

UNIT-6

ACCOUNTING FOR BILLS OF EXCHANGE

Learning objectives:

After studying this chapter, students shall be able to :

- Explain the concept of Bill of Exchange and Promissory Note.
- Distinction between Bill of Exchange and Promissory Note.
- Define Important terms of Bill of Exchange and Promissory Note.
- Record the Accounting Treatment of Bill of Exchange under different Circumstances

Suggested Methodology :

Illustration - cum - Explanation method.

A Bill of Exchange and Promissory Note both are legal Instruments which facilitate the credit sale of goods by assuring the seller that the amount will be recovered after a certain period. **Both of these are legal instruments under the Negotiable Instruments Act, 1881.**

BILL OF EXCHANGE

“A Bill of Exchange is an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.”

Section 5 of the Negotiable Instrument Act, 1881

Features of a Bill of Exchange are :

1. A Bill of Exchange must be in writing.
2. It must contain an order (and not a request) to make payment.
3. The order of payment must be unconditional .
4. The amount of bill of exchange must be certain.
5. The date of payment should be certain.
6. It must be signed by the drawer of the bill.
7. It must be accepted by the drawee by signing on it.
8. The amount specified in the bill of exchange is payable either on demand or on the expiry of a fixed period.
9. The amount specified in the bill is payable either to a certain person or to his order or to the bearer of the bill.
10. It must be stamped as per legal requirements.

PARTIES TO A BILL OF EXCHANGE

1. DRAWER :

Drawer is the person **who makes or writes the bill of exchange**. Drawer is a person **who has granted credit** to the person on whom the bill of exchange is drawn. **The drawer is entitled to receive money** from the drawee (acceptor).

2. DRAWEE : Drawee is the person on whom the bill of exchange is drawn for acceptance. **Drawee is the person to whom credit has been granted by the drawer.** The drawee is **liable to pay money** to the creditor/drawer.

3. PAYEE :

Payee is the person **who receives the payment from the drawee.** Usually the drawer and the payee are the same person. In the following cases, drawer and payee are two different persons :

- (i) When the **bill is discounted** by the drawer from his bank- **payee is the bank.**
- (ii) When the **bill is endorsed** by the drawer to his creditors :
payee is the endorsee.

SPECIMEN OF A BILL OF EXCHANGE

₹ 50000 [3]	New delhi 6th August, 2011 [1]
Stamp [4]	
[2] Three months after date pay to me or my order, the sum of	Value received
[3] ₹ Fifty thousand only for	[6]
"Accepted,, (Signed) (Mukesh Chand.)	(Signed)
To MUKESH CHAND D-24, Sector-15 Rohini Delhi -89	{ [5] { SANT KANWAR 151, Sector-9 Rohini Delhi-85

CONTENTS OF BILL EXCHANGE

1. Date –

The date on which a bill is drawn, is written on the top right corner of the bill. It helps in determining the date of maturity of the bill.

2. Term/Tenure –

Term specifies the time period for which a bill is written. It should be specified in the body of the bill.

3. Amount –

Amount in figure should be mentioned in the top left corner and amount in words should be mentioned in body of the bill.

4. Stamp –

Stamp of proper value depending upon the amount of bill must be affixed on the bills of exchange.

5. Name of parties –

The name and addresses of the drawer and the drawee should be mentioned in the bill of exchange.

6. For Value Received –

It means the bill has been issued in exchange of some consideration. These words are very important because law does not consider those agreements which have been made without consideration.

ADVANTAGES OF BILL OF EXCHANGE

1. It helps in purchases and sales of goods on **credit basis**.
2. It is a **legally valid document** in the eyes of law. It assures an easier recovery to the drawer if drawee fails to make the payments.
3. A bill **can be discounted** from the bank before its date of maturity. By discounting with the bank, drawer can get the money before due date if required.
4. It can be **easily transferred** from one person to another by endorsement.
5. It **helps in recovery of debt** without sending reminders to the debtor.
6. It assures the seller about the timely recovery of debt. So a **drawer and drawee can plan about its cash management**.

PROMISSORY NOTE

A Promissory note is an instrument in writing (not being a bank note or a currency note) containing an **unconditional undertaking** signed by the maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument.

FEATURES OF A PROMISSORY NOTE

1. There must be an unconditional promise to pay a certain sum of money on a certain date.
2. It must be signed by the maker.
3. The name of the payee must be mentioned on it.
4. It must be stamped according to its value.

