Payable A/c Dr. To Bank A/c (Met first acceptance for Rs. 2,000 in favour of Ashok.)		2,000	2,000
Mar. 03	Bill Payable A/c Dr. Noting charges A/c Dr. To Ashok A/c (Third acceptance in favour of Ashok dishonoured and noting charges Rs. 50)		8,050 50	8,050
Mar. 03	Ashok's A/c Dr. To Cash A/c (Paid to Ashok Rs. 4,000 plus noting charges)		4,050	4,050
Mar. 03	Interest A/c Dr. To Ashok's A/c (Interest allowed to Ashok)		100	100
Mar. 03	Ashok's A/c Dr. To Bills Payable A/c (New draft of Ashok for two months accepted)		4,100	4,100
May 03	Bills Payable A/c Dr. To Bank A/c (Met new acceptance for Rs. 4,100 in favour of Ashok on maturity)		4,100	4,100

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Ashok's Account

Dr. **Cr.**

Date	*Particulars*	*J. F.*	*Amount Rs.*	*Date*	*Particulars*	*J.F.*	*Amount Rs.*
2015				2015			
Oct. 30	Bills payable		14,000	Oct. 30	Purchases		14,000
2016				2016			
Mar. 03	Cash		4,050	Mar. 03	Bills Payable		8,000
					Noting charges		50
Mar. 09	Bills Payable		4,100	Mar. 09	Interest		100
			22,150				22,150

Illustration 6.

Aashirwad draws on Aakarshak a Bill of exchange for 3 months for Rs.10,000 which Aakarshak accepts on January 01, 2015. Aashirwad endorses the bill in favour of Aakarti. Before maturity Aakarshak approaches Aashirwad with the request that the bill be renewed for a further period of 3 months at 18 per cent per annum interest. Aashirwad pays the sum to Aakriti on the due date and agrees to the proposal of Aakarshak. Record journal entries in the books of Aashirwad, assuming that the second bill is duly met.

Solution

Book of Ashirwad
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015				
Jan. 01	Bills Receivable A/c Dr.		10,000	
	To Aakarshak's A/c			10,000
	(The Bill of exchange received from Aakarshak)			
Jan.01	Aakarati's A/c Dr.		10,000	
	To Bills Receivable A/c			10,000
	(The bill of exchange received from Aakarshak, endorsed to Aakarati)			
Apr. 04	Aakarshak's A/c Dr.		10,000	
	To Aakarati's A/c			10,000
	(Cancellation of the bill of exchange received from Aakarshak now with Aakarati)			
Apr. 04	Aakarati's A/c Dr.		10,000	
	To Bank A/c			10,000
	(Payment of the amount due to Aakarati)			
Apr. 04	Aakarshak's A/c Dr.		450	
	To Interest A/c			450
	(Interest due from Aakarshak on Rs.10,000 for 3 months at 18% p.a.)			

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Apr. 04	Bills Receivable A/c To Aakarshak's A/c (The new bill received from Aakarshak for the amountdue for him)	Dr.		10,450	 10,450
July 07	Bank A/c To Bills Receivable A/c (The amount received from Aakarshak in respect of the renewed bill)	Dr.		10,450	 10,450

Illustration 7.

Ankit owes Nikita a sum of Rs.6,000. On April 01, 2015 Ankit gives a promissory note for the amount for 3 months to Nikita who gets it discounted with her bankers for Rs.5,760. on the due date the bill is dishonoured, the bank paid Rs.15 as noting charges. Ankit then pays Rs.2,000 in cash and accepts a bill of exchange drawn on him for the balance together with Rs.100 as interest. This bill of exchange is for 2 months and on the due date the bill is again dishonoured, Nikita paid Rs.15 as noting charges.
Draft the journal entries to be recorded in Nikita's books.

Solution

Books of Nikita
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2016				
Apr. 01	Bills Receivable A/c Dr. To Ankit's A/c (Ankit's promissory note received in settlement of his account)		6,000	 6,000
Apr. 01	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Ankit's Promissory note discounted for Rs.5,760)		5,760 240	 6,000
July 04	Ankit A/c Dr. To Bank A/c (The promissory note dishonoured by Ankit the amount of the bill and the noting charges recoverable from Ankit and payable to bank)		6,015	 6,015
July 04	Cash A/c Dr. To Ankit's A/c (The amount received from Ankit)		2,000	 2,000
July 04	Ankit's A/c Dr. To Interest A/c (Interest due from Ankit for the second bill)		100	 100

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July 04	Bills Receivable A/c Dr. To Ankit's A/c (Ankit's acceptance for 2 monthsin settlement of amount due)		4,115	4,115
Sept.07	Ankit's A/c Dr. To Bills Receivable A/c (The dishonour by Ankit of his acceptance)		4,115	4,115
Sept.07	Ankit's A/c Dr. To Cash A/c (Payment of noting charges, recoverable from Ankit)		15	15

Illustraion 8.

