

Bills of Exchange

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1. Introduction

Generally, there are two types of financial transactions in any types of business : (1) Cash transactions and (2) Credit transactions. Cash transactions are those transactions where there is an immediate give or take of cash. e.g. Cash purchase transactions, cash sales transactions etc. Credit transactions are those transactions where cash is not paid immediately but it is payable during a specific period subject to the conditions agreed at the time of the transaction. e.g. Credit purchase transactions, credit sales transactions etc. In such transactions, the payment of the amount depends on the credit period. The credit period depends on the type of business, current situation, mutual understanding and conditions of the opposite party and the amount of the transactions.

In present times, with the increase in the numbers and size of the business, the number of credit transactions and its importance are also increasing day-by-day. If the payment of the amount of goods given in credit is not received on time, many times businessmen have to face financial problems and it is also effected on their other transactions. Hence, each businessmen wishes to receive the amount of a credit transaction in time. To maintain the financial liquidity, normally businessmen uses a document through which, the person from whom an amount is receivable, accepts his debt in writing and states the time of payment of the amount; or accepts to pay at the time stated in the document. If the debtor fails to pay the amount, this document can be used as a written evidence of the dues.

In this way, the documents which are used, are of two types : (1) Bills of Exchange and (2) Promissory Notes.

2. Meaning and Definition of Bill of Exchange

The definition of a bill of exchange as per the Indian Negotiable Instruments Act, 1881 is as follows :

“A bill of exchange is an instrument in writing containing an unconditional order, signed by the drawer, directing a certain person to pay a certain sum of money only at a specified time to a certain person or according to his order or to the holder of the instrument.”

Bill of exchange is also called letter of exchange.

3. Characteristics of Bill of Exchange

Whether any bill is acceptable (legally) or not, it can be known from its characteristics or essential elements.

- (1) **In writing** : A bill must be in writing, so an oral order can not be called a bill.
- (2) **Unconditional order** : The order made in the bill must be unconditional. This means there should not be any condition for the payment of money. This order should not in the form of request.
- (3) **Specific person** : The bill must be addressed to a specific person.
- (4) **Bill acceptor and amount receiver** : In a bill, the bill acceptor and amount receiver both are separate persons. Therefore, their names must be clear and both should be specific persons.
- (5) **Order for the payment** : The order must only be for the payment of Indian money, not for a product or consideration of money.
- (6) **Definite amount** : The amount shown in the bill must be clear and definite.
- (7) **Clear date** : The date of writing the bill must be clear.
- (8) **Definite duration** : The duration of the bill must be definite.
- (9) **Signature of the person** : The bill must contain the signature of the person who is writing (drawing) the bill.
- (10) **Revenue stamp** : Revenue (adhesive) stamp of the prescribed amount must be affixed on the bill depending on the amount of the bill.
- (11) **On demand or after specified time** : The payment of the bill is done on the demand of the drawer or after the specified time.
- (12) **Acceptance of the bill** : The bill becomes operative only after it is accepted by the person on whom it is drawn.

4. Different parties in a Bill of Exchange

There are three parties in bill of exchange :

- (1) **Drawer of the bill** : Generally, he is the creditor or the trader selling the goods.
- (2) **Acceptor of the bill** : Generally, he is the debtor or the customer purchasing the goods.
- (3) **Payee of the bill** : Generally, he is the drawer of the bill or the person who is going to receive the money or the person who holds the bill.

In some situations, when the drawer and the payee, both are the same, then there are only two parties : (1) Drawer / Payee / Holder of the bill (2) Acceptor of the bill.

Normally, a bill is drawn by a creditor on his debtor, which is accepted by the debtor and returned back to his creditor.

5. Specimen of Bill of Exchange

₹ 10,000		Mitramilan Society, Naranpura, Ahmedabad-13 Date : 9-8-2016	
For the value received by you, pay Rupees Ten thousand only to Ritesh or as per his order after three months from today.			
To, Shri Dhaval Sargam Flats, Jodhpur, Ahmedabad	(Dhaval) Signature of the acceptor	(Kaveesh) Signature of the drawer	<div style="border: 1px solid black; padding: 5px; display: inline-block;">Revenue Stamp</div>

From the above specimen of Bill of Exchange understand the details of the bill.

- (1) **Definite person** : In the bill each person must be definite individuals. Here, Kaveesh is drawer while Dhaval is acceptor and Ritesh is receiver.
- (2) **Amount** : The amount payable by the acceptor must be clearly shown in the bill. In the specimen, the amount is shown both in figures and words.
- (3) **Date** : The date on which the bill is drawn is shown in the bill. In the specimen, the date of the bill is 9-8-2016.
- (4) **Period** : The period after which the amount is payable, that period must be shown clearly in the bill. In the specimen given above, the period is three months.
- (5) **Signature** : The bill must contain the signature of two persons - the drawer and the acceptor. In the specimen, the signature of Kaveesh as the drawer of the bill and the signature of Dhaval as the acceptor of the bill.
- (6) **Revenue Stamp** : In order to recognise a bill legally, it is necessary to affix a revenue stamp in the proportion of the amount of the bill. A document without a revenue stamp cannot be considered legal.

6. Meaning and Definition of Promissory Note

Generally a creditor draws a bill on his debtor for receiving his dues. Along with a bill, another document is also used for settling the accounts. This document is known as a promissory note.

In a promissory note, a person who has to pay an amount to another person, himself gives a written promise to pay the amount. This means, a debtor himself gives a written promise to the creditor to pay the amount. This promise (document) is known as a **promissory note**.

The definition of a promissory note as per the Indian Negotiable Instruments Act 1881 is as follows :

“A promissory note is an instrument in writing containing an unconditional under taking, signed by the drawer to pay a certain sum of money only at a specified time to a certain person or according to his order or to the holder of the instrument.”

7. Characteristics of Promissory Note

- (1) **In writing** : A promissory note must be in writing so an oral promise cannot be called a promissory note.
- (2) **Certain amount** : The promissory note must contain a promise to pay certain amount.
- (3) **Definite and clear** : The amount shown on the promissory note must be definite and clear.
- (4) **Promise to pay money only** : The promissory note must contain a promise to pay money only, not a product or consideration of money.
- (5) **Unconditional promise** : The promise to pay money made in the promissory note must be unconditional.
- (6) **Drawer signature** : The promissory note must be drawn by a definite person and the drawer must put his signature on it.
- (7) **Period and time** : The duration of the promissory note and the date of making the promissory note must be clearly stated.
- (8) **Revenue stamp** : Revenue stamp of the prescribed amount must be affixed on the promissory note.
- (9) **By jointly** : A promissory note can be drawn jointly by more than one person. In this case, each person becomes jointly and individually responsible for making the payment.

8. Different Parties of Promissory Note

Generally there are two parties to a promissory note.

- (1) **Drawer or maker of the promissory note** : Generally, he is the debtor.
- (2) **Payee or person receiving the money** : Generally, he is the creditor or the holder of the promissory note.

9. Specimen of Promissory Note

₹ 12,000	Shop no. 21, Akshat Flat, Bhuyangdev, Ahmedabad Date : 21-1-2016
I promise to pay Rupees Twelve thousands only to Sanjaybhai Patel or as per his order after two months from today, for the value received.	
To, Sanjaybhai Patel Ranip, Ahmedabad	<div style="border: 1px solid black; display: inline-block; padding: 5px; text-align: center;">Revenue Stamp</div> Suresh Patel

From the above specimen of promissory note understand the details of the promissory note.