PARTIES TO A PROMISSORY NOTE

1. **The Maker :** The maker is the person **who makes the promise to pay** the amount on a certain date. Maker of a bill must sign the promissory note before giving it to the payee.
2. **The Payee :** The payee is the person **who is entitled to get the payment** from the maker of promissory note. Payee is the person who has granted the credit

SPECIMEN OF A PROMISSORY NOTE

₹ 2,00,000	New Delhi
Stamp	7th August, 2011
	These months after date we promise to pay Gulab Singh or order a sum of ₹ two lakhs only, for value received.
To	(Signed)
Gulab Singh	Rajiv Verma
18, Paschim Vihar	95, Sector - 16
New Delhi - 63	Rohini Delhi - 85

DISTINCTION BETWEEN BILLS OF EXCHANGE AND PROMISSORY NOTE:-

Basis of difference	Bills of Exchange	Promissory Note
1. Drawer	The Drawer is the creditor.	The Drawer is the debtor.
2. No. of Parties.	It has three parties namely : <ul style="list-style-type: none"> ● The drawer ● The drawee ● The payee 	It has two parties namely : <ul style="list-style-type: none"> ● The maker ● The payee
3. Order or Promise	It contains an order to make the payment.	It contains a promise to make the payment
4. Acceptance	It is valid only when accepted by the drawee.	It does not require any acceptance from the drawee.
5. Payee	It case of bill of exchange, drawer can be the payee of the bill.	Drawer or maker cannot be the payee of promissory note.
6. Noting	It case of dishonour of bill noting becomes important.	Noting is not necessary in case of dishonour of promissory note.
7. Liability	The liability of the drawer arises only if the drawee fails to make payment.	The liability of the drawer (maker) is primary.

IMPORTANT TERMS

1. Term of Bill :

The period intervening between the date on which a bill is drawn and the date on which it becomes due for payment is called 'Term of Bill'.

2. Due Date :

Due date is the date on which the payment of the bill is due.

Due date is ascertained in the following manner :

- | |
|---|
| <p>(i) In case of 'Bill at sight' -
Due date is the date on which a bill is presented for the payment.</p> <p>(ii) In case of 'Bill after Date' -
Due Date = Date of Drawing + Term of Bill.</p> <p>(ii) In case of ' Bill after sight' -
Due date = Date of Acceptance + Term of Bill.</p> |
|---|

3. Days of Grace :

Drawee is allowed **three extra days after the due date** of bill for making payments. Such 3 days are know as 'Days of Grace'. It is a custom to add the days of grace.

4. Date of Maturity :

The date which comes after adding three days of grace to the due date of a bill is called 'Date of maturity'.

Illustration 1

A bill of exchange for ₹ 25000 is drawn by A on B on 1st April, 2011 for 3 Months. B accepted the bill on 10th April, 2011.

Find the DUE DATE and DATE OF MATURITY if

Case I - The bill is Bill After date

Case II - The bill is Bill After Sight

Solution:

	DUE DATE	Date of Maturity
Case I - When the Bill is "Bill After date"	1 st July 2011	4 th July, 2011
Case II When the Bill is "Bill After Sight"	10 th July 2011	13 th July, 2011

- In case a bill is "Bill after Sight" term of bill starts from the date of acceptance.

5. Bill at sight/Bill on Demand

When **no time for payment is mentioned** in the bill of exchange and the **bill is payable whenever it is presented** to the drawee for the payment, such bills are known as "Bill at sight" or "Bill on Demand".

3 days of grace are not allowed when bill is payable on demand.

6. Bill after Date

Bill after date is the bill in which due date and date of maturity is ascertained from the date on which the bill is drawn.

3 days of grace are allowed for ascertaining the date of maturity in case of bill after date.

7. Discounting of Bill

When the **bill is encashed from the bank before its due date**, it is known as discounting of bill. Bank deducts its charges from the amount of bill and disburses the balance amount.

Illustration 2

Ram sold goods to shyam for Rs. 30,000 at credit on 1st April, 2011. Ram discounted the bill with his bank on 4th May 2011 @ 9% per annum find out :

- The amount of discounting charges.
- The amount that Ram will receive from his bank at the time of discounting the bill.

Solution :

(i) Discounting Charges =

$$\begin{aligned} & \text{Amount of Bill Discounted} \times \frac{\text{Rate}}{100} \times \text{Unexpired Period} \\ &= 3000 \times \frac{9}{100} \times \frac{2}{12} = ₹ 450 \end{aligned}$$

(ii) Ram will receive from his bank ₹ 29,500 (i.e., ₹ 30,000 - ₹ 450) at the time of discounting the bill.

8. Endorsement of Bill

Endorsement of a bill means the **Process of transferring the title of bill from the drawer or holder to their creditors.**

The person transferring the title is called "Endorser" and the person to whom the bill is transferred called 'Endorsee'. **The endorsee can further endorse the bill in favour of his creditors.**

Endorsement is executed by putting the signature at the back of the bill.

9. Bill sent for Collection

It is a process when the bill is sent to the bank with instructions to keep the bill till maturity and collect its amount from the acceptor on the date of maturity.

10. Dishonour of Bill

When the **drawee (or acceptor) of the bill fails to make payment of the bill on the date of maturity**, it is called 'Dishonour of Bill'.

