

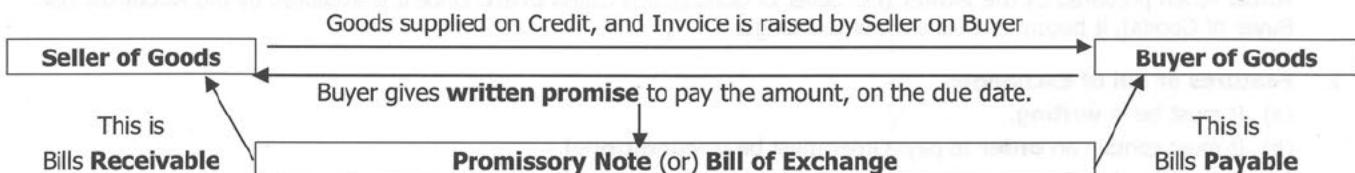
## Chapter 7D

# Accounting for Special Transactions – 4. Bills of Exchange

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## 4. Bills of Exchange



### 4.1 Promissory Note – Definition and Features

1. **Meaning:** As per Sec.4 of the Negotiable Instruments Act, 1881, a Promissory Note (P/N or Pro-Note) is –
  - an instrument in **writing** (not being a Bank Note or a Currency Note),
  - containing an **unconditional undertaking**,
  - **signed** by the Maker,
  - to pay a certain sum of **money** only,
  - to, or to the order of a certain **person** or to the **Bearer** of the instrument. (see **Note** below)

**Note:** A Promissory Note **cannot** be made payable to **Bearer**. Sec.31 of the RBI Act, 1934, permits only RBI and Central Government to make a P/N payable to Bearer on demand.

2. **Features of a Promissory Note:**

- (a) P/N must be in **writing**.
- (b) Generally, the consideration, place and date of making **need not** be mentioned on the P/N.
- (c) A P/N must contain an undertaking / promise to pay. Mere acknowledgement of debt is not sufficient.
- (d) The undertaking / promise to pay should be **unconditional** and **definite** (and not vague).
- (e) P/N should be **signed** by the Maker himself.
- (f) P/N should **specify the Payee** in clear terms i.e. by name, son of, and resident of, etc. The Payee can also be identified by description, e.g. a Promissory Note shall be made payable to the Managing Director of Ram Industries Ltd.
- (g) Sum payable must be certain or capable of being made certain. Along with principal, interest rate can also be specified.
- (h) There must be a promise to pay only money and not other consideration.
- (i) P/N must be duly stamped and dated. If the P/N is not dated, it is presumed to have been made on the date of its delivery.

### Format of a Promissory Note

<b>₹1,00,000 only</b>	Krishnakumar, 34, New Street, Chennai
<p>Three months after date, I promise to pay <b>Ramkumar</b> or his order, a sum of ₹1,00,000 only, for value received.</p>	
To <b>Sri. Ramkumar</b> 43, Old Street, Madurai.	<input type="button" value="Stamp"/>
Signature of Krishnakumar <b>Date:</b> 15 <sup>th</sup> February 2018	

**Note:** Here, **Maker** = Krishnakumar, **Payee** = Ramkumar.

## 4.2 Bills of Exchange – Meaning and Features

1. **Meaning:** As per Sec.5 of the Negotiable Instruments Act, 1881, a **Bill of Exchange** (B/E) is –

- an instrument in **writing**,
- containing an unconditional **order**,
- **signed** by the Maker,
- **directing** a certain person,
- to pay a certain sum of **money only**,
- to, or to the order of a certain **person** or to the **Bearer** of the instrument.

**Note:** When prepared by the **Maker** (i.e. Seller of Goods), it is called **Draft**. Once it is accepted by the **Acceptor** (i.e. Buyer of Goods), it becomes a valid Bill of Exchange.

2. **Features of Bill of Exchange:**

- (a) It must be in **writing**.
- (b) It must contain an **order** to pay. Order must be **unconditional**.
- (c) It must be dated.
- (d) The instrument must be to pay **money only** and the amount of money payable must be **certain**.
- (e) The party must **sign** the instrument.
- (f) It must be properly **stamped** and all the three parties to a Bill (i.e. Drawer, Drawee and Payee) must be specified with reasonable **certainty**.

3. **Parties involved:**

- (a) The person who **makes** the order is known as the **Drawer** (or Maker), i.e. Seller of Goods.
- (b) The person who **accepts** the order is known as the **Acceptor/ Drawee**, i.e. Buyer of Goods.
- (c) The person to whom the amount is payable is known as the **Payee**. [Note: The Drawer and Payee may be the same person. Sometimes, the Drawer may order the payment to a third party, i.e. Payee.]

4. **Example:** Ram sold goods to Laxman on credit for ₹50,000 on 1<sup>st</sup> January, payable after credit period of three months. On the same date, Ram draws a B/E to be paid 3 months after date and sends the draft to Laxman for acceptance. After Ram's acceptance, this draft becomes a valid B/E (i.e. Bills Receivable for Ram, and Bills Payable for Laxman). In the following B/E, Ram is the **Drawer**, Laxman is the **Acceptor**, and Krishna is the **Payee**.