- (1) **Definite person** : Drawer of the promissory note and receiver of the amount must be definite person in the promissory note. Here Suresh Patel is drawer and Sanjaybhai Patel is receiver.
- (2) **Date** : Generally the date on which the promissory note is made (drawn), the same date is to be shown on the note. Here date of promissory note drawn is 21-1-2016.
- (3) **Amount** : The amount payable by the maker should be clearly stated in the promissory note. Here ₹ 12,000 is shown both in figures and words.
- (4) **Period** : The period after which the amount is payable should be clearly shown in the promissory note. In the specimen, the period of promissory note is two months.
- (5) **Signature** : It is necessary that the promissory note is signed by its maker in order to make the note a legally valid document. In the specimen, Suresh Patel is the maker of the promissory note, so his signature on the note is essential.
- (6) **Revenue stamp** : In order to recognise a promissory note legally, it is necessary to affix a revenue stamp in the proportion of the amount of the note. A document without a revenue stamp cannot be considered legal.

10. Difference Between Bill of Exchange and Promissory Note

No.	Points	Bill of Exchange	Promissory Note
(1)	Order or promise	A bill of exchange is an unconditional order to pay money.	A promissory note is an unconditional promise to pay money.
(2)	Who draws on whom	A bill is drawn by a creditor on his debtor.	A promissory note is made by a debtor and sent to his creditor.

No.	Points	Bill of Exchange	Promissory Note
(3)	Parties	There are three parties to a bill. Drawer of the bill, acceptor of bill and receiver of money.	There are two parties to a promissory note. Maker of the note and receiver of the money.
(4)	Need for acceptance	A bill does not become operative unless it is accepted by the person on whom it is drawn.	There is no need for acceptance of a promissory note as it is made by the debtor himself.
(5)	Responsibility of payment	The acceptor of a bill is responsible for making the payment. If the acceptor becomes insolvent, then in case of bill endorsed, the drawer may also become liable.	Responsibility to pay the amount of the promissory note is that of the drawer.
(6)	Days of grace	Three days of grace are allowed after the period of the bill to pay the amount.	No days of grace are allowed in case of promissory note.
(7)	Dishonour	When the acceptor of a bill fails to pay the money on the maturity date it is known as dishonour of the bill. Notice to be issued in case of dishonour of the bill.	There is no need of notice for the dishonour of a promissory note.
(8)	Accommodation bills	There can be accommodation bills.	There are no accommodation promissory notes.
(9)	Condition	Any common person or trader can draw a bill with the condition "Payment to bearer on demand".	Only the Reserve Bank of India can issue a promissory note with the condition "Payable to bearer on demand". i.e. Currency note.

11. Bills Receivable and Bills Payable

A bill is mainly known in two ways : (1) Bills Receivable and (2) Bills Payable.

A person or trader who has to receive money from other person or customer, draws a bill on that person or customer. The person or customer on whom the bill is drawn accepts this bill. Here, it is a bill receivable for the person who draws the bill and it is a bill payable for the person who accepts the bill. This means it is a bill receivable for the creditor and a bill payable for the debtor. e.g. Kamal has to receive ₹ 30,000 from Girish. Here, Kamal would draw a bill of ₹ 30,000 on Girish and Girish would accept the same. This bill is a bill receivable for Kamal and bill payable for Girish. After accepting the bill, the drawee (acceptor) of the bill, returns the bill to the drawer of the bill.

A bill receivable is an asset for the drawer of the bill whereas a bill payable is a liability for the drawee (acceptor) of the bill. If the drawer of the bill and the payee are both the same person, then it is a bill receivable for the drawer and a bill payable for the drawee (acceptor). But when the drawer of the bill and the payee are different persons, it is considered to be a bill receivable for the holder of the bill. In a balance sheet bill receivable shows as current asset while bill payable as current liabilities.

This details can be shown in the table format as given on the next page :

No.	Bills Receivable	Bills Payable
1.	It is drawn or made	It is accepted
2.	Current asset of the business.	Current liabilities of the business.
3.	Money is received in future.	Money is payable in future.
4.	Generally it is created from credit sale.	Generally it is created from credit purchase.

12. Terms of Bill, Due Date and Days of Grace

The date on which the bill is written (or drawn) is shown in the bill. It's called **date of drawing the bill**.

Same period is allowed for the payment by the bills drawer to the bill acceptor, it's called **Terms of bill**. e.g. Two months bill, Three months bill etc. After the terms of bill, bill acceptor has to pay the amount which is shown in the bill to bill drawer. So, by adding the period of the bill to the date on which the bill is drawn is called **Due date** or **Maturity date of a bill**. e.g. The date of the bill drawn is 21-1-2016 and the period is three months. The due date of the bill is decided as under.

Date of drawing the bill : 21-1-2016

Period of bill : 3 months

Maturity date of a bill : 21-4-2016 (without days of grace)

In order to facilitate the payment of money in the transaction of bill, **three days of grace** are allowed. This means that three days of grace are added to the date which is derived after adding the period of the bill to the date of drawing the bill. This additional three days is called **days of grace**. After adding three days of grace on the maturity (due) date of a bill, a date which come is called **Due date (Maturity date) with days of grace**.

e.g. Date of drawing the bill : 21-1-2016

Period of bill : 3 months

Due date of the bill : 21-4-2016

Due date with days of grace : 24-4-2016 (21-4-2016 + 3 days (grace))

If the maturity date of a bill falls on a public holiday or on a Sunday, the preceding day is considered to be the maturity date of the bill. e.g. if the bill matures on 26th January, 25th January will be considered as the maturity date of the bill because 26th January is a public holiday.

If the payment of the bill cannot be made on the maturity date due to abnormal circumstances like natural calamities, curfew, riots, close down etc, the next working day after the maturity date will be considered as the maturity date.

If terms of bill is given in days instead of months, then number of days should be considered to decide maturity date.

e.g. Date of drawing the bill : 21-1-2016

Period of bill : 90 days

Find maturity date with days of grace for a bill ?

Jan. 2016 (31-21) = 10 days

Feb. 2016 = 29 days

March 2016 = 31 days

April 2016 = 20 days (90 - 70)

= 90 days

So that, maturity date of a bill is 20-4-2016 + 3 days of grace = 23-4-2016.

13. Bill at Sight and Bill after Dated

The main types of the bills are as under :

(1) **Bill payable immediately on demand or bill at sight** : The acceptor of the bill is required to pay the amount of the bill immediately whenever the person holding the bill demands the payment. Such a bill is known as a **bill at sight**. Here the acceptor of the bill has to pay the money immediately on the presentation of the bill. A bill in which the payment period is not stated is also considered to be a bill at sight.

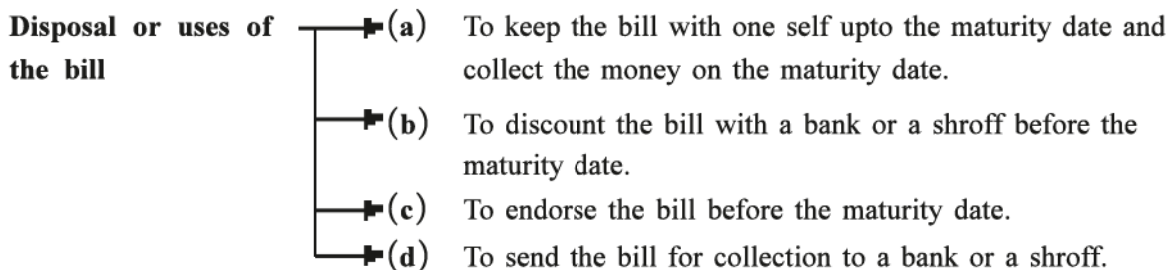
(2) **Bill payable after a stipulated period or bill after dated** : The acceptor of the bill is required to pay the amount of the bill after a definite or stipulated period. Normally, such a bill becomes payable in one of the following ways :

- (i) after the stated date at a definite time
- (ii) after sight at a definite time
- (iii) after the occurrence of a particular event at a definite time

Since a definite period is allowed for the payment of the amount of the bill, it is also known as a **bill after dated**.