11. Noting of Bill

To obtain the proof of dishonour of a bill, it is re-sent to the drawee through a legally authorized persons called Notary Public. Notary Public charges a small fee for Providing this service known as noting charges.

Noting charges are paid to the Notary Public first by the holder of the bill but are ultimately recovered from the drawee, because he is the person responsible for the dishonour.

12. Retirement of a Bill

When the drawee **makes the payment of the bill before its due date** it is called 'Retirement of a bill'.

In such a case, holder of the bill usually allow a certain amount as **Rebate** to the drawee.

Amount of rebate is calculated at a fixed percentage for the unexpired period only.

Illustration 3

On 1st January, 2011 A sold good to B for ₹ 30,000 and drew upon him a bill at 3 months for the amount. B accepted the bill and returned it to A. On 4th March, 2011, B retired the bill under rebate of 12% per annum.

Calculate the amount of Rebate.

Solution :

$$\begin{aligned}\text{Rebate} &= \frac{\text{Amount of Bill}}{\text{Bill}} \times \frac{\text{Rate}}{100} \times \frac{\text{Unexpired Period}}{\text{Period}} \\ &= 30,000 \times \frac{12}{100} \times \frac{1}{12} \\ &= ₹ 300\end{aligned}$$

B will pay ₹ 29,700 (₹ 30,000 - ₹ 300) to A at the time of retiring the bill.

13. Renewal of a Bill

Sometimes, the drawee of a bill finds himself **unable to meet the bill on due date**. To avoid dishonouring of bill, he may request the holder of the bill to **cancel the original bill and draw a new bill in place of old one**. If the holder agrees, the old bill is cancelled and a new bill with new terms is drawn on the drawee and also accepted by him. This process is called 'Renewal of a bill'.

In this case, Noting of the bill is not required as cancellation of the bill is mutually agreed upon by both the parties of the bill.

Normally, the drawer charge interest for the period of new bill. The interest may be paid in cash or may be added in the amount of new bill. If any part payment is made at the time of renewal of a bill, interest is calculated only on the outstanding amount.

Illustration 4

Narender requests Rajneesh to renew his acceptance for ₹ 25,000 for 3 months together with interest @ 18% p.a.

Calculate the amount of new bill drawn on Narender

Solution :

$$\begin{aligned}\text{Interest} &= \frac{\text{Amount*}}{\text{Outstanding}} \times \frac{\text{Rate}}{100} \times \frac{\text{Period of New Bill}}{\text{Period}} \\ &= 25000 \times \frac{18}{100} \times \frac{3}{12} = ₹ 1,125\end{aligned}$$

$$\begin{aligned}\text{Amount of New Bill} &= ₹ 25,000 + ₹ 1,125 \\ &= ₹ 26,125\end{aligned}$$

* Amount Outstanding = Amount of Bill cancelled – any part payment made in cash at the time of renewal of bill

14. Insolvency of Acceptor –

When the drawee (i.e., acceptor) of a bill is unable to meet his liabilities on due date, the drawee become insolvent. In such a case, entries for the dishonour of the bill are passed in the books of drawer/holder and drawee of the bill.

Any proportionate amount received from the drawee is recorded in the books of the holder and the **amount unrecoverable is debited to 'Bad Debts A/c'**.

Accounting Treatment of Bill Transactions

A. On the Due Date bill is Honoured –

The accounting treatment under this heading is based on the assumption that bill is duly honoured at maturity of the bill. The drawer can treat the bill in the following ways :

Case - I Bill is retained by the drawer till date of maturity

Transaction	In the books of DRAWER	In the books of DRAWEE
1. When Goods are sold on credit	Drawee Dr. To Sales A/c (Being goods Sold on credit)	Purchases A/c Dr. To Drawer (Being goods purchased from Drawer)
2. When Bill is Drawn	Bills Receivable A/c Dr. To Drawee (Being acceptance received from drawee)	Drawer Dr. To Bills Payable A/c (Being acceptance given to drawer)
3. When Bill is Honoured on Date of Maturity	Cash/Bank A/c Dr. To Bills Receivable A/c (Being payment of bill received from Drawee)	Bills Payable A/c Dr. To Cash/Bank A/c (Being payment of bill made to drawer)

Case II : When the bill is discounted from the Bank by the Drawer

Transaction	In the books of Drawer	In the books of Drawee
1. When the bill is discounted from Bank	Bank A/c Dr. Discounting Charges A/c Dr. To Bills Receivables A/c (Being bill discounted for the Bank)	No Entry
2. When the bill is honoured on date of maturity	No Entry	Bills Payable A/c Dr. To Cash/Bank A/c (Being the payment of bill made)

Note :

- Discounting charges are always recorded (i.e., debited) in the books of **Drawer**.
- In the books of Drawee, there is no effect of discounting the bill.