### Format of a Bill of Exchange

<b>₹1,00,000 only</b>	Chennai, 15 <sup>th</sup> February 2018
<p>Three months after date, pay to Sri. <b>Krishna</b> or his order, a sum of ₹1,00,000 only, for value received.</p>	
To <b>Sri. Laxman</b> 43, Old Street, Madurai.	<input type="button" value="Stamp"/>
Accepted by me. <b>Signature of Laxman</b>	Signature of <b>Ram</b>

### 4.3 Foreign Bill

An instrument which is **not** an Inland Instrument, is deemed to be a **Foreign Instrument**. So, the following are examples of Foreign Bills –

1. B/E drawn in India on a person resident **outside** India and made payable **outside** India.
2. B/E drawn **outside** India on a person resident **outside** India.
3. B/E drawn **outside** India and made payable in India.
4. B/E drawn **outside** India and made payable **outside** India.

### 4.4 Identify whether the following are Inland or Foreign Instruments

Description	Type	Reason
A bill drawn in Pune on a businessman in Chennai and accepted payable in California.	Inland	It is drawn in India plus drawn upon a Person resident in India.
A bill drawn in London on a trader in Chennai and accepted payable in Chennai.	Foreign	Drawn outside India.
A bill drawn in Lucknow on a trader in London and accepted payable in Chennai.	Inland	It is drawn in India plus Accepted Payable in India.
A bill drawn in Chennai on trader in America made payable in America.	Foreign	Drawn in India but neither it is made payable in India nor it is drawn upon a Person Resident in India.

### 4.5 Possible ways a Drawer can deal with a Bill of Exchange

After its acceptance, the Drawer of the Bill of Exchange, has the following options –

Treatment	Explanation
1. <b>Retention till maturity</b>	Drawer may retain the Bill upto the date of maturity with him. The B/E will be presented on due date by the Drawer himself.
2. <b>Discounting with Bank</b>	<ul style="list-style-type: none"> <li>• Drawer may discount the Bill with his Bank, to get funds immediately.</li> <li>• B/E for ₹1,00,000 payable after 3 months is discounted with Bank at 18%. Here, Discount Charges deducted by Bank = <math>1,00,000 \times 18\% \times 3/12 = ₹4,500</math>. So, Drawer will get ₹1,00,000 – ₹4,500 = ₹95,500, as funds immediately. This money can be circulated in his business.</li> </ul>
3. <b>Endorsement</b>	Drawer may endorse the B/E in favour of a Third Party (i.e. his own Creditor), by signing on the back of the instrument. The person who endorses is called as the <b>Endorser</b> , and the person so entitled to payment is called <b>Endorsee</b> .
4. <b>Sent for Collection</b>	<ul style="list-style-type: none"> <li>• For safety purposes, the Drawer may deposit the B/E with his Bank with clear instruction that the B/E should be retained till maturity, and should be realized on the due date.</li> <li>• Here, there is no discounting, only deposit of the Bill with Bank. If the B/E is sent to bank with such instructions, it is called "Bills sent for Collection."</li> </ul>
5. <b>Pledge</b>	Drawer may pledge the B/E with any Bank or Other Party for taking a Loan.

**Note:** Based on the above treatments, appropriate Journal Entries will be passed in the Drawer's books.

### 4.6 Maturity Date for P/N and B/E

1. **Maturity:** The Maturity of a Promissory Note or Bill of Exchange is the **date on which it falls due**.
2. **Days of Grace:** In calculating the maturity of a P/N or a B/E which is **not** payable on demand, at sight or on presentment, **3 days of grace** shall be added to the date on which the instrument is expressed to be payable.
3. **Instruments entitled to Days of Grace:**
  - (a) A Note or Bill payable on a specified date.
  - (b) A Note or Bill payable after sight.
  - (c) A Note or Bill payable after certain period of time.
  - (d) A Note or Bill payable after a certain period or after the happening of a certain event.
  - (e) Where a Note or Bill is payable in installments, days of grace are allowed on each instalment.

**4. Meaning of "At Sight", "On Presentment" and "After Sight":**

- (a) In a P/N or B/E, the expressions "at sight" and "on presentment" mean, "**on demand**".
- (b) In a P/N, the expression "after sight" means, **after** presentment for sight.
- (c) In a B/E, the expression "after sight" means, **after acceptance**, or noting for non-acceptance or protest for non-acceptance.