14. Disposal or Uses of a Bill

Normally there are three parties in a bill - the drawer, the acceptor and the payee. Mostly, the drawer of the bill and receiver of the money both are the same person. The possession of the bill remains with the drawer of the bill or the holder of the bill. The following alternatives are available to the person possessing the bill for the disposal or use of the bill :



Now, understand above four alternatives in detail :

(a) **To keep the bill with one self upto the maturity date and collect the money on the maturity date** : If the drawer of the bill or the holder of the bill does not need the money of the bill earlier than the maturity date; or if the period of the bill is very short, then that person keeps the bill with himself upto the maturity date and collect the money of the bill on the maturity date.

(b) **To discount the bill with a bank or a shroff before the maturity date** : If the holder of the bill is in need of money before the maturity date then the bill can be discounted with a bank or a shroff before its maturity date and money can be received immediately. For that the holder of the bill and the drawer of the bill must have a good credit in the market. The bank or shroff does not pay the entire amount of the bill, but deducts an amount of discount from the total amount and pays the remaining amount. This amount of discount is called **Discount of bills**. This is an income for a bank or a shroff, where as it is an expense for the holder of the bill.

Amount of discount on bill depends on the amount of bill, terms of bill, time of discounting the bill, rate of discount etc.

e.g. There is a bill of ₹ 20,000 and the period of the bill is three months. The bill is drawn on 1-10-2016. If the bill is discounted on 4-10-2016 at 10 % per annum then,

Amount of discount = Amount of the bill × Rate of annual discount × period from the date of discounting the bill to the maturity date of the bill

$$\begin{aligned} &= 20,000 \times \frac{10}{100} \times \frac{3}{12} \\ &= ₹ 500 \end{aligned}$$

Here, the bank or the shroff will deduct the discount of ₹ 500 and pay the remaining amount (₹ 20,000 – ₹ 500) = ₹ 19,500 to the person discounting the bill.

Now, suppose the bill is discounted on 4-11-2016, instead of discounting immediately, then

Amount of discount = Amount of the bill × Rate of discount × period from the date of discounting the bill to the maturity date of the bill

$$\begin{aligned} &= 20,000 \times \frac{10}{100} \times \frac{2}{12} \\ &= ₹ 333.33 \end{aligned}$$

Here, the discount will be calculated for two months only. Here, the bank will pay ₹ 19666.67 (₹ 20,000 – ₹ 333.33) to the person who discounts the bill.

(c) To endorse the bill before the maturity date : Under the Indian Negotiable Instruments Act 1881, a bill of exchange is a negotiable instrument. It is a document which can be transferred easily. A person holding the bill can endorse a bill receivable in favour of his debt. However, the consent of the creditor is necessary. In order to transfer the bill, necessary details are written on the back side of the bill and signed. This process is known as endorsement. When a bill is endorsed in favour of a creditor for the payment of a debt, the creditor becomes the holder of the bill and can collect the money on the maturity date of the bill.

(d) To send the bill for collection to a bank or a shroff : A trader is very busy in different activities of his business, then, in order to save time and to get facility, he assigns the task of collecting the money of the bill receivable to a bank or a shroff. He sends the bill to the bank or the shroff before its maturity date. This bill is not discounted. The bank or the shroff collects the money on the maturity date on behalf of the trader, and either credits it to his account or pays it to him.

Here, the bank or the shroff acts as an agent of the trader and charges commission at the stipulated rate from the trader for the service provided.

Now, let us understand all above details and discussion by the accounting entries and effects :

Suppose, Nupur Traders sold some goods to Shital Traders on credit. Nupur Traders drew a bill for the necessary amount on Shital Traders, which was accepted by Shital Traders. Here, Nupur Traders is the drawer of the bill (creditor) and Shital Traders is the acceptor of the bill (debtor). The following journal entries will be passed for each alternative in the books of both the parties.

Sr.	In the books of drawer of the bill (Nupur Traders)	In the books of acceptor of the bill (Shital Traders)
(1)	Sale of goods : Shital Traders (customer) A/c Dr To sale A/c	Purchase of goods : Purchase A/c Dr To Nupur Traders (trader) A/c
(2)	Receipt of bills receivable after acceptance : Bills receivable A/c Dr To Shital Traders A/c	Acceptance of bills payable : Nupur Trader's A/c Dr To bills payable A/c
(3)	Different alternatives for the Disposal / use of the bill : (A) Receiving money from the acceptor of the bill on the maturity date : Cash/Bank A/c Dr To bills receivable A/c	(A) Paying money on the maturity date to the holder of the bill : Bills payable A/c Dr To cash/bank A/c
	(B) (i) Holder of the bill who discounts the bill with a bank or a shroff before the maturity date : Bank A/c Dr Discount A/c Dr To bills receivable A/c (ii) On the maturity date : No entry. (On the maturity date, the acceptor of the bill will pay the money to the bank or the shroff because drawer of the bill discounted this bill with a bank or a shroff.)	(B) (i) When the drawer of the bill discounts the bill with a bank or a shroff before the maturity date : No entry. (ii) On the maturity date : Bills payable A/c Dr To bank/cash A/c
	(C) (i) Endorsing the bill in favour of any other person : (Suppose Nupur Traders endorsed this bill in favour of Pandya Brothers) Pandya Brothers A/c Dr To bills receivable A/c (ii) On the maturity date : No entry. (Because on the maturity date Shital Trader will pay the amount of the bill to Pandya Brothers.)	(C) (i) When the bill is endorsed : No entry. (Because it is a transaction between Nupur Traders and Pandya Brothers.) (ii) On the maturity date : Bills payable A/c Dr To bank/cash A/c

Sr.	In the books of drawer of the bill (Nupur Traders)	In the books of acceptor of the bill (Shital Traders)
	(D) (i) When the bill sent to bank for collection : Bill for collection through bank A/c Dr To bills receivable A/c (ii) On the maturity date : Bank A/c Dr Bank commission A/c Dr To bill for collection through bank A/c	(D) (i) When the bill sent to bank for collection : No entry. (ii) On the maturity date : Bills payable A/c Dr To bank A/c

■ **Only for Bills Receivable and Bills Payable :**

Illustration 1 : Amish purchased goods of ₹ 72,000 from Nimesh on 16-9-2016. Nimesh drew a bill of ₹ 72,000 for three months on Amish, which Amish accepted and returned. Record these transactions in the books of Amish and Nimesh.

Ans. : Journal of Amish

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
16-9-2016	Purchase A/c Dr To Nimesh A/c (Being purchase of goods of ₹ 72,000 on credit from Nimesh.)		72,000	72,000
16-9-2016	Nimesh A/c Dr To bills payable A/c (Being accepted a bill of ₹ 72,000 drawn by Nimesh.)		72,000	72,000

Journal of Nimesh

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
16-9-2016	Amish A/c Dr To sale A/c (Being sale of goods of ₹ 72,000 on credit of Amish)		72,000	72,000
16-9-2016	Bills receivable A/c Dr To Amish A/c (Being bill of ₹ 72,000 accepted and returned by Amish.)		72,000	72,000

■ **The Bill is kept with Oneself upto the Maturity Date and the Money is Collected from the Acceptor of the Bill on the Maturity Date :**

Illustration 2 : Ami sold goods of ₹ 25,000 to Rami on 1-7-2016. On 3-7-2016 Ami drew a bill for ₹ 25,000 for 20 days on Rami, which Rami accepted and returned. Rami paid the amount of the bill on the maturity date. Pass necessary journal entries in the books of both parties.