Case III : When bill is endorsed in favour of a creditor

Transaction	In the books of Drawer/ Endorser	In the books of Drawee
1. When bill is endorsed	Endorsee Dr. To Bills Receivable A/c (Being bill receivable endorsed)	No Entry
2. When bill is honoured on date of maturity	No Entry	Bills Payable A/c Dr. To Cash/Bank A/c (Being the payment of bill made)

Transaction	In the Books of Endorsee
1. When bill is endorsed	Bills Receivable A/c Dr. To Endorser (Being bill received from debtor through endorsement)
2. When bill is honoured on date of maturity	Cash/Bank A/c Dr. To Bills Receivable (Being Bill realised on date of maturity)

Case - IV When Bill is sent to the Bank for collection

Transaction	In the books of Drawer	In the books of Drawee
1. When bill is sent for collection to Bank	Bills Sent for Collection A/c Dr. To Bills Receivable A/c (Being bill sent for collection)	No Entry
2. When the amount is realised on date of maturity	Bank A/c Dr. To Bill Sent for Collection A/c (Being the bill sent for collection realised on maturity)	Bill Payable A/c Dr. To Cash/Bank A/c (Being bill paid on date maturity)

Note :

- There will be no effect in the books of Drawee either the bill is discounted from the bank or endorsed to a creditor or sent to the bank for collection. The drawee makes the payment in normal manner.
- It is only in the books of drawer where an additional entry is passed to record the effect of the above transaction.

Illustration 5

X sold goods to Y on 1st April, 2011 for Rs. 20,000 on credit and drew upon him a bill for the same amount payable after 3 months. Y accepted the bill and returned it to X. On the date of maturity bill was presented to Y for the payment and he honoured it.

Pass the Journal Entries in the books of both the parties when :

Case I – Bill is retained by the X till the date of maturity.

Case II – Bill is discounted by X from his bank on 4th April @ 6% per annum.

Case III – Bill is endorsed in favour of Z on 4th May, 2011.

Case IV – Bill is sent to Bank for collection on 1st July, 2011.

Also record the Journal Entries in the books of Z (Case - III)

Solution :

In the book of X (Drawer)

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 April, 1	Y Dr. To Sales A/c (Being goods sold to Y on credit)		20,000	
April, 1	Bills Recivable A/c Dr. To Y (Being acceptance received from Y)		20,000	20,000
July, 4	Case – I When bill is retained by X till the date of maturity Cash/Bank A/c Dr. To Bills Receivable A/c (Being amount received from B against bill)		20,000	20,000
April, 4	Case – II When bill is discounted by X from his bank Bank A/c Dr. Discounting Charges A/c Dr. To Bills Receivable A/c (Being the bill discounted from the bank, discounting Charges are $= 2000 \times \frac{6}{100} \times \frac{3}{12} = ₹ 300$)		19,700 300	20,000
May, 4	Case – III when bill is Endorsed in favour of Z Z Dr. To Bills Receivable A/c (Being bill endorsed in favour of Z)		20,000	20,000
	Case – IV When bill is sent to bank for collection			

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
July, 1	Bills Sent for Collection A/c Dr. To bills Receivable A/c (Being bill sent for collection to bank.)		20,000	20,000
July, 4	Bank A/c Dr. To Bill sent for Collection A/c (Being amount realised from bill sent for Collection)		20,000	20,000

Note :

1. First two entries passed on April 1, 2011 will be same in the books of X (Drawer) in all the 4 cases.
2. If a bill is honoured on the date of maturity.
NO ENTRY is passed on the date of maturity in the books of drawer, if :
 - Bill is discounted from the bank ; or
 - Bill is endorsed in favour of creditor.

(In all 4 cases)

In the Books of Y (Drawee)

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 April, 1	Purchases A/c Dr. To X (Being goods purchased from X on credit)		20,000	20,000
April, 1	X Dr. To Bills Payable A/c (Being the acceptance given to X)		20,000	20,000
July, 4	Bills Payable A/c Dr. To Cash/Bank A/c (Being payment made on date of maturity)		20,000	20,000

(Case - III)
In the books of Z (Endorsee)
Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 May, 4	Bills Receivable A/c Dr. To X (Being bill received from X through endorsement)		20,000	20,000
July, 4	Cash/Bank A/c Dr. To Bills Receivable A/c (Being payment received against bill)		20,000	20,000

B. When Bill is dishonoured on date of maturity.

Case I - Bill is retained by the drawer till date of maturity.

Transaction	In the Books of Drawer	In the Books of Drawee
When bill is dishonoured	Drawee Dr. To Bills Receivable A/c To cash A/c (with noting charges) (Being bill dishonoured)	Bills Payable A/c Dr. Noting charges A/c Dr. To Drawer (Being bill dishonoured)

Note :

Entry passed in the book of Drawee will be SAME in all cases.

Cass II - Bill is discounted by the drawer from his bank, the following entry is passed, at the time of maturity, if the bill is dishonoured.