**5. Provisions as to calculation of Maturity:**

<b>Payable after</b>	<b>Maturity is at –</b>
Stated number of months – <ul style="list-style-type: none"> <li>• After date, or</li> <li>• After sight, or</li> <li>• After a certain event.</li> </ul>	<ul style="list-style-type: none"> <li>• 3 days after the corresponding date of the month after the stated number of months. <b>Example:</b> B/E dated 30<sup>th</sup> August, is made payable 3 months after date. It matures on 3<sup>rd</sup> December.</li> <li>• If the month in which the period terminates has no corresponding day, period will terminate on the last day of such month. 3 days of grace is added. <b>Example:</b> B/E dated 30<sup>th</sup> January is payable 1 month after date. It falls due on 3<sup>rd</sup> March.</li> </ul>
A certain number of days – <ul style="list-style-type: none"> <li>• After date, or</li> <li>• After sight, or</li> <li>• After a certain event.</li> </ul>	<ul style="list-style-type: none"> <li>• It shall be at maturity on the 3rd day after the specified day.</li> <li>• While calculating the date at which a P/N or B/E made payable a certain number of days after date or after sight or after a certain event is at maturity, the day of the date, or of presentment for acceptance or sight, or of protest for non – acceptance, or on which the event happens shall be excluded.</li> <li>• <b>Example:</b> B/E dated 1<sup>st</sup> November is made payable 15 days after date. The period of 15 days will be counted from 2<sup>nd</sup> November and the B/E will be at maturity on 19<sup>th</sup> November.</li> </ul>
On a day when day of maturity is a Public Holiday.	<ul style="list-style-type: none"> <li>• Public holiday includes Sundays and any other day declared by the Central Government, by notification in the Official Gazette, to be a Public Holiday.</li> <li>• A P/N or B/E which matures on a public holiday shall be deemed to fall due on the next preceding business day, e.g. if a B/E falls due on Sunday, it shall be deemed to be due on Saturday.</li> <li>• A B/E which falls due on emergency holiday shall be deemed to be due on the next succeeding business day. <b>Example:</b> B/E matures for payment on 24<sup>th</sup> December. The Government declares that day as holiday due to death of a leader. It falls due for payment on 26<sup>th</sup> December (25<sup>th</sup> December, Christmas, being Public Holiday).</li> </ul>

#### 4.7 Dishonour of B/E and payment of Noting Charges

1. **Dishonour:** Non-payment of Bill of Exchange on the due date is called **Dishonour**.
2. **Noting:** In case of dishonour of a B/E on the due date, the fact of dishonour, and the causes of dishonour should be ascertained and recorded on the B/E itself. Otherwise, the Acceptor may prove that the B/E was not properly presented to him on the due date and hence can escape from his liability.
3. **Charges:** Noting Charges refers to the fees paid to a Public Official known as "**Notary Public**", who records the fact and causes of dishonour of B/E.
4. **Accounting:** Noting Charges is incurred by the person presenting the B/E on the due date, and is recoverable from the person causing the dishonour, i.e. the Acceptor.

#### 4.8 Renewal of B/E

<b>1. Reason for Renewal</b>	<b>2. Accounting for Renewal</b>
<ul style="list-style-type: none"> <li>• Sometimes, the Acceptor of a B/E is unable to pay the amount on the due date.</li> <li>• In such case, the Acceptor may request the Drawer for an <b>extension</b> of time period.</li> <li>• This constitutes <b>Renewal of Bill</b>.</li> </ul>	<ul style="list-style-type: none"> <li>• Old B/E will be cancelled. So, the earlier Journal Entry relating to acceptance of Old B/E will be reversed.</li> <li>• New B/E will be made out. Journal Entries are passed for recording the New B/E. Sometimes, the value of New B/E = Value of Old B/E + Interest, if any.</li> </ul>

## 4.9 Retirement of B/E

1. Reason for Retirement	2. Accounting for Retirement
<ul style="list-style-type: none"> <li>Sometimes, the Acceptor of a B/E is ready to pay the amount, even before the due date.</li> <li>So, the Acceptor may request the Payee, for settling the payment before due date.</li> <li>This constitutes <b>Retirement of Bill</b>.</li> </ul>	<ul style="list-style-type: none"> <li>Acceptor is entitled to receive certain Interest or Discount (called <b>Rebate</b>) for making payment before the due date.</li> <li>This <b>Rebate</b> on Bills Retired before due date, constitutes Income of Acceptor, and Expense of Payee.</li> </ul>

## 4.10 Accommodation Bills

### 1. Meaning:

- Generally, B/E is drawn in support of a trade transaction, i.e. credit sales. However, B/E can **also** be utilized for raising finance (i.e. without a trade transaction).
- When B/E is used for financing purposes, it is called as Accommodation Bill. (**Note:** An Accommodation Bill is also referred to as "Kite".)

### 2. Example:

- Assume Abhinav & Balram are in need of funds, say ₹3,00,000 and ₹2,00,000, temporarily in business (3 months).
- Both draw a B/E on each other for ₹3,00,000 and ₹2,00,000 respectively, and discount the same with their respective Bankers. (Sometimes, a single B/E may also be drawn by one party on the other and discounted with the Bank, the proceeds will be shared by both parties in agreed ratio)
- On the respective due dates of the B/E, both parties pay their respective dues to the Bank.