Ans. :

Journal of Ami

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-7-2016	Rami A/c Dr To sales A/c (Being sale of goods of ₹ 25,000 to Rami on credit.)		25,000	25,000
3-7-2016	Bills receivable A/c Dr To Rami A/c (Being bill of ₹ 25,000 accepted and returned by Rami.)		25,000	25,000
26-7-2016	Bank/cash A/c Dr To bills receivable A/c (Being the amount of the bill of ₹ 25,000 received on maturity date.)		25,000	25,000

Journal of Rami

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-7-2016	Purchase A/c Dr To Ami A/c (Being the purchase of goods of ₹ 25,000 from Ami on credit.)		25,000	25,000
3-7-2016	Ami A/c Dr To bills payable A/c (Being bill drawn by Ami of ₹ 25,000 accepted and returned.)		25,000	25,000
26-7-2016	Bills payable A/c Dr To bank/cash A/c (Being on the date of maturity, payment of ₹ 25,000 of the bills payable.)		25,000	25,000

■ **When the Bill is Discounted with the Bank or Shroff :**

Illustration 3 : Rajesh sold goods of ₹ 84,000 on credit to Akshay on 10-7-2016. Rajesh drew a bill for the necessary amount on 12-7-2016 for 3 months, which Akshay accepted and returned. On 15-8-2016 Rajesh discounted this bill with the bank at 10 % p.a. discount. Akshay paid the amount of the bill on the maturity date. Pass necessary journal entries in the books of both the parties.

Ans. :

Journal of Rajesh

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
10-7-2016	Akshay A/c Dr To sales A/c (Being purchase of goods of ₹ 84,000 on credit.)		84,000	84,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
12-7-2016	Bills receivable A/c Dr To Akshay A/c (Being bill accepted of ₹ 84,000 by Akshay.)		84,000	84,000
15-8-2016	Bank A/c Dr Discount A/c Dr To bill receivable A/c (Being bill of ₹ 84,000 discounted after one month with the bank.)		82,600 1400	84,000

Note : (1) Discount amount = $84,000 \times \frac{10}{100} \times \frac{2}{12} = ₹ 1400$

(2) There is no entry on maturity date of bill 15-10-2016 in the book of Rajesh.

Journal of Akshay

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
10-7-2016	Purchase A/c Dr To Rajesh A/c (Being purchase of goods of ₹ 84,000 on credit.)		84,000	84,000
12-7-2016	Rajesh A/c Dr To bills payable A/c (Being bill drawn by Rajesh of ₹ 84,000 is accepted.)		84,000	84,000
15-10-2016	Bills payable A/c Dr To bank/cash A/c (Being ₹ 84,000 paid on the maturity date to holder of the bill.)		84,000	84,000

Note : Journal entry for the transaction on 15-8-2016 is not to be written in the books of Akshay.

■ When the Bill is Endorsed :

Illustration 4 : Rohit sold goods of ₹ 55,000 on credit to Virat on 1-5-2016. On the same day, Rohit drew a bill on Virat for 2 months, which Virat accepted. On 6-5-2016 Rohit endorsed this bill in favour on creditor Shikhar. The amount of the bill was paid on the maturity date. Pass journal entries in the books of Rohit and Virat.

Ans. :

Journal of Rohit

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-5-2016	Virat A/c Dr To sales A/c (Being sale of goods of ₹ 55,000 on credit to Virat.)		55,000	55,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-5-2016	Bill receivable A/c Dr To Virat A/c (Being bill of ₹ 55,000 accepted by Virat.)		55,000	55,000
6-5-2016	Shikhar A/c Dr Bill receivable A/c (Being bill of ₹ 55,000 endorsed to Shikhar.)		55,000	55,000

Note : No entry in the books of Rohit on maturity date 4-7-2016. Because this bill is endorsed to Shikhar. Hence on the date of maturity Shikhar will receive the amount of bill from Virat.

Journal of Virat

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-5-2016	Purchase A/c Dr To Rohit A/c (Being goods purchased on credit of ₹ 55,000 from Rohit.)		55,000	55,000
1-5-2016	Rohit A/c Dr To bills payable A/c (Being bill of ₹ 55,000 drawn by Rohit accepted and returned.)		55,000	55,000
4-7-2016	Bills payable A/c Dr To bank/cash A/c (Being payment of amount of the bill ₹ 55,000 on maturity date.)		55,000	55,000

Note : On 6-5-2016 Rohit endorsed this bill to Shikhar, the entry for this is not to be passed in the books of Virat.

■ When the Bill is Sent to the Bank or Shroff for Collection :

Illustration 5 : Harbhajan drew a bill of ₹ 24,500 on 14-10-2016 for 2 months on Zahir Khan. Zahir Khan accepted and returned the bill. On 10-12-2016, Harbhajan sent this bill to the bank for collection. The bill was paid by Zahir Khan on the maturity date. The bank debited ₹ 245 to Harbhajan's account as commission. Pass necessary journal entries in the books of both the parties.

Ans. :

Journal of Harbhajan

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
14-10-2016	Bills receivable A/c Dr To Zahir Khan A/c (Being Zahir Khan accepted and returned the bill of ₹ 24,500.)		24,500	24,500
10-12-2016	Bill for collection through bank A/c Dr To bills receivable A/c (Being bill of ₹ 24,500 sent to the bank for collection.)		24,500	24,500
17-12-2016	Bank A/c Dr Bank commission A/c Dr To bill for collection through bank A/c (Being remaining amount paid by the bank after deduction his commission on the bill of ₹ 24,500.)		24,255 245	24,500

Journal of Zahir Khan

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
14-10-2016	Harbhajan A/c Dr To bills payable A/c (Being bill of ₹ 24,500 accepted.)		24,500	24,500
17-12-2016	Bills payable A/c Dr To bank A/c (Being amount of the bill of ₹ 24,500 paid on the date of maturity.)		24,500	24,500

Note : On 10-12-2016 Harbhajan sent a bill to the bank for collection, the entry for this is not to be passed in the books of Zahir Khan.

15. Dishonour of a Bill

In the normal situation the acceptor of a bill has to pay the money of the bill on its maturity date. But on the maturity date, if the acceptor of the bill is not in a position to pay the money of the bill or does not want to pay the money or does not pay the money of the bill due to any other reason, it can be said that **bill is dishonoured**. Due to the dishonour of the bill drawer or other parties have to face the problem of the collection of the money. e.g. If the bill has been endorsed to someone else or has been discounted with the bank, and then it is dishonoured, a question arises as to who will pay the money to whom.

Noting of the dishonour of a bill : Generally when a bill is dishonoured, then it is required to be 'noted'. This is a legal procedure. Noting of dishonour of a bill is not compulsory, but it is essential and advisable. When a bill is dishonoured, the holder of the bill can note the dishonour of the bill with the notary. In foreign trade, noting of dishonour of a bill is compulsory.

When a dishonoured bill is presented to the notary for noting, the notary presents the bill again to the acceptor of the bill and orders him to pay the money. Even then if the acceptor of the bill does not pay the money, treating the bill as dishonoured, the notary officially records the dishonour of the bill in his books.

Noting charges : The notary charges a certain fee for noting the dishonoured bill which are called noting charges or dishonour charges. These noting charges are paid by the person for getting the dishonour of the bill noted with the notary. But the final legal responsibility for paying the noting charges is that of the acceptor of the bill; because this expense is incurred due to his failure to pay the money on the maturity date.

Accounting entries on dishonour of a bill : We have seen earlier that there are four methods of the disposal of a bill. In all the four situations due to any reason if bill is dishonoured then accounting entries are as given below.

e.g., Suman drew a bill of a certain amount on Chaman, which Chaman accepted and returned. Chaman does not pay the money on the maturity date. Here, Suman is the drawer of the bill (creditor) and Chaman is the acceptor of the bill (debtor). By considering the four alternatives of the disposal of a bill, the following journal entries will be passed in the books of both the parties.