In the books of DRAWER

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Drawee Dr. To Bank A/c (Including noting charges) (Being bill discounted from bank dishonoured)			

Case III - When bill is endorsed in favour of a creditor
(At the time of Dishonour of a Bill)

In the books of DRAWER

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Drawee Dr. To Endorsee (Including noting charges) (Being bill dishonoured, earlier endorsed in favour of creditor)			

(At the time of Dishonour of a bill)

In the books of ENDORSEE

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Endorser Dr. To Bills Receivable A/c To Cash A/c (Noting charges) (Being bill dishonoured received through endorsement)			

Case IV- When Bill is sent for collection to Bank
(At the time of Dishonour of a Bill)

In the books of DRAWER

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Drawee Dr. To Bills Sent for Collection A/c To Bank A/c (Noting charges) (Being bill sent to bank for collection, dishonoured)			

Notes :

1. Same Entry is passed in the books of Drawee at the time of dishonour of a bill/
2. In the books of Drawer

(At the time of Dishonour of Bill)

Drawee Dr. (In all Cases)

To Bills Receivable A/c (Case-I)

To Cash A/c (Noting Charges)

OR

To Bank A/c (Case-II)

(Including noting Charges)

OR

To Endorsee A/c (Case-III)

(Including noting charges)

OR

To Bills Sent for Collection A/c (Case-IV)

To Bank A/c (Noting Charges)

Illustration 6

A sold good to B on April 1, 2011 for ₹ 20,000 on credit and drew upon him a bill for the same amount payable after 3 months. B accepted the bill and returned into to A. On the due date bill was dishonoured.

Pass Journal entries in the books of A and B if

Case I : Bill is retained by A till the date of maturity.,

Case II : Bill is discounted by A from his bank on 4th April, 2011 @ 6% per annum.

Case III : Bill is endorsed in favour of C on April, 4th, 2011.

Case IV : Bill is sent to bank for collection on July 1, 2011.

Solution :**In the books of A (Drawer)****Journal**

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 April, 1	B Dr. To Sales A/c (Being goods sold to B on credit)		20,000	20,000

April, 1	Bills Receivable A/c Dr. To B (Being bill received from B)		20,000	20,000
July, 4	Case-I : When bill is retained by A B Dr. To Bills Receivable A/c (Being bill received from B dishonoured)		20,000	20,000
April, 4	Case - II : When bill is discounted from the Bank Bank A/c Dr. Discounting Charges A/c Dr. To Bills Receivable A/c (Being bill discounted from the bank ; discounting charges are $= 2000 \times \frac{6}{100} \times \frac{3}{12} = \text{₹ } 300$)		19,700 300	20,000
July, 4	B Dr. To Bank (Being bill discounted from, dishonoured on date of maturity)		20,000	20,000
April, 4	Case - III : When bill is endorsed in favour of 'C' C Dr. To Bills Receivable A/c (Being bill endorsed in favour of C)		20,000	20,000
July, 4	B Dr. To C (Being bill received from B and endorsed to C dishonoured on maturity date)		20,000	20,000
	Case - IV : When bill is sent for collection			

July, 1	Bill Sent for Collection A/c Dr. To Bills Receivable A/c (Being bill received from B sent for collection)		20,000	20,000
July, 4	B Dr. To Bills Sent for Collection A/c (Being bill sent for collection to bank, dishonoured on date of maturity)		20,000	20,000

In the Books of B (DRAWEE)

(In All Cases)

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 April, 1	Purchases A/c Dr. To A (Being goods purchased on credit)		20,000	20,000
April, 1	A Dr. To Bills Payable A/c (Being acceptance given to A)		20,000	20,000
July, 4	Bills Payable A/c Dr. To A (Being bill Payable to A dishonoured on date of maturity)		20,000	20,000

Illustration 7

A sold goods to B on May 1st, 2011 for ₹ 30,000 on credit and drew upon him a bill for the same amount payable after 2 months. B accepted the bill and returned it to A. On date of maturity, B fails to make payment of bill. Noting charges amounted to ₹ 100.

Pass Journal Entries in the books of A and B if.

Case 1 : A retains the bill till the date of maturity and also paid the noting charges.

Case 2 : A discounts the bill from his bank on 4th June @ 12% per annum. Noting charges has been paid by bank.

Case 3 : A endorses the bill in favour of C on June 1. C paid the noting charges.

Case 4 : A sends the bill to his bank for collection on July 1. Bank paid the noting charges.