## 4.11 Dealing with Insolvency of Drawee

- Meaning:** Insolvency of the Drawee means that he will be unable to pay his liabilities. This means that bills accepted by him will be dishonoured on the due date.
- Accounting:** In the books of the Drawer, the following Journal Entries have to be passed –

(a) For dishonour of B/R	Drawee A/c Dr. To Bills Receivable A/c
(b) For recording final amount, if any, received	Cash A/c Dr. (Amt actually received) Bad Debts A/c Dr. (Balancing Figure) To Drawee Account (Total Amount due)

## 4.12 Journal Entries in the books of the Drawer

### Scheme of Journal Entries in the books of Drawer of B/E

	<b>Transaction</b>	<b>Journal Entry</b>
1.	Basic Trade Transaction, if any, i.e. Credit Sales	Acceptor (Sundry Debtors) A/c Dr. To Sales A/c
2.	<b>Bill accepted</b> by Debtor, and received by Seller	Bills Receivable A/c Dr. To Acceptor A/c
3.	(a) If Bill retained till maturity	No further Journal Entry till date of maturity.
	(b) If Bill discounted with Bank	Bank Account Dr. Discount Account Dr. To Bills Receivable A/c
	(c) If Bill endorsed in favour of another party (Creditor)	Sundry Creditors A/c Dr. To Bills Receivable A/c
	(d) If Bill sent to Bank for collection	Bills sent for Collection A/c Dr. To Bills Receivable A/c

	<b>Transaction</b>	<b>Journal Entry</b>
4.	Payment received, i.e. <b>Bill honoured</b> on due date	
	(a) If Bill retained till maturity	Cash / Bank A/c Dr. To Bills Receivable A/c
	(b) If Bill discounted with Bank (c) If Bill endorsed in favour of another party (Creditor)	No entry if bill honoured on maturity, since the Bank / Creditor will receive payment.
	(d) If Bill sent to Bank for collection	Bank A/c Dr. To Bills sent for Collection A/c
5.	Payment not received, i.e. <b>Bill dishonoured</b> on due date	
	(a) If Bill retained till maturity	Acceptor A/c (B/E Amt + Charges) Dr. To Bills Receivable A/c (B/E Amt) To Cash / Bank (Noting Charges)
	(b) If Bill discounted with Bank	Acceptor A/c (B/E Amt + Charges) Dr. To Bank (B/E Amt + Noting Chrgs)
	(c) If Bill endorsed in favour of another party (Creditor)	Acceptor A/c (B/E Amt + Charges) Dr. To Creditor (B/E Amt + Noting Chrgs)
	(d) If Bill sent to Bank for collection	Acceptor A/c (B/E Amt + Charges) Dr. To Bills sent for Collection A/c To Cash / Bank (Noting Charges)
6.	<b>Renewal of Bill</b> before its due date	
	(a) Cancellation of old B/E	Acceptor A/c Dr. To Bills Receivable A/c
	(b) Recording Interest Income for renewal / extension	Acceptor A/c Dr. To Interest Income
	(c) Acceptance received for new B/E <b>Note:</b> Sometimes, this new B/E may be for the amount of old B/E + interest thereon. In other cases, Interest may be separately settled in cash by the Acceptor	Bills Receivable A/c Dr. To Acceptor A/c
7.	<b>Retirement of Bill under Rebate</b> , before due date	Cash / Bank A/c Dr. Rebate / Interest on Bills To Bills Receivable A/c
8.	<b>Insolvency of Drawee</b>	This is similar to dishonour of B/E. Amount due from Acceptor has to be written off as <b>Bad Debt</b> , to the extent not recoverable.

**Note:** In case of P/N, the above entries are recorded in the books of the Maker of P/N.

#### 4.13 Journal Entries in the books of the Drawee / Acceptor

**Scheme of Journal Entries in the books of Drawee / Acceptor of B/E**

	<b>Transaction</b>	<b>Journal Entry</b>
1.	Basic Trade Transaction, if any, i.e. Credit Purchases	Purchases A/c Dr. To Drawer (Sundry Debtors) A/c
2.	Acceptance given for B/E	Drawer A/c Dr. To Bills Payable A/c
3.	If Bill – (a) retained till maturity, or (b) discounted with Bank, or (c) endorsed in favour of another party (Creditor), or (d) sent to Bank for collection, by <b>Drawer</b>	<b>No Journal Entry</b> in the books of the Drawee / Acceptor.
4.	Payment made, i.e. <b>Bill honoured</b> on due date	Bills Payable A/c Dr. To Cash / Bank A/c
5.	Payment not made, i.e. <b>Bill dishonoured</b> on due date	Bills Payable A/c Dr. Noting Charges (Expense) A/c Dr. To Drawer A/c

	<b>Transaction</b>	<b>Journal Entry</b>	
6.	<b>Renewal of Bill</b> before its due date	Bills Payable A/c To Drawer A/c	Dr. Dr.
	(a) Cancellation of old B/E	Interest Expense To Drawer A/c	Dr. Dr.
	(b) Recording Interest Income for renewal / extension	Drawer A/c To Bills Payable A/c	Dr. Dr.
	(c) Acceptance given for new B/E <b>Note:</b> Sometimes, this new B/E may be for the amount of old B/E + interest thereon. In other cases, Interest may be separately settled in cash by the Acceptor)	Bills Payable A/c (full amount) To Cash / Bank A/c (net amount paid) To Rebate / Interest Income (Rebate)	
7.	<b>Retirement of Bill under Rebate</b> , before due date		
8.	<b>Insolvency of Drawee</b>		
	(a) For non-payment of Bill	Bills Payable A/c Noting Charges (Expense) A/c To Drawer A/c	Dr. Dr. Dr.
	(b) Final settlement, if any, made to Drawer	Drawer A/c (Total Amt due) To Cash / Bank A/c (amt finally settled) To Deficiency A/c (amount not paid)	Dr. Dr. Dr.