On May 2015 Mohit sends his promissory note of Rs. 6000 for 3 months to Rohit. Rohit gets it discounted with his bankers at 18 percent per annum on May 04. On the due date the bill is dishonoured, the bank paying Rs.10 as noting charges. Rohit agrees to accept Rs.2,130 in cash (including Rs.130 for noting charges and interest) and another promissory note for Rs.4,000 at 2 months. On the due date, Mohit approaches Rohit again and asks for renewal of the bill for a further period of 3 months. Rohit agrees to the request, provided Mohit pays Rs.200 as interest in cash. This last bill is paid on maturity.
Draft journal entries in the books of Mohit and Rohit.

Solution

Books of Mohit
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 May 01	Rohit's A/c Dr. To Bills Payable A/c (The amount of the promissory note sent to Rohit)		6,000	6,000
Aug.04	Bills Payable A/c Dr. Noting charges A/c Dr. To Rohit's A/c (The dishonour of the promissory note and Rs.10 being payable as noting charges to Rohit)		6,000 10	6,010
Aug. 04	Interest A/c Dr. Rohit's A/c (Interest due to Rohit from part renewal of the promissory)		120	120

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Aug.04	Rohit's A/c Dr. To Bills Payable A/c To Cash A/c (Payment of Rs. 2,130 in cash and a new promissory note for Rs. 4,000 sent to Rohit to settle his account)		6,130	 4,000 2,130
Oct.07	Bill Payable A/c Dr. To Rohit's A/c (Cancellation of the bill due today)		4,000	 4,000
Oct.07	Interest A/c Dr. To Rohit's A/c (The amount due as interest ot Rohit on the renewed bill)		200	 200
Oct.07	Rohit's A/c Dr. To Cash A/c To Bills Payable A/c (The new acceptance and cash sent to Rohit)		4,200	 200 4,000
2010 Jan.09	Bills Payable A/c Dr. To Cash A/c (Payment made to meet the bill due this day)		4,000	 4,000

Book of Rohit
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 May 01	Bills Receivable A/c Dr. To Mohit's A/c (Mohit's promissory note received this day)		6,000	 6,000
May 04	Bank's A/c Dr. Discount A/c Dr. To Bills Receivable A/c (The discounting of the promissory note by Mohit at 18% on Rs. 6,000 for 3 months)		5,730 270	 6,000
Aug.04	Mohit's A/c Dr. To Bank A/c (The dishonour of the promissory not by Mohit Rs. 10 being charged by bank for noting charges)		6,000	 6,010
Aug.04	Mohit's A/c Dr. Interest A/c (The amount agreed to be paid as interest by Mohit)		120	 120

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Aug.04	Cash A/c Dr.		2,130	
	Bills Receivable A/c			4,000
	To Mohit's A/c			6,130
	(Cash and promissory note received from Mohit for the amount due from him)			
Oct.07	Mohit's A/c Dr.		4,000	
	To Bills Receivable A/c			4,000
	(Cancellation of the bill due today)			
Oct.07	Mohit's A/c Dr.		200	
	To Interest A/c			200
	(The amount due from Mohit as interest)			
Oct.07	Cash A/c Dr.		200	
	Bills Receivable A/c Dr.		4,000	
	To Mohit's A/c			4,200
	(Cash and promissory not received from Mohit)			
2011				
Jan. 10	Cash/Bank A/c Dr.		4,000	
	To Bills Receivable A/c			4,000
	(Mohit met his acceptance on maturity)			

Test Your Understanding - III

Fill in the blanks:

(i) A bill of exchange is a _____instrument.
(ii) A bill of exchange is drawn by the _____upon his_____.
(iii) A promissory note is drawn by _____in favour of his_____.
(iv) There are _____parties to a bill of exchange.
(v) There are _____parties to a promissory note.
(vi) Drawer and _____can not be the same parties in case of a bill of exchange.
(vii) Bill of exchange in India languages is called _____
(viii) _____days of grace are added in terms of the bill to calculate the date of its_____.