Solution :

In the Books of A (DRAWER)

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 May, 1	B Dr. To Sales A/c (Being goods sold to B on Credit)		30,000	30,000
May, 1	Bills Receivables A/c Dr. To B (Being acceptance received from B)		30,000	30,000
July, 4	Case 1 : When A retains the bill B Dr. To Bills Receivable A/c To Cash A/c (Being bill dishonoured and noting charges paid by A)		30,100	30,000 100
June, 4	Cas 2 : When bill is discounted from the bank Bank A/c Dr. Discounting Charges A/c Dr. To Bills Receivable A/c (Being bill discounted from the bank, discounting charges amounted to $\text{₹} = 3000 \times \frac{12}{100} \times \frac{1}{12} = \text{₹} 300$)		29,700 300	30,000
July, 4	B Dr. To Bank A/c (Being bill discounted from bank dishonoured and noting charges paid by bank)		30,100	30,100

June, 1	Case 3 : When bill is endorsed in favour of C			
	C Dr. To Bills Receivable A/c (Being bill sent to bank for collection)		30,000	30,000
July 4	B Dr. To C (Being bill received from B and endorsed to C dishonoured on maturity)		30,100	30,100
July, 1	Cash 4 : When bill is sent for collection			
	Bill Sent for Collection A/c Dr. To Bills Receivable A/c (Being bill sent to bank for collection)		30,000	30,000
July, 4	B Dr. To Bills Sent for Collection A/c To Bank (Being bill received from B dishonoured on maturity)		30,100	30,000 100

In the Book of B (DRAWEE)

(In all Cases)

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 May, 1	Purchases A/c Dr. To A (Being goods purchased from A)		30,000	30,000

May, 1	A	Dr.		30,000	
	To Bills Payable A/c				30,000
	(Being acceptance given to A)				
July, 4	Bills Payable A/c	Dr.		30,000	
	Noting Charges A/c	Dr.		100	
	To A				30,100
	(Being bill dishonoured and noting charges debited)				

C. Renewal of a Bill

Transaction	In the Books of Drawer	In the Books of Drawee
Canelling the Original Bill	Drawee Dr. To Bills Receivable A/c (Being the cancellation of bill receivable)	Bills Payable A/c Dr. To Drawer (Being the bill payable cancelled)
Recording Interest for extended Period	Drawee Dr. To Interest A/c (Being interest charged for extended period)	Interest A/c Dr. To Drawer (Being interest payable for extended period)
Part Payment Received/ made	Cash or Bank A/c Dr. To Drawee (Being the part payment received)	Drawer Dr. To Cash Bank A/c (Being the part payment made).
New Bill Drawn/ Accepted	Bills Receivable A/c Dr. To Drawee (Being a new bill drawn)	Drawer Dr. To Bills Payable A/c (Being a new bill accepted.)

Note :

1. No Entry for noting charges is passed at the time of cancellation of original bill because both the parties are mutually agreed to cancel the old bill.
2. Rate of interest must be carefully noticed that it is in

% per annum (Time is important)
 or
 % .

 When rate of interest is given in % form, time extended for payment is not considered.

Example :

A bill is renewed for a period of 3 months. Amount of old bill cancelled is ₹ 50,000. Find the amount of interest for the extended period if.

Case I Rate of Interest is 8% per annum.

Case II Rate of Interest is 6%.

Solution :**Case I :**

$$\text{Interest} = 50000 \times \frac{8}{100} \times \frac{3}{12} = ₹ 1000$$

Cas II :

$$\text{Interest} = 50000 \times \frac{6}{100} = ₹ 3000$$

Illustration - 8 :

On 1st April, 2011 Anil accepts a bill drawn by Sunil for 2 months for ₹ 15000, in payment of a debt. On the date of maturity bill was dishonoured and Sunil had to pay ₹ 150 as noting charges. On 4th June 2011, Anil requested to Sunil to draw a new bill for the amount due. Sunil agreed to draw a new bill for 73 days but he charged interest @ 15% per annum in cash. This bill is duly met on its maturity.

Pass Journal entries in the books of both the parties.

Solution :**In the books of Sunil****Journal**

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 April, 1	Bills Receivable A/c Dr. To Anil (Being acceptance received)		15,000	15,000
June, 4	Anil Dr. To Bills Receivable A/c To Cash A/c (Being bill dishonoured and noting charges paid)		15,150	15000 150

June, 4	Anil Dr. To Interest A/c (Being interest charged $= 15150 \times \frac{15}{100} \times \frac{73}{365}$)		454.50	454.50
June, 4	Cash A/c Dr. To Anil (Being interest received in cash)		454.50	454.50
June, 4	Bills Receivable A/c Dr. To Anil (Being a new bill drawn M Anil and acceptance received)		15,150	15,150
Aug., 19	Bank A/c Dr. To Bills Receivable A/c (Being amount received on maturity of bill)		15,150	15,150

**In the Books of Anil (DRAWEE)
Journal**

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 April, 1	Sunil Dr. To Bills Payable A/c (Being acceptance gave)		15,000	15,000
June, 4	Bills Payable A/c Dr. Noting Charges A/c Dr. To Sunil (Being bill dishonoured and noting charges due)		15,000 150	15,150
June, 4	Interest A/c Dr. To Sunil (Being interest payable to Sunil)		454.50	454.50

June, 4	Sunil Dr. To Cash A/c (Being interest paid in cash)		454.50	454.50
June, 4	Sunil Dr. To Bills Payable A/c (Being acceptance of new bill given)		15,150	15,150
Aug. 19	Bills Payable A/c Dr. To Bank A/c (Being bill accepted, paid on maturity)		15,150	15,150

Illustration 9

P sold goods to Q for ₹ 10,000 on January 1, 2011 and on the same day draws a bill on Q for the same amount for 3 months. Q accept it and returns it to P, who discounts it on 10th January, 2011 with his bank for ₹ 9850. The acceptance is dishonoured on the due date and the noting charges were paid by bank being ₹ 50.