#### 4.14 Bills Receivable Book and Bills Payable Book

<b>Point</b>	<b>Bills Receivable Book</b>	<b>Bills Payable Book</b>
Purpose	To record all the bills received from Debtors	To record all the bills issued to the Creditors
Dishonour	Dishonour of B/E shall be recorded	Dishonour of B/E shall be recorded

#### Illustration 1: Different type of B/E transactions

Journalise the following transactions in the books of Prakash.

- Received acceptances from – (a) Arun ₹3,00,000 at 3 months, (b) Balu ₹2,00,000 at 3 months, (c) Chandru ₹2,00,000 at 2 months, (d) Damodar ₹1,00,000 at 3 months, and (e) Eswar ₹1,00,000 at 3 months.
- Discounted Arun and Balu's acceptances with Bank at 18%. Sent Damodar's Acceptance to Bank for collection. Endorsed Chandru's acceptance in favour of Viswam. Held back Eswar's acceptance in own custody.
- Gave his own acceptance to Guru ₹2,00,000 at 3 months, Hari ₹2,00,000 at 2 months, and Indra ₹3,00,000 at 2 months.
- Balu and Chandru's Bills were honoured on due date. Damodar's acceptance was dishonoured and the Bank returned the B/E along with ₹500 Noting Charges. It was found that Damodar had become insolvent and only 30 paise in a Rupee is recoverable from his Estate, towards the Bill Amount due.
- Arun retired the bill one month before the due date, the interest rate being 18% p.a. Eswar requested for renewal of bill along with interest at 36% p.a. This new B/R was honoured by Eswar on the due date.
- Paid own acceptance in favour of Indra on the due date. Retired Guru's B/P ½ month before the due date, and requested 3 months time extension from Hari, the rate of interest in both cases being 24% p.a.

**Solution:**

#### JOURNAL ENTRIES IN THE BOOKS OF PRAKASH

	<b>Particulars</b>	<b>Dr.</b>	<b>Cr.</b>
1.	Bills Receivable A/c To Arun A/c To Balu A/c To Chandru A/c To Damodar A/c To Eswar A/c (Being B/R acceptances received from various parties)	Dr. 9,00,000 3,00,000 2,00,000 2,00,000 1,00,000 1,00,000	Cr.

	<b>Particulars</b>		<b>Dr.</b>	<b>Cr.</b>
2.	Bank A/c(balancing figure, being amount received) Discount A/c $(₹5,00,000 \times 18\% \times 3/12)$ To Bills Receivable A/c $(₹3,00,000 + ₹2,00,000)$ (Being B/R received from Arun and Balu, discounted with Bank)	Dr. Dr.	4,77,500 22,500	5,00,000
3.	Bills sent for Collection A/c To Bills Receivable A/c (Being B/R given by Damodar, sent to Bank for collection)	Dr.	1,00,000	1,00,000
4.	Viswam A/c To Bills Receivable A/c (Being endorsement of Chandru's acceptance in favour of Visvam)	Dr.	2,00,000	2,00,000
5.	Guru A/c Hari A/c Indra A/c To Bills Payable A/c (Being B/P acceptances given to various parties)	Dr. Dr. Dr.	2,00,000 2,00,000 3,00,000	7,00,000
6.	Damodar A/c Noting Charges Expense A/c To Bills sent for Collection A/c To Bank A/c (Being B/R of Damodar, sent for Collection, now dishonoured)	Dr. Dr.	1,00,000 500	1,00,000 500
7.	Receivable from Damodar's Estate A/c Bad Debts A/c To Damodar A/c (Being 30% amount receivable from Damodar's estate, balance bad debts)	Dr. Dr.	30,000 70,000	1,00,000
8.	Eswar A/c To Bills Receivable A/c (Being cancellation of old B/R of Eswar, in consideration of new B/R)	Dr.	1,00,000	1,00,000
9.	Bills Receivable A/c To Eswar A/c To Interest Income A/c $(₹1,00,000 \times 36\% \times 3/12)$ (Being new B/R accepted by Eswar, along with interest for delay)	Dr.	1,09,000	1,00,000 9,000
10.	Bank A/c To Bills Receivable A/c (Being new B/R honoured by Eswar on due date, payment received)	Dr.	1,09,000	1,09,000
11.	Bills Payable A/c To Bank A/c (Being B/P in favour of Indra, honoured on due date)	Dr.	3,00,000	3,00,000
12.	Bills Payable A/c To Bank A/c To Rebate Income $(₹2,00,000 \times 24\% \times 0.5/12)$ (Being B/P in favour of Guru, retired ½ month before due date, at 24%)	Dr.	2,00,000	1,98,000 2,000
13.	Bills Payable A/c To Hari A/c (Being cancellation of old B/P in favour of Hari, for renewal)	Dr.	2,00,000	2,00,000
14.	Hari A/c Interest Expense A/c $(₹2,00,000 \times 24\% \times 3/12)$ To Bills Payable A/c (Being new B/P in favour of Hari, along with interest for 3 months delay)	Dr. Dr.	2,00,000 12,000	2,12,000
15.	Bills Payable A/c To Bank A/c (Being B/P in favour of Hari, honoured on due date)	Dr.	2,12,000	2,12,000

**Note:**

- Balu's B/R has been discounted, and Chandru's B/R has been endorsed to Viswam. Hence, no entry will be made in Prakash's books in case of honouring of these B/R on the due date.
- Arun's B/R has been discounted, and when he retires the bill, he will make payment to the holder, i.e. Bank, before the due date. No entry is made in Prakash's Books for such retirement.