Sr. No.	Journal of Suman (Drawer of the Bill)	Journal of Chaman (Acceptor of the Bill)
(A)	<p>When the bill is kept with one self upto the maturity date and is dishonoured on the maturity date :</p> <p>Chaman A/c...Dr To bills receivable A/c To cash A/c (Being bill dishonoured, amount of bill and noting charges are debited to Chaman A/c.)</p>	<p>Bills payable A/c...Dr Noting charges A/c...Dr To Suman A/c (Being bill dishonoured recorded along with noting charges.)</p>
(B)	<p>When the bill is discounted with the bank and is dishonoured :</p> <p>Chaman A/c...Dr To bank A/c (Being dishonour of the bill discounted with the bank, bill amount and noting charges debited to Chaman A/c and total amount returned to bank.)</p>	<p>Bill payable A/c...Dr Noting charges A/c...Dr To Suman A/c (Being bill dishonoured recorded alongwith noting charges.)</p>
(C)	<p>When the bill is endorsed to someone (e.g. to Aman) and is dishonoured :</p> <p>Chaman A/c...Dr To Aman A/c (Being dishonour of the endorsed bill, recorded alongwith noting charges.)</p>	<p>Bill payable A/c...Dr Noting charges...Dr To Suman A/c (Being bill dishonoured recorded alongwith noting charges.)</p>

Sr. No.	Journal of Suman (Drawer of the Bill)	Journal of Chaman (Acceptor of the Bill)
(D)	<p>When the bill is sent for collection to the bank and is dishonoured :</p> <p>(i) Chaman A/c...Dr To bill for collection through bank A/c To bank A/c (Being bill dishonoured and noting charges paid by the bank.)</p> <p>(ii) Bank commission A/c...Dr To bank A/c (Being dishonour of the bill, commission charged by bank.)</p>	<p>Bill payable A/c...Dr Noting charges...Dr To Suman A/c (Being bill dishonoured recorded alongwith noting charges.)</p>

After the study above journal entries, now we understand the effect in the books of account for different situations of the dishonour of a bill by the following illustrations :

■ **When the Bill is kept with Oneself upto the Maturity Date and is Dishonoured :**

Illustration 6 : Vikasbhai drew a bill of ₹ 32,000 for 2 months on Sunita on 1-11-2016, which Sunita accepted. Sunita could not pay the money on the maturity date. Vikasbhai went through the procedure of dishonour of the bill and paid ₹ 320 as noting charges. Pass necessary entries in the books of both the parties.

Ans. : Journal of Vikasbhai

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-11-2016	Bills receivable A/c Dr To Sunita A/c (Being bill of ₹ 32,000 accepted and returned by Sunita.)		32,000	32,000
4-1-2017	Sunita A/c Dr To bills receivable A/c To cash A/c (Being bill dishonoured of ₹ 32,000 by Sunita and noting charges paid ₹ 320)		32,320	32,000 320

Journal of Sunita

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-11-2016	Vikasbhai A/c Dr To bills payable A/c (Being bill accepted of ₹ 32,000.)		32,000	32,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
4-1-2017	Bills payable A/c Dr Noting charges A/c Dr To Vikasbhai A/c (Being bill dishonoured of ₹ 32,000 and recorded along with noting charges ₹ 320.)		32,000 320	32,320

■ **When the Bill is Discounted with a Bank and is Dishonoured on the Maturity Date :**

Illustration 7 : On 1-6-2016, Dhrumal drew a three months bill of ₹ 36,000 for his outstanding amount due from Avadh, which was accepted by Avadh. On 4-7-2016 Dhrumal discounted this bill with the bank at 10 % p.a. The bill was dishonoured on the maturity date and the bank debited the entire amount including noting charges of ₹ 360 to Dhrumal. Pass necessary journal entries in the books of Dhrumal and Avadh.

Ans. :

Journal of Dhrumal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-6-2016	Bills receivable A/c Dr To Avadh A/c (Being bill of ₹ 36,000 accepted and returned by Avadh.)		36,000	36,000
4-7-2016	Bank A/c Dr Discount A/c Dr To bill receivable A/c (Being bill of ₹ 36,000 discounted with bank and bank credited ₹ 35,400.)		35,400 600	36,000
4-9-2016	Avadh A/c Dr To bank A/c (Being bill of ₹ 36,000 dishonoured on the maturity date and bank paid noting charges ₹ 360.)		36,360	36,360

Journal of Avadh

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-6-2016	Dhrumal A/c Dr To bills payable A/c (Being bill of ₹ 36,000 accepted and returned.)		36,000	36,000
4-9-2016	Bills payable A/c Dr Noting charges A/c Dr To Dhrumal A/c (Being bill of ₹ 36,000 dishonoured and recorded alongwith noting charges.)		36,000 360	36,360

■ **When the Bill is Endorsed to Someone and is Dishonoured on the Maturity Date :**

Illustration 8 : On 1-5-2016, Dharmendra drew a two months bill of ₹ 70,000 on Jitendra, which was accepted by Jitendra. On 10-5-2016, Dharmendra endorsed this bill to Hema. Jitendra dishonoured the bill on the maturity date. Hema debited the entire amount including noting charges ₹ 525 to Dharmendra's account. Pass necessary journal entries in the books of all the parties.

Ans. : **Journal of Dharmendra**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-5-2016	Bills receivable A/c Dr To Jitendra A/c (Being bill of ₹ 70,000 accepted and returned by Jitendra.)		70,000	70,000
10-5-2016	Hema A/c Dr To bills receivable A/c (Being bill of ₹ 70,000 endorsed to Hema.)		70,000	70,000
4-7-2016	Jitendra A/c Dr To Hema A/c (Being bill of ₹ 70,000 dishonoured on the maturity date and recorded alongwith noting charges ₹ 525)		70,525	70,525

Journal of Jitendra

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-5-2016	Dharmendra A/c Dr To bills payable A/c (Being bill of ₹ 70,000 accepted.)		70,000	70,000
4-7-2016	Bills payable A/c Dr Noting charges A/c Dr To Dharmendra A/c (Being bill of ₹ 70,000 dishonoured and recorded alongwith noting charges ₹ 525.)		70,000 525	70,525

Journal of Hema

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
10-5-2016	Bills receivable A/c Dr To Dharmendra A/c (Being endorsed bill of ₹ 70,000 received from Dharmendra.)		70,000	70,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
4-7-2016	Dharmendra A/c Dr To bill receivable A/c To cash A/c (Being bill of ₹ 70,000 dishonoured on the maturity date and recorded alongwith noting charges ₹ 525.)		70,525	70,000 525

■ **When the Bill is Sent for Collection to Bank and is Dishonoured on Maturity Date :**

Illustration 9 : Varun drew a bill of ₹ 1,30,000 for 90 days on Dhavan on 3-10-2016. Dhavan accepted the bill and returned it. On 26-12-2016, Varun sent the bill for collection to bank. Dhavan could not pay the money on the maturity date. Bank debited noting charges ₹ 600 and bank commission ₹ 400 to Varun's account. Pass necessary journal entries in the books of Varun and Dhavan.

Ans. : **Journal of Varun**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
3-10-2016	Bills receivable A/c Dr To Dhavan A/c (Being bill of ₹ 1,30,000 accepted and returned by Dhavan.)		1,30,000	1,30,000
26-12-2016	Bill for collection through bank A/c Dr To bills receivable A/c (Being bill of ₹ 1,30,000 sent for collection to bank.)		1,30,000	1,30,000
4-1-2017	Dhavan A/c Dr To bill for collection through bank A/c To bank A/c (Being bill of ₹ 1,30,000 dishonoured and debited alongwith noting charges ₹ 600 to Dhavan A/c.)		1,30,600	1,30,000 600
4-1-2017	Bank commission A/c Dr To bank A/c (Being commission ₹ 400 for collection of bill recorded by bank.)		400	400

Journal of Dhavan

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
3-10-2016	Varun A/c Dr To bills payable A/c (Being bill of ₹ 1,30,000 accepted and returned.)		1,30,000	1,30,000
4-1-2017	Bills payable A/c Dr Noting charges A/c Dr To Varun A/c (Being bill dishonoured ₹ 1,30,000 on maturity date and recorded alongwith noting charges ₹ 600.)		1,30,000 600	1,30,600

Note : Bill drawn on : 3-10-2016

Terms of bill : 90 days

Maturity date of the bill : 1-1-2017 + 3 days of grace = 4-1-2017 (28 + 30 + 31 + 1 + 3 days of grace)

16. Insolvency of the Acceptor of the Bill

If the acceptor of a bill is declared insolvent by the court of law, it is understood that the bill accepted by him is dishonoured on the date of his insolvency. Accordingly, the drawer of the bill passes necessary journal entries in his books.