On 4th April, Q paid ₹ 2,050 (including noting charges) in cash and accepted a new bill at 3 months for the amount due to P together with interest @ 12% per annum.

Make Journal Entries in the books of P and Q to record these transactions.

Solution :

Journal of P

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 Jan., 1	Q Dr. To Sales A/c (Being goods sold to Q)		10,000	10,000
Jan., 1	Bills Receivable A/c Dr. To Q (Being acceptance received)		10,000	10,000
Jan., 10	Bank A/c Dr. Discounting Charges A/c Dr. To Bills Receivable A/c (Being bill discounted from Bank)		9,850 150	10,000

April, 4	Q To Bank (Being bill discounted from bank dishonoured and noting charges paid by bank)	Dr.	10,050	10,050
April, 4	Cash A/c To Q (Being part payment received in cash)	Dr.	2050	2050
April, 5	Q To Interest A/c (Being interest charged $= ₹ 8000 \times \frac{12}{100} \times \frac{3}{12}$)	Dr.	240	240
April, 4	Bills Receivable A/c To Q (Being a new bill drawn on Q together with interest)	Dr.	8240	8240

Journal of Q (DRAWEE)

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 Jan., 1	Purchases A/c To P (Being goods purchased on credit)	Dr.	10,000	10,000
Jan., 1	P To Bills Payable A/c (Being acceptance given to P)	Dr.	10,000	10,000
April, 4	Bills Payable A/c Noting Charges A/c To P (Being bill dishonoured and noting charges due)	Dr. Dr.	10,000 50	10,050

April, 4	P To Cash A/c (Being part payment made in cash)	Dr.	2,050	2,050
April, 4	Interest A/c To P (Being interest payable on outstanding amount for 3 months)	Dr.	240	240
April, 4	P To Bills Payable A/c (Being acceptance given to P)	Dr.	8,240	8,240

D. Retiring a bill under Rebate

Transaction	In the Books of Drawer	In the Books of Drawee
When Drawee retires the bill before date of maturity	Cash/Bank A/c Dr. Rebate A/c Dr. To Bill Receivable A/c (Being the amount received before date of maturity and rebate allowed.)	Bills Payable A/c Dr. To Cash/Bank A/c To Rebate A/c (Being the amount paid before date of maturity and rebate received.)

Note :

1. In the books of Drawer, Rebate Account is DEBITED because it is a loss for Drawer.

2. In the books of Drawee, Rebate Account is CREDITED because it is a gain for Drawee.

Illustration 10

Mukesh sold goods to Jitender on July 1, 2011 for ₹ 30,000 and drew a bill for the same amount for 3 months. Jitender accepted the bill and returned it to Mukesh. Jitender retired his acceptance on 4th August, 2011 under rebate of 8% per annum. Give Journal entries in the books of Mukesh and Jitender.

Solution :

In the books of MUKESH

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 July, 1	Jitender Dr. To Sales A/c (Being goods sold on credit)		30,000	30,000
July, 1	Bill Receivable A/c Dr. To Jitender (Being acceptance received)		30,000	30,000
Aug., 4	Cash A/c Dr. Rebate A/c Dr. To Bills Receivable A/c (Being amount received on bill before maturity and rebate allowed, Rebate = ₹ 30,000 × $\frac{2}{12} \times \frac{8}{100}$ = ₹ 400)		29,600 400	30,000

In the books of JITENDER

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 July, 1	Purchases A/c Dr. To Mukesh (Being goods purchased on credit)		30,000	30,000
July, 1	Mukesh Dr. To Bills Payable A/c (Being acceptance given to Mukesh)		30,000	30,000

Aug., 4	Bill Payable A/c	Dr.	30,000	
	To Cash A/c			29,600
	To Rebate A/c			400
	(Being acceptance retired with rebate)			

E. Insolvency of Acceptor :

Transaction	In the books of Drawer		In the books of Drawee	
When Drawee is Insolvent	Entry for dishonour of bill shall be passed (depending up on the case)		Bills Payable A/c	Dr.
			To Drawer	
			(Being bill dishonoured)	
When nothing could be Recovered	Bad Debts A/c	Dr.	Drawer	Dr.
	To Drawee			
	(Being amount of Bill written off as bed debts)		To Deficiency A/c	
			or	
			To P & L A/c	
			(Being the amount of bill written off.)	
When Amount is Received Partially	Cash/Bank A/c	Dr.	Drawer	Dr.
	Bad Debts A/c	Dr.	To Cash A/ c	
	To Drawee		To Deficiency A/c	
			or	
			To P & L A/c.	
	(Being the amount received partially and the remaining amount written off due to insolvency of drawer.)		(Being the amount payable settled by payment of.....% only.	