8.12 Accommodation Bills

Normally, bills of exchange or promissory notes are drawn to finance the actual transactions in goods, i.e., an acceptance is made to settle a trade debt owing to the drawer by the drawee in case of a bill of exchange and the bill is called a *trade bill*. As it originates from genuine trade transaction it is for value received and is enforceable. For example, Ankit buys goods from Bishan, he may postpone the payment by accepting a draft drawn by Bindu upon him. Bindu can if he wants, get the money immediately by getting Ankit's acceptance discounted with

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his bank. But, apart from financing transaction in goods, bills of exchange promissory notes may also be used for raising funds temporarily. Such a bill is called an '*accommodation bill*' as it is accepted by the drawee to accommodate the drawer. Hence, the drawee is called the 'accommodating party' and the drawer is called the '*accommodation party*'.

For example, Raj draws upon Pal a bill for Rs.10,000 on April 01, 2015 for three months and the latter accepts the same to accommodate Raj. Raj discounts it with his bank at 6% per annum on the same date. Raj remitted the amount one day before the maturity of the bill to Pal. Pal met the bill on the date of its maturity. The journal entries in the books of Raj and Pal will be recorded as follows:

Book of Raj
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015				
Apr. 01	Bills Receivable A/c Dr.		10,000	
	To Pal's A/c			10,000
	(Received Pal's acceptance)			
Apr. 01	Bank A/c Dr.		9,850	
	Discount A/c Dr.		150	
	To Bills Receivables A/c			10,000
	(Discount Pal acceptance)			
Jul. 03	Pal's A/c Dr.		10,000	
	To Bank A/c			10,010
	(Remittance to Pal for paying off accommodation bill)			

Books of Pal
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015				
Apr.01	Raj's A/c Dr.		10,000	
	To Bill Payable A/c			10,000
	(Acceptance of accommodation bill drawn by Raj)			
Jul.03	Bank A/c Dr.		10,000	
	To Raj's A/c			10,000
	(Received Raj's remittance)			
Jul.03	Bill Payable A/c Dr.		10,000	
	To Bank A/c			10,000
	(Discharge of accommodation)			

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Sometimes, the accommodation parties agree to raise the funds through an accommodation bill for mutual benefits. It can be done in any of the following two ways:

(a) The drawer and the drawee share the proceeds in an agreed ratio
(b) Each draws a bill and each accepts a bill

In the case (a) the discounting changes are shared by drawer and drewee in the ratio in which they share the proceeds. But in the case (b) the discount is not shared as each party retains the entire proceeds of the bill drawn and discounted by him. On maturity, each party meets his acceptance out of his own resources if everyone draws and accepts bills of the same denomination and tenure. But where they share the proceeds of the same bill, the drawer should remit, just before maturity, the balance due to the drawee, so that the latter could duly meet his acceptance. Based upon the above discussion, it can be stated that an accommodation bill helps both the parties to the instrument to temporarily raise the necessary funds from discounting institutions.

Illustaration 9

Ashu and Mudit were in need of funds. On October 01, 2015 Ashu drew upon a bill for Rs. 9,000 for 2 months. Mudit accepted the bill and returned to Ashu. Ashu got it discounted at 5% from Bank same day. Half of the amount were remitted to Mudit. On the due date Ashu sent the required sum to Mudit, who met the bill. Journalise the transactions in the books of Ashu and Mudit.

Books of Ashu
Journal

Date	*Particulars*		*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015					
Oct. 01	Bills Receivable A/c	Dr.		9,000	
	To Mudit's A/c				9,000
	(Mutual accommodation bill receipts from Mudit)				
Oct. 01	Bank A/c	Dr.		8,925	
	Discount A/c	Dr.		75	
	To Bill Receivable A/c				9,000
	(Bill discounted from bank)				
Oct. 01	Mudit's A/c	Dr.		4,500	
	To Cash A/c				4,462.50
	To Discount A/c				37.50
	(Half the proceeds remitted to Mudit)				
Oct. 01	Mudit's A/c	Dr.		4,500	
	To Cash A/c				4,500
	(Half amount of the bill sent to Mudit to enable him to meet it)				