**Illustration 2: Bills of Exchange****M 19**

On 1<sup>st</sup> January 2018, Akshay draws two bills of exchange for ₹ 16,000 and ₹ 25,000. The bill of exchange for ₹ 16,000 is for two months while the bill of exchange for ₹ 25,000 is for three months. These bills are accepted by Vishal. On 4<sup>th</sup> March, 2018, Vishal requests Akshay to renew the first bill with interest @ 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25<sup>th</sup> March, 2018, Vishal retires the acceptance for ₹ 25,000, the interest rebate i.e. discount being ₹ 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 Paisa in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Akshay.

**Solution:**

	<b>Particulars</b>		<b>Dr.</b>	<b>Cr.</b>
Jan 1	Bills Receivable (No.1) A/c Bills Receivable (No.2) A/c To Vishal A/c (Being drawing of Bills Receivable No.1 due for maturity on 4 <sup>th</sup> March and Bills Receivable No.2 due for maturity on 4 <sup>th</sup> April)		Dr. Dr.	16,000 25,000  41,000
Mar 4	Vishal A/c To Bills Receivable (No.1) A/c (Being the reversal entry for Bill No. 1 on agreed renewal)		Dr.	16,000  16,000
Mar 4	Bills Receivable (No.3) A/c To Interest A/c To Vishal A/c (Being the drawing of Bill of Exchange No.3 due for maturity on 7 <sup>th</sup> May together with Interest at 15% p.a. in lieu of the original acceptance of Vishal)		Dr.	16,000  400 16,000
Mar 20	Bank A/c Discount A/c To Bills Receivable (No.2) A/c (Being the amount received on retirement of Bills No.2 before the due date)		Dr. Dr.	24,750 250  25,000
May 7	Vishal A/c To Bills Receivable (No.3) A/c (Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)		Dr.	16,400  16,400
May 7	Bank A/c To Vishal A/c (Being the amount received from Official Assignee of Vishal at 50 paise per Rupee against dishonoured bill)		Dr.	8,200  8,200
May 7	Bad Debts A/c To Vishal A/c (Being the balance 50% Debt in Vishal's Account arising out of dishonoured bill written as bad)		Dr.	8,200  8,200

**Illustration 3: Accommodation Bills & Insolvency of Acceptor**

Anil draws a bill of ₹ 90,000 on Sanjay on 1<sup>st</sup> April, for 3 months. After Sanjay's acceptance, Anil discounts it with his Bank for ₹ 88,200 and remits 1/3<sup>rd</sup> of the amount to Sanjay. On the due date, Anil fails to remit the amount due to Sanjay, but he accepts a bill for ₹ 1,26,000 for 3 months, which Sanjay discounts for ₹ 1,23,300 and remits ₹ 22,200 to Anil.

Before the maturity of the new bill, Anil becomes insolvent and only 40% was realized from his estate on 15<sup>th</sup> October. Pass necessary Journal Entries in the books of Anil.

**Solution:****JOURNAL ENTRIES IN THE BOOKS OF ANIL**

Date	Particulars	Dr.	Cr.
Apr 5	Bills Receivable A/c To Sanjay A/c (Being B/R acceptance received from Sanjay)	Dr. 90,000	90,000
Apr 5	Bank A/c(amount received, given) Discount A/c (balancing figure) To Bills Receivable A/c (Being B/R received from Sanjay, discounted with Bank)	Dr. 88,200 Dr. 1,800	90,000
Apr 5	Sanjay A/c To Bank A/c To Discount A/c (Being 1/3 share of proceeds paid to Sanjay and 1/3 <sup>rd</sup> discount trfd)	Dr. 30,000	29,400 600
Jul 8	Sanjay A/c To Bills Payable A/c (Being acceptance given to Sanjay)	Dr. 1,26,000	1,26,000
Jul 8	Bank A/c(amount received, given) Discount A/c (See Note below) To Sanjay A/c (Being amt received from Sanjay, for new B/E discounted with Bank)	Dr. 22,200 Dr. 1,800	24,000
Oct 11	Bills Payable A/c To Sanjay A/c (Being B/P dishonoured due to insolvency)	Dr. 1,26,000	1,26,000
Oct 15	Sanjay A/c (net Cr. in Sanjay A/c after all transactions above) To Bank A/c (40% of ₹84,000) To Deficiency A/c (60% of ₹84,000) (Being final settlement to Sanjay, being 40% of amount due to him)	Dr. 84,000	33,600 50,400