Normally, when the court declares a person as insolvent, it also appoints an officer for the purpose of collection from assets and payments to liabilities, who is known as the receiver. The receiver obtains the possession of the assets of the insolvent person and also dispose them off. This payment is made proportionately on the basis of the proceeds of the assets. The payment so received is legally known as dividend. The amount not received by the creditor is recorded in his books as bad debts.

e.g. Subhash has to collect ₹ 24,000 from Suvas. Suvas became insolvent, so only ₹ 16,000 received from his receiver. Balance amount ₹ 8000 is to be written as bad debt in books of Subhash.

Illustration 10 : On 1-8-2016 Shahid drew a four months bill of ₹ 60,000 on Kapoor, which Kapoor accepted and returned. On 28-9-2016 Kapoor was declared insolvent and on 20-10-2016, his receiver paid dividend at 60 paise. Write a journal entries in the books of Shahid.

Ans. : **Journal Entries in the Book of Shahid**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-8-2016	Bills receivable A/c Dr To Kapoor A/c (Being bill of ₹ 60,000 accepted and returned by Kapoor.)		60,000	60,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
28-9-2016	Kapoor A/c Dr To bills receivable A/c (Being bills receivable of ₹ 60,000 cancelled on the insolvency of Kapoor.)		60,000	60,000
20-10-2016	Bank/Cash A/c Dr Bad debts A/c Dr To Kapoor A/c (Being dividend at 60 paise received against ₹ 1 from the receiver of Kapoor) (Bad debts = 60,000 × 40 paise = 24,000)		36,000 24,000	60,000

17. Renewal of Bill

The acceptor of a bill pays the amount of the bill to the drawer of the bill or holder of the bill on the maturity date. But if the acceptor of a bill cannot make provision for the money on the maturity date, he has to dishonour the bill. This has an adverse effect on his credit and prestige in the market and he has to face the legal procedure for the payment of the money of the bill. Hence, in his situation acceptor of the bill contacts the drawer of the bill before the maturity date of the bill and requests him to draw a new bill against the old bill for a new period. If the drawer of the bill agrees to his request, the old bill is cancelled and a new bill comes into existence. When a new bill for an extended period is given in exchange of an old bill, it is known as **change of bill period** or **renewal of a bill**.

When a new bill comes into existence in exchange of an old bill, the following three points should be considered :

- (1) Cancel the old bill considering it to be dishonoured and pass necessary journal entries in the books of accounts.
- (2) Calculate the interest on the additional period due to the extension of the period of the bill and record its accounting effects.
- (3) Give the accounting entry for the acceptance of the new bill.

By following illustration understand the accounting entries of above three points :

(1) **To cancel the old bills** : Here accounting entries are passed in the books of all the parties considering that the old bill has been dishonoured. But as noting charges are not incurred, they will not be recorded.

e.g. Govind had drawn a three months bill of ₹ 30,000 on Sudama, which was accepted and returned by Sudama. Before the maturity date due to the lack of financial provision, Sudama requested to Govind to draw a new bill for a two month period which Govind agreed to. The journal entry to cancel the old bill will be as follows :

No.	Journal of Govind	Journal of Sudama
	Sudama A/c...Dr 30,000 To bills receivable A/c 30,000 (Being cancellation the old bill of ₹ 30,000.)	Bills payable A/c...Dr 30,000 To Govind A/c 30,000 (Being cancellation the old bill of ₹ 30,000.)

Illustration 11 : On 1-7-16, Krishita drew a three months bill of ₹ 75,000 on Saleem, which Saleem accepted and returned on the same day. Before the maturity date, on 20-9-2016 Saleem requested Krishita to cancel the old bill and draw a new bill of ₹ 60,000 for three months. Krishita accept this request. On 25-9-2016, Krishita collected cash ₹ 15,000 towards the old bill and ₹ 1800 towards interest and drew a new three months bill of ₹ 60,000, which Saleem accepted and returned on the same day. Before the date of maturity, Saleem was declared insolvent as on 20-11-2016 and the receiver paid the money at 75 paise per rupee on 6-12-2016. Pass necessary journal entries in the books of both the parties.

Ans. :

Journal Entries in the Books of Krishita

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-7-2016	Bills receivable A/c Dr To Saleem A/c (Being Saleem accepted and returned a bill of ₹ 75,000.)		75,000	75,000
20-9-2016	Saleem A/c Dr To bills receivable A/c (Being old bill of ₹ 75,000 cancelled.)		75,000	75,000
25-9-2016	Cash A/c Dr To Saleem A/c To interest A/c (Being cash received ₹ 15,000 towards the old bill and ₹ 1800 for interest.)		16,800	15,000 1800
25-9-2016	Bills receivable (new) A/c Dr To Saleem A/c (Being new bill of ₹ 60,000 accepted by Saleem.)		60,000	60,000
20-11-2016	Saleem A/c Dr To bills receivable (new) A/c (Being new bill of ₹ 60,000 cancelled due to insolvency of Saleem.)		60,000	60,000
6-12-2016	Bank A/c Dr Bad debts A/c Dr To Saleem A/c (Being dividend received from the receiver of Saleem at 75 paise per rupee against due amount of ₹ 60,000.)		45,000 15,000	60,000

Journal Entries in the Books of Saleem

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-7-2016	Krishita A/c Dr To bills payable A/c (Being bill ₹ 75,000 accepted and returned.)		75,000	75,000
20-9-2016	Bills payable A/c Dr To Krishita A/c (Being bill of ₹ 75,000 cancelled.)		75,000	75,000
25-9-2016	Krishita A/c Dr Interest A/c Dr To cash A/c (Being ₹ 15,000 towards the old bill and ₹ 1800 towards interest paid to Krishita.)		15,000 1800	16,800
25-9-2016	Krishita A/c Dr To bills payable (new) A/c (Being a new bill ₹ 60,000 accepted and returned.)		60,000	60,000
20-11-2016	Bills payable (new) A/c Dr To Krishita A/c (Being new bill of ₹ 60,000 cancelled on insolvency.)		60,000	60,000
6-12-2016	Krishita A/c Dr To bank A/c To realization A/c* (Being amount paid to Krishita at 75 paise per rupee against due of ₹ 60,000.)		60,000	45,000 15,000

* Due to insolvency of owner of the business, less amount paid to creditors. The amount which is not paid, is debited to respective creditor's A/c and credited to realization A/c. In alternate method amount actually paid to creditors is only recorded and remaining procedure follows procedure of insolvency.

18. Accommodation Bill

Normally, a bill is used for the payment of money in debtor-creditor relationship, arising on account of purchase or sale of goods. But sometimes even when there is no debtor-creditor relationship, traders having credit and prestige in the market draw and accept bill in order to make provision for the short term financial requirements of one another. Here, one party (trader) draws a bill and the other party (trader) accepts it. This bill is discounted with a bank or a shroff and traders can get the required money for a short period. Before the maturity date, the person who has discounted the bill sends the money to the person who has accepted the bill and who pays the amount to the bank or the shroff on the maturity date. In this way, traders can take care of their short term monetary crisis. Sometimes, the money received on discounting the bill is distributed in a definite proportion between the trader, who discounts the bill and the trader who accepts the bill. The discount expense is shared in the proportion of amount distributed. Before the maturity date, the person who has discounted the bill (drawer) sends his share of money to

the person who has accepted the bill and who pays the entire amount to the bank or the shroff on the maturity date. Sometimes, the traders draws and accept the bill against each other and they use the money by discounting this bill in a bank.