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Books of Mudit
Journal

Date	*Particulars*		*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015					
Oct. 01	Ashu's A/c	Dr.		9,000	
	To Bills Payable A/c				9,000
	(Mutual Accommodation bill accepted)				
Oct. 01	Cash A/c	Dr.		4,462.50	
	Discount A/c	Dr.		37.50	
	To Ashu's A/c				4,500
	(half amount of Discounted Bill received from Ashu)				
Dec. 04	Cash A/c	Dr.		4,500	
	To Auhu's A/c				4,500
	(Amount retained by Ashu now received from him)				
Dec. 05	Bill Payable A/c	Dr.		9,000	
	To Bank A/c				9,000
	(Acceptance honoured)				

Illustration 10

Rohan and Rohit were both in need to temporary accommodation. On November 01, 2015, Rohan accepted Rohit draft for Rs. 5,000 for 3 months and Rohit accepted Rohan draft for Rs. 4,000 for 3 months. The both bills were discounted at the respected banks for Rs 4,800 and Rs. 3,850. Before maturity of the bill Rohit sent Rs. 1,000 to Rohan for difference in accommodation bill. Rohan and Rohit met his acceptance on the due date. Records the transaction in the journal of Rohan and Rohit.

Books of Rohan
Journal

Date	*Particulars*		*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015					
Nov. 01	Rohit's A/c	Dr.		5,000	
	To Bills Payable A/c				5,000
	(Rohan accepted bill accommodation)				
Nov. 01	Bill Receivable A/c	Dr.		4,000	
	To Rohit's A/c				4,000
	(Accommodated bill received)				
Nov. 01	Bank A/c	Dr.		3,850	
	Discount A/c	Dr.		150	
	To Bill Receivable A/c				4,000
	(Bill discounted by bank)				

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Feb. 04	Cash A/c Dr. To Rohit's A/c (Cash received for meet the bill)		1,000	1,000
Feb. 04	Bill Payable A/c Dr. To Bank A/c (Bill met on maturity)		5,000	5,000

Books of Rohit
Journal

Date	*Particulars*	*L.F.*	*Debit Amount Rs.*	*Credit Amount Rs.*
2015 Nov. 01	Rohan's A/c Dr. To Bills Payable A/c (Rohit accepted bill accommodation)		4,000	4,000
Nov. 01	Bill Receivable A/c Dr. To Rohan's A/c (Accommodated bill received)		5,000	5,000
Nov. 01	Bank A/c Dr. Discount A/c Dr. To Bill Receivable A/c (Bill discounted by bank)		4,800 200	5,000
Feb. 04	Rohan's A/c Dr. To cash A/c (Sent cash to Rohan)		1,000	1,000
Feb. 04	Bill Payable A/c Dr. To Bank A/c (Bill met on due date)		4,000	4,000

Key Terms Introduced in the Chapter

(a) Drawer
(b) Drawee
(c) Payee
(d) Bill Receivable
(e) Bill Payable
(f) Drawing of a Bill
(g) Acceptance of a Bill
(h) Payment of a bill

Summary with Reference to Learning Objectives

1. *Bill of exchange as an Instrument :* A bill of exchange is a device by which the purchaser or debtor in a credit transaction is not required to

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make immediate payment but satisfies the seller or creditor by accepting in writing the liability to pay the amount due from him.

2. *Meaning of bill of exchange and promissory note:* A bill of exchange is an acknowledgement of debt given by one person to another, incorporating all the terms and conditions of payments. A promissory note is an undertaking in writing given by the debtor to the creditor to pay the latter a certain sum of money in accordance with the conditions stated therein.
3. *Difference between a bill and a note.*
   (a) A bill is prepared by the creditor and accepted by the debtor; a note is prepared by the debtor.
   (b) There are three parties to a bill; there are only two parties to a note.
   (c) A bill requires acceptance to acquire financial status; a note in itself has financial status.
4. *Features and advantages of a bill :* A bill is a written unconditional order; it is signed by the creditor and accepted by the debtor; the amount of the bill is payable either on demand or at a fixed period.

Questions for Practice

Short Answers

1. Name any two types of commonly used negotiable instruments.
2. Write two points of distinction between bills of exchange and promissory note.
3. State any four essential features of bill of exchange.
4. State the three parties involved in a bill of exchange.
5. What is meant by maturity of a bill of exchange?
6. What is meant by dishonour of a bill of exchange?
7. Name the parties to a promissory note
8. What is meant by acceptance of a bill of exchange?
9. What is Noting of a bill of exchange.
10. What is meant by renewal of a bill of exchange?
11. Give the performa of a Bills Receivable Book.
12. Give the performa of a Bills Payable Book.
13. What is retirement of a bill of exchange?
14. Give the meaning of rebate.
15. Give the performa of a Bill of Exchange.