Illustration - II

Rajiv sold goods to Pankaj for ₹ 40,000 on January 1st, 2011. On the same date Rajiv drew a bill of the same amount at 3 month on Pankaj. The bill was accepted by Pankaj. Rajiv discounted the bill with his bank on 4th February, 2011 @ 12% per annum. On date of maturity, the bill was dishonoured and noting charges ₹ 200 were paid by bank.

Pankaj agreed to pay ₹ 10,200 and accepted another bill for the remaining amount for 3 months together with interest @ 9% per annum. On July 4, 2011, Pankaj becomes insolvent and a first and final dividend of 60 paise in a rupee was received from his private estate on 15th July, 2011.

Give Journal Entries in the books of Rajiv and Pankaj.

Solution :

In the Books of RAJIV (DRAWER)

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 Jan, 1	Pankaj Dr. To Sales A/c (Being goods sold on credit)		40,000	40,000
Jan., 1	Bill Receivable A/c Dr. To Pankaj (Being acceptance received)		40,000	40,000
Feb., 4	Bank A/c Dr. Discounting Charges A/c Dr. To Bill Receivable A/c (Being bill discounted from bank and discounting charges are ₹ 800 : $= 40000 \times \frac{12}{100} \times \frac{2}{12}$)		39,200 800	40,000
April, 4	Pankaj Dr. To Bank A/c (Being bill dishonoured and noting charges paid by bank).		40,200	40,200

April, 4	Cash A/c Dr. To Pankaj (Being part payment received from Pankaj)		10,200	10,200
April, 4	Pankaj Dr. To Interest A/c (Being Interest charged on remaining amount : $= 30000 \times \frac{9}{100} \times \frac{3}{12}$)		675	675
April, 4	Bills Receivable A/c Dr. To Pankaj (Being new acceptance received)		30,675	30,675
July, 4	Pankaj Dr. To Bills Receivable A/c (Being bill dishonoured due to insolvency of Pankaj)		30,675	30,675
July, 15	Bank A/c Dr. Bad Debts A/c Dr. To Pankaj (Being final dividend @ 60 paise in a ₹ received from Pankaj and balance written off as Bad Debts)		18,405 12,270	30,675

In the Books of PANKAJ (DRAWEE)

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 Jan, 1	Purchases A/c Dr. To Rajiv (Being goods purchased on credit)		40,000	40,000

Jan. 1	Rajiv To Bills Payable A/c (Being acceptance given)	Dr.		40,000	40,000
April, 4	Bills Payable A/c Noting Charges A/c To Rajiv (Being bill dishonoured and noting charges due)	Dr. Dr.		40,000 200	40,200
April, 4	Rajiv To Cash A/c (Being part payment made)	Dr.		10,200	10,200
April, 4	Interest A/c To Rajiv (Being interest due)	Dr.		675	675
April 4	Rajiv To Bills Payable A/c (Being the new acceptance given to Rajiv)	Dr.		30,675	30,675
July, 4	Bills Payable A/c To Rajiv (Being bill dishonoured due to insolvency)	Dr.		30,675	30,675
July, 5	Rajiv To Bank A/c To Deficiency A/c (Being amount paid @ 60 paise in a ₹)	Dr.		30,675	18,405 12,270

Points to Remember :

1. When calculating Date of Maturity the following points must be considered:

- (i) In case of “Bill at sight” or “Bill on demand” 3 days of grace are NOT allowed.
- (ii) When the term of bill is mentioned in no of days, then
 - Date of drawing the bill is not included.
 - Date of payment is included in determining date of maturity .
 - If date of maturity falls on a day which is public holiday, the maturity date of the bill shall be “PRECEDING DAY”.
 - If maturity date is on an emergent holiday declared under the Negotiable Instrument Act. 1881, the next working day immediately after the holiday will be considered as the date of maturity.
- (iii) When the period is stated in months the date of maturity shall be calculated in terms of calendar months ignoring the no. of days in a month.

2. Noting Charges :

- (i) Noting charges are not an expense for the drawer.
- (ii) It is always debited as ‘Noting charges’ in the books of drawee.
- (iii) Noting charges are recovered by drawer from drawee.
- (iv) Noting charges are paid only when noting of the bill is necessary at the time of DISHONOUR of bill.
- (v) Noting of the bill is NOT required when the bill is CANCELLED with the mutual consent of both the parties, specially at the time of RENEWAL of Bill.