**Note:**

1. Excess Amount realized by parties on new B/E = New B/E Less Old B/E = 1,26,000 - 90,000	36,000
2. Net Amount realized by Sanjay on new bill = 1,23,300 less settlement of old B/E 90,000	33,300
3. Hence, Effective Discount on new B/E is 36,000 – 33,300	2,700
4. Amt sent by Sanjay to Anil from new bill = ₹22,200 (given). % of this amount to (2) above	2/3 <sup>rd</sup>
5. Hence, discount to be borne by Anil on new bill = ₹2,700 × 2/3 <sup>rd</sup>	1,800

**Illustration 4: Accommodation Bill of Exchange, new bill drawn before due date of Old bill**

On 1<sup>st</sup> January, Vinod drew and Pramod accepted a Bill at 3 Months of ₹ 2,000. On 4<sup>th</sup> January, Vinod discounted the Bill at his Bank at 15% p.a. and remitted half of the proceeds to Pramod. On 1<sup>st</sup> February, Pramod drew and Vinod accepted a Bill at 4 Months for ₹ 1,500. On 4<sup>th</sup> February, Pramod discounted the Bill at 15% p.a. with his Bank and remitted half of the proceeds to Vinod. They both agreed to share the discount equally. At maturity, Vinod met his acceptance, but Pramod dishonoured and Vinod had to pay the bill. Vinod drew and Pramod accepted a new Bill at 3 Months for the original Bill plus Interest at 18% p.a. On 1<sup>st</sup> July, Pramod became Insolvent and only 50 paise in the Rupee was received from him. Record the above transactions in Vinod's Journal.

**Solution:****In the Books of Vinod Journal Entries**

Date	Particulars	Dr.	Cr.
Jan 1	Bill Receivable A/c To Pramod A/c (Being 3 Months Bill drawn on Pramod accepted)	Dr. 2,000	2,000
Jan 4	Bank A/c Discount on Bills A/c ( $\text{₹}2,000 \times 15\% \times 3/12$ ) To Bills Receivable A/c (Being Bill accepted by Pramod discounted with the Bank at 15%)	Dr. 1,925 Dr. 75	2,000

Date	Particulars	Dr.	Cr.
Jan 4	Pramod A/c To Bank A/c To Discount on Bills A/c (Being half of the proceeds of the Bill remitted to Pramod)	Dr.   	1,000 962.50 37.50
Feb 1	Pramod A/c To Bills Payable A/c (Being Acceptance of 4 month's Bill drawn by Pramod)	Dr.   	1,500 1,500
Feb 4	Bank A/c ( <b>Bal. fig.</b> ) Discount on Bill A/c 50% of ( $\text{₹}1,500 \times 15\% \times 4/12$ ) To Pramod A/c (Being half of the proceeds of the 4 months Bill received)	Dr. Dr.  	712.50 37.50 750
April 4	Pramod A/c To Bank A/c (Being Bill accepted by Pramod dishonoured)	Dr.   	2,000 2,000
April 4	Pramod A/c To Interest A/c (Being Interest receivable on ₹2,000 @ 18% for 3 Months)	Dr.   	90 90
April 4	Bills Receivable A/c To Pramod A/c (Being Fresh 3 Months Bill drawn on Pramod accepted)	Dr.   	2,090 2,090
June 4	Bills Payable A/c To Bank A/c (Being 4 Months Bill honored on maturity)	Dr.   	1,500 1,500
July 1	Pramod A/c To Bill Receivable A/c (Being Bill accepted by Pramod dishonoured on his becoming insolvent)	Dr.   	2,090 2,090
July 1	Bank A/c Bad Debts A/c To Pramod A/c (Being amount received from the Estate of Pramod & balance transferred to Bad Debt A/c)	Dr.   	920 920 1,840

**Working Notes:****1. Pramod Account**

Particulars	₹	Particulars	₹
To Bank A/c	962.50	By Bill Receivable A/c	2,000.00
To Discount on Bills A/c	37.50	By Bank A/c	712.50
To Bills Payable A/c	1,500.00	By Discount on Bills A/c	37.50
To Bank A/c	2,000.00	By Bills Receivable A/c	2,090.00
To Interest A/c	90.00	By Bank A/c (50% of the amount due)	920.00
To Bills Receivable A/c	2,090.00	By Bad Debt A/c	920.00
<b>Total</b>	<b>6,680.00</b>	<b>Total</b>	<b>6,680.00</b>

**Illustration 5: Bills of Exchange – Retirement and Rebate**

On 1<sup>st</sup> January, A sells goods for ₹ 10,000 to B and draws a Bill at three months for the amount. B accepts it and returns it to A. On 1<sup>st</sup> March, B retires his acceptance under Rebate of 12% per annum. Record these transactions in the Journals of A and B.