Long Answers

1. A bill of exchange must contain "an unconditional promise to pay" Do you agree with a statement?

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2. Briefly explain the effects of dishonour and noting of a bill of exchange.
3. Explain briefly the procedure of calculating the date of maturity of a bill of exchange? Give example.
4. Distinguish between bill of exchange and promissory note.
5. Briefly explain the purpose and benefits of retiring a bill of exchange to the debtor and the creditor.
6. Explain briefly the purpose and advantages of maintaining of a Bills Receivable Book.
7. Briefly explain the benefits of maintaining a Bills Payable Book and state how is its posting is done in the ledger?

Numerical Questions

1. On Jan 01, 2015 Rao sold goods Rs.10,000 to Reddy. Half of the payment was made immediately and for the remaining half Rao drew a bill of exchange upon Reddy payable after 30 days. Reddy accepted the bill and returned it to Rao. On the due date Rao presented the bill to Reddy and received the payment.
   Journalise the above transactions in the books Rao and prepare of Rao's account in the books of Reddy.

2. On Jan 01,2015, Shankar purchased goods from Parvati for Rs.8,000 and immediately drew a promissory note in favour of Parvati payable after 3 months. On the date of maturity of the promissory note, the Government of India declared holiday under the Negotiable Instrument Act 1881. Since, Parvati was unaware about the provision of the law regarding the date of maturity of the bill, she handed over the bill to her lawyer, who duly presented the bill and received the payment. The amount of the bill was handed over by the lawyer to Parvati immediately. Recore the necessary Journal entries in the books of Parvati and Shankar.

3. Vishal sold goods for Rs.7,000 to Manju on Jan 05, 2015 and drew upon her a bill of exchange payable after 2 months. Manju accepted Vishal's draft and handed over the same to Vishal after acceptance. Vishal immediately discounted the bill with his bank@12% p.a. On the due date Manju met her acceptance.
   Journalise the above transactions in the books of Vishal and Manju.
4. On Feb 01, 2015, John purchased goods for Rs.15,000 from Jimmi. He immediately made a payment of Rs.5,000 by cheque and for the balance accepted the bill of exchange drawn upon him by Jimmi. The bill of exchange was payable after 40 days. Five days before the maturity of the bill, Jimmi sent the same to his bank for collection. The bank duly presented the bill to John on the due date who met the bill. The bank informed the same to Jimmi.
   Prepare John's account in the books of Jimmi and Jimmi account in the books of John.

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5. On Jan 15, 2015, Kartar Sold goods for Rs.30,000 to Bhagwan and drew upon him three bills of exchanges of Rs.10,000 each payable after one month, two month, and three months respectively. The first bill was retained by Kartar till its maturity. The second bill was endorsed by him in favour of his creditor Ratna and the third bill was discounted by him immediately @ 6% p.a. All the bills were met by Bhagwan. Journalise the above transactions in the books of Kartar and Bhagwan. Also prepare ledger accounts in books of Kartar and Bhagwan.
6. On Jan. 01, 2015 Arun sold goods for Rs.30,000 to Sunil. 50% of the payment was made immediately by Sunil on which Arun allowed a cash discount of 2%. For the balance Sunil drew a promissory note in favour of Arun payable after 20 days. Since, the date of maturity of bill was a public holiday, Arun presented the bill on a day, as per the provisions of Negotiable Instrument Act which was met by Sunil. State the date on which the bill was presented by Arun for payment and Jounalise the above transactions in the books of Arun and Sunil.
7. Darshan sold goods for Rs. 40,000 to Varun on 8.1.2015 and drew upon him a bill of exchange payable after two months. Varun accepted the bill and returned the same to Darshan. On the due date the bill was met by Varun. Record the necessary Journal entries in the books of Darshan and Varun in the following circumstances.
   - When the bill was retained by Darshan till the date of its maturity.
   - When Darshan immediately discounted the bill @ 6% p.a. with his bank.
   - When the bill was endorsed immediately by Darshan in favour of his creditor Suresh.
   - When three days before its maturity, the bill was sent by Darshan to his bank for collection.
8. Bansal Traders allow a trade discount of 10% on the list price of the goods purchased from them. Mohan traders, who runs a retail shop made the following purchases from Bansal Traders.