The main objective of this type of bill is not settlement of debts and dues, but taking care of the convenience of one another or accommodation of one another, and so these bills are known as **accommodation bills**.

Illustration 12 : Write the following transactions in the journal of Shri Dineshbhai :

- (1) On 2-1-2017, a bill of ₹ 25,000 accepted by Bharati was discounted with the bank at a discount of ₹ 250.
- (2) On 3-1-2017, a bill of ₹ 15,000 accepted by Jayanti was dishonoured on the maturity date and noting charges amounted to ₹ 150.
- (3) We dishonoured a bill of ₹ 30,000 drawn by Palash on its maturity date (on 5-1-2017). Palash paid noting charges ₹ 250.
- (4) We endorsed a bill receivable of ₹ 45,500, accepted by Anita, in favour of Hansaben in full settlement of a debt of ₹ 46,500 on 7-1-2017.
- (5) A bill of ₹ 52,000 drawn by Ramaben and accepted by Lataben and endorsed by Ramaben in our favour, was dishonoured on the maturity date 10-1-2017 and we paid noting charges ₹ 470.
- (6) A bill payable of ₹ 80,000 accepted by us and drawn by Paresh, was cancelled by us before the maturity date 12-1-2017 by paying cash ₹ 20,000, and we accepted a new bill for one month for the remaining amount including interest ₹ 600 as on 15-1-2017.
- (7) As on 30-1-2017, the bill accepted by Bharati was paid on the maturity date.

Ans. :

Journal of Dineshbhai

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2-1-2017	Bank A/c Dr Discount A/c Dr To bills receivable A/c (Being bil of ₹ 25,000 accepted by Bharati discounted with the bank by ₹ 24,750.)		24,750 250	25,000
3-1-2017	Jayanti A/c Dr To bills receivable A/c To cash A/c (Being bill ₹ 15,000 dishonoured by Jayanti and noting charges ₹ 150 paid.)		15,150	15,000 150
5-1-2017	Bills payable A/c Dr Noting charge A/c Dr To Palash A/c (Being bill dishonoured of ₹ 30,000 and recorded alongwith noting charges ₹ 250 paid by Palash.)		30,000 250	30,250

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
7-1-2017	Hansaben A/c Dr To bills receivable A/c To discount A/c (Being bill ₹ 45,000 endorsed in favour of Hansaben in settlement of a debt and recorded received discount of ₹ 1000.)		46,500	45,500 1000
10-1-2017	Ramaben A/c Dr To bills receivable A/c To cash A/c (Being bill of ₹ 52,000 endorsed by Ramaben dishonoured and noting charges ₹ 470 was paid by us.)		52,470	52,000 470
12-1-2017	Bills payable A/c Dr To cash A/c To Paresh A/c (Being old bill cancelled by paying cash ₹ 20,000.)		80,000	20,000 60,000
15-1-2017	Paresh A/c Dr Interest A/c Dr To bills payable A/c (Being a new bill accepted for the remaining amount ₹ 60,000 and alongwith interest ₹ 600.)		60,000 600	60,600

Note : A bill accepted by Bharati which was discounted by us in the bank, on the date of maturity 30-1-2017, Bharati was paid the amount of bill to the bank. Hence, there is no accounting effect in our books.

Illustration 13 : Record the following transactions in the books of Patel Traders :

2017

- Jan. 1 Purchased goods of ₹ 36,000 from Mukesh Stores at 10 % cash discount.
3 Returned goods of ₹ 8400 to Mukesh Stores and sent a promissory note for two months period for the remaining amount.
5 Purchased goods of ₹ 13,500 from Mukesh Stores at 10 % cash discount. Paid the amount immediately by cheque for goods purchased.
7 Sold goods of ₹ 42,000 to Radha Traders on two months credit.
9 Drew a two months bill of ₹ 42,000 on Radha Traders which they accepted and returned.
11 Purchased goods of ₹ 82,000 from Mukesh Stores.
13 Endorsed the bill accepted by Radha Traders in favour of Mukesh Stores.
15 Returned goods of ₹ 7000 from the last purchased to Mukesh Stores.
18 Accepted a bill of the necessary amount drawn by Mukesh Stores in order to settle the account of Mukesh Stores.

Ans. :

Journal of Patel Traders

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2017 Jan. 1	Purchase A/c Dr To Mukesh Stores A/c (Being goods purchased of ₹ 36,000 from Mukesh Stores.)		36,000	36,000
3	Mukesh Stores A/c Dr To purchase return A/c To bills payable A/c (Being goods returned of ₹ 8400 from purchased goods and promissory note of ₹ 27,600 given for the remaining amount.)		36,000	8400 27,600
5	Purchase A/c Dr To bank A/c To discount A/c (Being goods purchased ₹ 13,500 and payment made by cheque.)		13,500	12,150 1350
7	Radha Traders A/c Dr To sales A/c (Being goods of ₹ 42,000 sold on credit to Radha Traders.)		42,000	42,000
9	Bills receivable A/c Dr To Radha Traders A/c (Being bill of ₹ 42,000 accepted by Radha Traders.)		42,000	42,000
11	Purchase A/c Dr To Mukesh Stores A/c (Being goods purchased of ₹ 82,000 from Mukesh Stores.)		82,000	82,000
13	Mukesh Stores A/c Dr To bills receivable A/c (Being bill receivable of ₹ 42,000 endorsed.)		42,000	42,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
15	Mukesh Stores A/c Dr To purchase return A/c (Being goods returned of ₹ 7000 to Mukesh Stores from purchase.)		7000	7000
18	Mukesh Stores A/c Dr To bills payable A/c (Being bill accepted of ₹ 33,000 in order to settle the account of Mukesh Stores.)		33,000	33,000
	Total		3,33,500	3,33,500

Note : On 18-1-2017, we accepted and returned a bill of remaining amount of Mukesh Stores. To find this amount, prepare Mukesh Stores' account in the books of Patel Traders.

Mukesh Stores' Account

Dr

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Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2017				2017			
Jan. 3	To purchase return A/c		8400	Jan. 1	By purchase A/c		36,000
3	To bills payable A/c		27,600	11	By purchase A/c		82,000
13	To bills receivable A/c		42,000				
15	To purchase return A/c		7000				
18	To bills payable A/c		33,000				
	(Difference)		1,18,000				1,18,000

Exercise

1. Select a right option for each question :

- (1) Generally, who writes (draws) a bill ?
 - (a) Debtor
 - (b) Creditor
 - (c) Governmnt
 - (d) Bank
- (2) Generally, who accepts a bill ?
 - (a) Debtor
 - (b) Governmnt
 - (c) Creditor
 - (d) Bank
- (3) Who writes (draws) a promissory note ?
 - (a) Insurance Company
 - (b) Creditor
 - (c) Debtor
 - (d) Governmnt
- (4) In order to facilitate the payment of money in the transaction of bill, days of grace are allowed.
 - (a) Four
 - (b) One
 - (c) Three
 - (d) Two

- (5) Before the date of maturity of a bill, from whom is it discounted by the drawer of a bill ?
 - (a) Debtor
 - (b) State government
 - (c) Central government
 - (d) Bank
- (6) Bill is an instrument under which act ?
 - (a) Indian Company Act, 2013
 - (b) Partnership Act, 1932
 - (c) Indian Contract Act, 1872
 - (d) Negotiable Instrument Act, 1881
- (7) When the court declares a person as an insolvent, it also appoints an officer for the purpose of distribution (collection) of assets and payment to creditors is known as the
 - (a) Receiver
 - (b) Government advocate
 - (c) Wellknown advocate
 - (d) Notary
- (8) Renewal of a bill means –
 - (a) Old bill is being written again in good handwriting.
 - (b) New revenue stamp is affixed on old bill.
 - (c) New bill with new period is drawn against old bill.
 - (d) Bill is sent by e-mail against old bill.