**Solution:****1. Journal Entries in the Books of A**

Date	Particulars	Dr.	Cr.
Jan 1	B Account To Sales Account (Being the Goods sold to B on credit)	Dr. 10,000	10,000
Jan 1	Bills Receivable Account To B Account (Being the acceptance of Bill received)	Dr. 10,000	10,000
Mar 1	Bank Account Rebate on Bills Account ( $10,000 \times \frac{12}{100} \times \frac{1}{12}$ ) To Bills Receivable Account (Being retirement of Bill by B one month before maturity, the Rebate being given to him at 12% p.a.)	Dr. 9,900 Dr. 100	10,000

**2. Journal Entries in the Books of B**

Date	Particulars	Dr.	Cr.
Jan 1	Purchases Account To A Account (Being the goods purchased from A on Credit)	Dr. 10,000	10,000
Jan 1	A Account To Bill Payable Account (Being the acceptance of bill given to A)	Dr. 10,000	10,000
Mar 1	Bills Payable Account To Bank Account To Rebate on Bills Account (Being the Bills discharged under Rebate @ 12% p.a.)	Dr. 10,000 9,900 100	

**Illustration 6: Bill of Exchange – Renewal of Bill**

Mr. David draws two Bills of Exchange on 1<sup>st</sup> January for ₹ 6,000 and ₹ 10,000. The Bills of Exchange for ₹ 6,000 is for two Months while the Bill of Exchange for ₹ 10,000 is for three Months. These Bills are accepted by Mr. Thomas. On 4<sup>th</sup> March, Mr. Thomas requests Mr. David to renew the first Bill with Interest at 18% p.a. for a period of two Months. Mr. David agrees to this proposal. On 20<sup>th</sup> March, Mr. Thomas retires the acceptance for ₹ 10,000, the Interest Rebate, i.e. Discount being ₹ 100. Before the due date of the Renewed Bill, Mr. Thomas becomes Insolvent. On 7<sup>th</sup> May, 50 paise in a Rupee received from his estate. You are to give the Journal Entries in the books of Mr. David.

**Solution:**

Date	Particulars	Dr.	Cr.
Jan 1	Bills Receivable (No.1) A/c Bills Receivable (No.2) A/c To Mr. Thomas A/c (Being drawing of Bills Receivable No.1 due for maturity on 4 <sup>th</sup> March and Bills Receivable No.2 due for maturity on 4 <sup>th</sup> April)	Dr. 6,000 Dr. 10,000	16,000
Mar 4	Mr. Thomas A/c To Bills Receivable (No.1) A/c (Being the reversal entry for Bill No. 1 on agreed renewal)	Dr. 6,000	6,000
Mar 4	Bills Receivable (No.3) A/c To Interest A/c To Mr. Thomas A/c (Being the drawing of Bill of Exchange No.3 due for maturity on 7 <sup>th</sup> May together with Interest at 18% p.a. in lieu of the original acceptance of Mr. Thomas)	Dr. 6,180 180 6,000	

	Particulars		Dr.	Cr.
Mar 20	Bank A/c Discount A/c To Bills Receivable (No.2) A/c (Being the amount received on retirement of Bills No.2 before the due date)	Dr. Dr.	9,900 100	10,000
May 7	Mr. Thomas A/c To Bills Receivable (No.3) A/c (Being the amount due from Mr. Thomas on dishonour of his acceptance on presentation on the due date)	Dr.	6,180	6,180
May 7	Bank A/c To Mr. Thomas A/c (Being the amount received from Official Assignee of Mr. Thomas at 50 paise per Rupee against dishonoured bill)	Dr.	3,090	3,090
May 7	Bad Debts A/c To Mr. Thomas A/c (Being the balance 50% Debt in Mr. Thomas's Account arising out of dishonoured bill written as bad)	Dr.	3,090	3,090

**State with reasons, whether the following statements are True or False**

Statements	T/F	Reasoning
1. A Bill given to a Creditor is called Bills Payable.	True	A Bill given to a Creditor is called Bills Payable, as the Debtors commits to pay by giving a Bill to Creditor.
2. A Promissory Note can be made payable to the Bearer.	False	A Promissory Note cannot be made payable to the Bearer. It is payable to a certain person.
3. Discount at the time of Retirement of a Bill is a Gain for the Drawee.	True	Discount at the time of Retirement of a Bill is a Gain for the Drawee, and Loss for the Drawer.
4. No cancellation Entry is required when a Bill is renewed.	False	When the Bill is renewed, Entries are passed for cancellation of the Old Bill and for recording of the New Bill, as the amount of New Bill is generally inclusive of Interest.
5. A has drawn a Bill on B. B accepts the same and endorses the Bill to C.	False	B cannot endorse the Bill to C as he is a Drawee. Only A, the Drawer, can do so.
6. Cancelling Old Bill and drawing New Bill is called Renewal of Bill.	True	If the Acceptor of a Bill fails to make the payment on the due date, a New Bill may be drawn on him after cancellation of the Old Bill. This is known as Renewal of a Bill.
7. In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest, [M 19]	True	If the Due Date of a Bill falls after the date of closing the Account, no Interest is allowed for that amount. However, interest should be deducted for that amount for the number of days the due date falls after the date of the Account Current. This interest is generally referred to as Red Ink Interest
8. In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person. [N 19]	False	In case of bill of exchange, the drawer and the payee may not be the same person. But in case of a promissory note, the maker and the payer are the same person.