Date	Amount (Rs.)
Dec. 21, 2015	1,000
Dec. 26, 2015	1,200
Dec. 18, 2015	2,000
Dec. 31, 2015	5,000

For all the purchases Mohan Traders drew promissory note in favour of Bansal Traders payable after 30 days. The promissory note for the sale of Dec. 21, 2015 was retained by Bansal Traders with them till the date of its maturity. The promissory note drawn on 26.12.2015 was discounted by Bansal Traders from their bank at 12% p.a. The promissory note drawn on Dec. 28, 2015 was endorsed by Bansal Traders in favour of their creditor Dream Soaps in full settlement of a purchase amounting to Rs. 1,900. On 25.1.2016 Bansal Traders sent the promissory note drawn on Dec. 31, 2015 to their bank for collection. All the promissory

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notes were met by Mohan Traders. Record the necessary journal entries for the above transactions in the books of Bansal Traders and Mohan Traders and prepare Mohan Traders account in the books of Bansal Traders and Bansal Traders account in the books of Mohan Traders.

9. Narayanan purchased goods for Rs.25,000 from Ravinderan on Feb. 01, 2015. Ravinderan drew upon Narayanan a bill of exchange for the same amount payable after 30 days. On the due date Narayanan dishonoured his acceptance.

   Pass the necessary journal entries in the books of Ravinderan and Narayanan in following cases:

   - When the bill was retained by Ravinderan with him till the date of its maturity.
   - When the bill was discounted by Ravinderan immediately with his bank @ 6% p.a.
   - When the bill was endorsed to his creditor Ganeshan.
   - When the bill was sent by Ravinderan to his bank for collection a few days before it maturity.

10. Ravi sold goods for Rs.40,000 to Sudershan on Feb 13, 2015. He drew four bills of exchange upon Sudershan. The first bill was for Rs.5,000 payable after one month. The second bill was for Rs.10,000 payable after 40 days; the third bill was for Rs.12,000 payable after three months and fourth bill was for the balance amount payable after 19 days. Sudershan accepted all the bills and returned the same to Ravi. Ravi discounted the first bill with his bank at 6% p.a. He endorsed the second bill to his creditor Mustaq for the full settlement of a debt of Rs.10,200. The third bill was kept by Ravi with him till the date of maturity. Five days before the maturity of the fourth bill, Ravi sent the bill to his bank for collection. All the four bills were dishounoured by Sudarshan on maturity. Sudershan settled Ravi's claim in cash three days after the dishonour of each bill along with interest @ 12% p.a. for the terms of the bills.
    You are requested to record the necessary journal entries in the books to Ravi, Sudershan, Mustaq and bank for the above transaction. Also prepare Sudershan's account and Mustaq's account in the books of Ravi.

11. On Jan 01, 2015 Neha sold goods for Rs.20,000 to Muskan and drew upon her a bill of exchange payable after two months. One month before the maturity of the bill Muskan approached Neha to accept the payment against the bill at a rebate @ 12% p.a. Neha agreed to the request of Muskan and Muskan retired the bill under the agreed rate of rebate.
    Journalise the above transaction in the books of Neha and Muskan.

12. On Jan 15, 2015 Raghu sold goods worth Rs. 35,000 to Devendra and drew upto the latter three bills of exchanges. The first bill was for Rs.5,000 payable after one month, the second bill was for Rs.20,000 payable after three months and third bill for balance amount for 4 months. Raghu endorsed the first bill in favour of his creditor Dewan in full settlement of a debt of Rs.5,200. The second bill was discounted by Raghu @ 6 % p.a. and the third bill was retained by Raghu till the date

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of maturity. Devendra dishonoured the bill on maturity and the bank paid Rs. 30 as noting charges. Four days before the maturity of the third bill Raghu, sent the same for collection to his bank. The third bill was also dishonored by Devendra and the bank paid Rs.200 as noting charges. Five days after the dishonour of the bill Devendra paid the entire amount due to Raghu along with interest Rs.1,000 for this purpose Devendra obtained a short term loan from his bank.

You are requested to record the necessary journal entries in the books of Raghu Devendra and Dewan and also prepare Devendra's account in Raghu's books and Raghu's account in Devendra's account.

13. Viaml purchased goods Rs.25,000 from Kamal on Jan 15, 2015 and accepted a bill of exchange drawn upon him by Kamal payable after two months. On the date of the maturity the bill was duly presented for payment. Vimal dishonoured the bill.

    record the necessary journal entries in the books of Kamal and Vimal when.

    - The bill was retained by Kamal till the date of its maturity.
    - The bill was immediately discounted by Kamal with his bank @ 6% p.a.
    - The bill was endorsed by Kamal in favour of his creditor Sharad.
    - Five days before its maturity the bill was sent by Kamal to his bank for collection.