2. Answer the following questions in one or two sentences :

- (1) Define a bill.
- (2) Define a promissory note.
- (3) How many parties are there in a bill ?
- (4) How many parties are there in a promissory note ?
- (5) What is the term of bill ?
- (6) What is the maturity date of a bill ?
- (7) What are the days of grace ?
- (8) What is bill at sight ?
- (9) What is bill after date ?

3. Answer the following questions in detail :

- (1) Define bill and state its characteristics.
- (2) Give the specimen of a bill and explain its details.
- (3) Define promissory note and state its characteristics.
- (4) Give the specimen of a promissory note and explain its details.
- (5) Explain the difference between bill of exchange and promissory note.
- (6) What is bills receivable and bills payable ?
- (7) Explain the main four methods or alternatives of the disposal or uses of a bill.
- (8) What is dishonour of a bill ? Discuss about the entries of the dishonour of a bill.
- (9) Write a short-note on insolvency of the acceptor of a bill.
- (10) What is renewal of a bill ? Which points are considered in that ?
- (11) Write a short-note on accommodation bill ?

4. Practical questions (Examples) :

- (1) Hetansh sold goods of ₹ 60,000 on two months credit to Hiren on 1-6-2016. On 2-6-2016, Hetansh drew a bill of the necessary amount on Hiren, which Hiren accepted and returned. Hiren paid the money of the bill on the maturity date. Pass necessary journal entries in the books of both the parties.

- (2) Sunny sold goods of ₹ 52,000 to Vishnubhai on 16-6-2016, against which Vishnubhai accepted a three months bill of ₹ 52,000 on 20-6-2016. On 2-7-2016, Sunny discounted this bill with the bank at a discount of ₹ 520. Vishnubhai paid the bill on the maturity date. Pass necessary journal entries in the books of both the parties.
- (3) Palak sold goods of ₹ 48,000 on credit to Ansh on 15-5-2016. On the same day, Palak drew a bill on Ansh for 60 days, which Ansh accepted. On 25-5-2016 Palak endorsed this bill in favour on a creditor Jinal. The amount of the bill was paid on the maturity date. Pass necessary journal entries in the books of Palak and Ansh.
- (4) Sajid drew a bill of ₹ 28,000 for 2 months on Aamir on 14-6-2016. Aamir accepted and returned the bill. On 6-8-16, Sajid sent this bill to the bank for collection. The bill was paid on the maturity date by Aamir. The bank debited ₹ 120 to Sajid's account as commission. Pass necessary journal entries in the books of both the parties.
- (5) Dashrathbhai sold goods of ₹ 1,00,000 to Aakash on credit, for which Dashrathbhai drew a three months bill of ₹ 1,00,000 on Aakash, which Aakash accepted and returned. Aakash could not pay the money on the maturity date and noting charges amounted to ₹ 910 which Dashrathbhai paid in cash. Pass necessary journal entries in the book of both the parties.
- (6) On 1-8-16, Jayeshbhai sold goods of ₹ 60,000 to Dhaval on credit. On 3-8-16, Jayeshbhai drew two months bill on Dhaval, which Dhaval accepted and returned. On 6-8-16, Jayeshbhai discounted this bill with the bank at 10 % p.a. Dhaval could not pay the money on the maturity date. The bank debited an amount of ₹ 60,500 to Jayeshbhai's account alongwith noting charges. Pass necessary journal entries in the books of Jayeshbhai and Dhaval.
- (7) On 2-9-2016, Rajan sold goods of ₹ 89,000 to Namrata on credit. On 4-9-2016, Rajan drew a three months bill of ₹ 89,000 on Namrata, which Namrata accepted and returned. Rajan endorsed this bill to his creditor Arjun on 6-9-2016. The bill was dishonoured on the maturity date and Arjun paid noting charges of ₹ 440. Pass necessary journal entries in the books of all the parties.
- (8) On 1-8-16, Dharmesh drew a one month bill of ₹ 75,000 on Avadh, which Avadh accepted and returned. On 28-8-16, Dharmesh sent this bill for collection through bank. The bill was dishonoured on the maturity date. The bank debited the amount including noting charges ₹ 375 and bank commission ₹ 225 to Dharmesh's account. On 25-9-16, Avadh paid the entire amount payable to Dharmesh by a cheque. Pass necessary journal entries in the books of Dharmesh and Avadh.
- (9) On 16-6-2016, Sanjay sold goods of ₹ 78,000 to Harnish. On 20-6-2016, Sanjay drew a bill of the necessary amount and period of bill is four months on Harnish, which Harnish accepted and returned. On 15-10-16, Harnish requested Sanjay to cancel the old bill and draw a new bill for two months period alongwith the interest ₹ 1600. Sanjay agreed to the request of Harnish and drew a new bill for the required amount, which Harnish accepted. Harnish paid the money on the maturity date. Write journal entries in the books of Sanjay and Harnish.

- (10) On 1-11-2016, Kamalbhai sold goods of ₹ 2,50,000 to Vishal. On 3-11-16, Kamalbhai drew a four months bill of ₹ 2,50,000 on Vishal, which Vishal accepted on the same day. On 26-2-17, Vishal gave a cheque of ₹ 50,000 and requested Kamalbhai to cancel the old bill alongwith interest of ₹ 3000 for 30 days. Kamalbhai agreed to the request of Vishal and drew a bill for the required amount including interest, which Vishal accepted. Before the maturity date on 24-3-17, Vishal was declared insolvent and on 15-4-17, received the final dividend at 40 paise from his receiver. Write journal entries in the books of Kamalbhai and Vishal.
- (11) Record the following transactions in the books of Abraham :

2016

- July 1 Drew a bill of ₹ 24,000 on Karina, which she accepted and returned. The period of the bill is of 45 days.
- 3 Accepted a one month period bill of ₹ 28,000 drawn by Abhishek and returned it.
- 5 Endorsed a bill receivable of ₹ 32,500 received from Ranbir to Dipika in full settlement of an account of ₹ 33,000.
- 7 Sold goods of ₹ 48,000 to Priyanka and drew a two months bill of ₹ 40,000 on her which she accepted and paid the remaining amount by cheque immediately.
- 10 A bill of ₹ 55,000 drawn by us and accepted by Imran will mature on 16-7-16. Because of this, bill was sent to bank for collection today.
- 12 Karina was declared insolvent and her receiver paid the final dividend at 40 paise.
- 16 Imran dishonoured the bill and the bank debited to our account an amount including noting charges ₹ 350 and charges for bill collection ₹ 250.
- 18 Imran gave a cheque of 50 % amount of the total amount payable to us and accepted a new 2 months bill for the remaining amount. Interest ₹ 1200 is included in the amount of the new bill.

- (12) Record the following transactions in the books of Kiritbhai :

2016

- Dec. 2 Sold goods of ₹ 49,000 to Pavan on two months credit.
- 4 Pavan paid cash ₹ 9000 and sent a promissory note of two months period for the remaining amount.
- 6 Sold goods of ₹ 28,000 to Pavan at 10 % cash discount.
- 8 Pavan returned 50 % of goods from the goods purchased on Dt. 6th by him.
- 10 Sold goods of ₹ 90,000 to Pavan on three months credit.
- 12 Pavan endorsed his bill receivable of ₹ 45,000 in our favour.
- 14 Pavan returned goods of ₹ 12,000 to us from his purchases on Dt. 10.
- 18 Pavan paid ₹ 16,000 by cheque against his account.
- 20 We drew a bill on Pavan for the required amount to settle his account, which Pavan accepted and returned.