14. Abdulla sold goods to Tahir on Jan 17, 2015 for Rs.18,000. He drew a bill of exchange for the same amount on Tahir for 45 days. On the same date Tahir accepted the bill and returned it to Abdulla. On the due date Abdulla presented the bill to Tahir which was dishonoured. Abdulla paid Rs.40 as noting charges. Five days after the dishonour of his acceptance Tahir settled his debt by making a payment of Rs.18,700 including interest and noting charges.

    Record the necessary journal entries in the books of Abdulla and Tahir. Also prepare Tahir's account in the books of Abdulla and Abdulla's account in the books of Tahir.

15. Asha sold goods worth Rs.19,000 to Nisha on March 02, 2015. Rs.4,000 were paid by Nisha immediately and for the balance she accepted a bill of exchange drawn upon her by Asha payable after three months. Asha discounted the bill immediately with her bank. On the due date Nisha dishonoured the bill and the bank paid Rs.30 as noting charges.

    Record the necessary journal entries in the books of Asha and Nisha.

16. On Feb. 02, 2015, Verma purchased from Sharma goods for Rs.17,500. Verma paid Rs.2,500 immediately and for the balance gave a promissory note to Sharma payable after 60 days. Sharma immediately endorsed the promissory note in favour of his creditor.

    Gupta for the full settlement of a debt of Rs.15,400. On the due date of the bill Gupta presented the bill to Verma which the latter dishonoured and Gupta paid Rs.5,000 noting charges. On the same date Gupta informed Sharma about the dishonour of the bill. Sharma settled his debt to Gupta by cheque for Rs.15,500 which includes noting charges

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and interest. Verma settled Sharma's claim by cheque for the same amount.

Record the necessary journal entries is the books of Sharma, Gupta and Verma for the above transaction and prepare Verma's and Gupta's accounts in the books of Sharma. Sharma's account in the books of Verma. And also Sharma's account in the books of Gupta.

17. Lilly sold goods to Methew on 1.3.2015 for Rs.12,000 and drew upon Methew a bill of exchange for the same amount payable after two months. Lilly immediately discounted the bill with her bank at 9% p.a. The maturity date of the bill was a non business day (holiday), therefore, Lilly had to present the bill as per the provisions of the Indian Instruments Act.1881. The bill was dishonoured by Methew and Lilly paid Rs.45 as noting charges. Methew settled the claim of Lilly five days after the disonour of the bill by a cheque, whch includes interest @ 12% for the term of the bill.

    Journalise the above transactions in the books of Lilly and Methew and prepare Mathew's account in the books of Lilly and Lilly's account in the books of Mathew.

18. Kapil purchased goods for Rs.21,000 from Gaurav on 1.2.2015 and accepted a bill of exchange drawn by Gaurav for the same amount. The bill was payable after one month. On 25.2.2015 Gaurav sent the bill to his bank for collection. The bill was duly presented by the bank. Kapil dishonoured the bill and the bank paid Rs.100 as noting charges.

    Record the necessary journal entries for the above transactions in the books of Kapil and Gourav.

19. On Feb. 14, 2015 Rashmi sold good Rs.7,500 to Alka. Alka paid Rs.500 in cash and for the bank balance accepted a bill of exchange drawn upon her by Rashmi payable after two months. On Apr.10, 2015 Alka approached Rashmi to cancel the bill since she was short of funds. She further requested Rashmi to accept Rs.2,000 in cash and draw a new bill for the balance including interest Rs.500. Rashmi accepted Alka's request and drew a new bill for the amount due payable after 2 months. The bill was accepted by Alka. The new bill was duly met by Alka on maturity.

    Record the necessary journal entries in the books of Rashmi and Alka and prepared Alka's account in the books of Rashmi's and Rashmi's account in the books of Alka's

20. Nikhil sold goods for Rs.23,000 to Akhil on Dec. 01, 2015. He drew upon Akhil a bill of exchange for the same amount payable after 2 months. Akhil accepted the bill and sent it back to Nikhil. Nikhil discounted the bill immediately with his bank @12 p.a. On the due date Akhil dishonoured the bill of exchange and the bank paid Rs.100 as noting charges. Akhil requested Nikhil to draw a new bill upon him with interest @10% p.a. which he agreed. The new bill was payable after two months. A week before the maturity of the second bill Akhil requested Nikhil to cancel the second bill. He further requested to accept Rs.10,000 in cash

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immediately and drew a third bill upon him including interest of Rs.500. Nikhil agreed to Akhil's request. The third bill was payable after one month. Akhil met the third bill on its maturity. record the necessary journal entries in the books of Nikhil and Akhil and also prepare Akhil's account in the books of Nikhil and Nikhil's account in the books of Akhil.

21. On Jan 01, 2015 Vibha sold goods worth Rs.18,000 to Sudha and drew upon the latter a bill of exchange for the same amount payable after two months. Sudha accepted Vibha's draft and returned the same to Vibha after acceptance. Vibha endorsed the bill immediately in favour of her creditor Geeta. Five days before the maturity of the bill Sudha requested Vibha to cancel the bill since she was short of funds. She further requested to draw a new bill upon her including interest of Rs.200. Vibha accepted Sudha's request. Vibha took the bill from Geeta by making the payment to her in cash and cancelled the same. Then she drew a new bill upon Sudha as agreed. The new bill was payable after one month. The new bill was duly met by Sudha on maturity. Record the necessary journal entries in the books of Vibha.

22. Following was the position of debtor and creditor of Gautam as on 1.1.2015.

	Debtors Rs.	Creditors Rs.
Babu	5,000	-
Chanderkala	8,000	-
Kiran	13,500	-
Anita	14,000	-
Anju	-	5,000
Sheiba	-	12,000
Manju	-	6,000

The following transactions took place in the month of Jan 2015:

Jan 2

Drew on Babu at two months after date at full settlement for Rs.4,800. Babu accepted the bill and returned it on 5.1.2015 .

Jan. 04

Babu's bill discounted for Rs.4,750.

Jan. 08

Chanderkala sent a promissory note for Rs.8,000 payable three months after date.

Jan. 10

Promissory note received from Chanderkala discounted for Rs.7,900.

Jan. 12

Accepted Sheiba draft for the amount due payable two months after date.

Jan. 22

Anita sent his promissory note payable after two months.

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Jan. 23

Anita's promissory note endorsed in favour of Manju.

Jan. 25

Accepted Anju's draft payable after three months.

Jan. 29

Kiran sent Rs.2,000 in cash and a promissory note for the balance payable after three months.

Record the above transactions in the proper subsidiary books.

23. On Jan. 01, 2015 Harsh accepted a months bill for Rs. 10,000 drawn on him by tanu for latter's benefit. Tanu discounted the bill on same day @ 8% p.a On the due date tanu sent a cheque to Harsh for honour the bill. Harsh duly honoured his acceptance.
Record the journal entries in the Books of Tanu and Harsh.
24. Ritesh and Naina were in need of funds temporarily. On August 01 2015 Ritesh drew upon Naina a bill for Rs. 12,000 for 4 months. Naina Accepted the bill and returned to Ritesh. Ritesh discounted the Bill @ 8% p.a. Half amount of the discounted bill remitted to Naina. On due date, Ritesh sent the required sum to Naina, who met the bill. Journalise the transaction in the books of both the parties.
25. On Jan. 01, 2014, bhanu and Naman drew on each other a bill for Rs. 8,000 payable 3 months after the due date for their Mutual benefit. On January 02 they discounted with their bank each other's bill at 5% p.a. on the due date each met his Own's acceptance. Give journal entry in the books of Bhanu and Naman.
26. On Nov. 01, 2014 Sonia drawn a bill on sunny for Rs. 15,000 for 3 months for mutual accommodation. Sunny accepts the bill and return it to sonia. Sonia discounted the same with his bankers @ 6% p.a. The proceeds are shared between sonia and sunny in proportion of 2/3rd, 1/3rd respectively. On the due date sonia remits his proportion to sunny who fails to met the bill and as a result sonia has to meet it. Sunny Give a fresh acceptance for the amount due to sonia plus interest of Rs. 100 sunny meet his second acceptance on due date. Record the necessary journal entries in the books of sonia and sunny.

Checklist to test Your Understanding

Test your understanding-I

(i)	False	(ii)	True	(iii)	False	(iv)	False	(v)	True
(vi)	False	(vii)	True	(viii)	False	(ix)	False	(x)	False

Test Your Understanding-II

(i)Promisee (ii) Endorsement (iii) Promissor (iv) Endorser

Test Your Understanding-III

(i) Negotiable, (ii) Drawer, Drawee (iii) Debtor, Creditor (iv) Three
(v) Two. (vi) Drawee (vii) Hundi (viii) 3, Maturity

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