

BILL OF EXCHANGE

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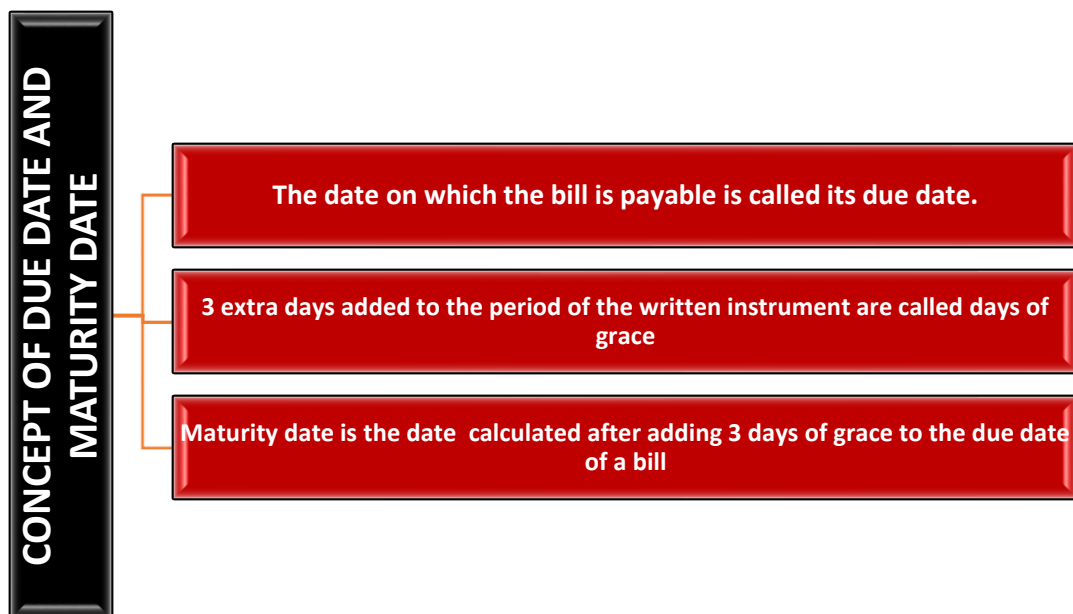
It is a **written agreement** in which **one party, the drawer, orders another party, the drawee, to pay a specific sum of money to the payee, at a future date or on demand.**

BILL OF EXCHANGE	
STAMP	
₹ 1,50,000	Mumbai, India January 15, 2019
Three months after date, pay Mr. R or his order, a sum of rupees one lakh fifty thousand, value received.	
To, Mrs. Q Pune, India	ACCEPTED Sd/- Mrs. Q January 18, 2019
	Sd/- Mr. P Mumbai, India

FEATURES OF BILLS OF EXCHANGE

- A bill of exchange is a **written order and an unconditional order** to make payment.
- The amount of bill of exchange and the **date of payment are certain**.
- The amount specified in the bill of exchange is **payable either on demand or on the expiry of a fixed period**.
- Bill of exchange is accepted by the **drawee by signing on it**.

CONCEPT OF DUE DATE AND MATURITY DATE



TYPES OF BILLS OF EXCHANGE

TRADE BILL

- A bill of exchange is **drawn and accepted to settle a trade transaction**; it is called Trade bill.
- This bill of exchange is drawn up by the **seller of the goods and is accepted by the buyer**.

ACCOMMODATION BILL

- Bill of exchange is **drawn and accepted for mutual help** it is called **Accommodation bill**.
- It **does not involve** the **sale or purchase** of any goods or services.

BILL AFTER DATE

This is the bill in which due date and **date of maturity is calculated from the date on which the bill is drawn**, and **3 days of grace** are **allowed** for arriving at the date of maturity.

BILL AFTER SIGHT

This is the bill in which the **due date and date of maturity is calculated from the date on which the bill is accepted by the drawee**. and **3 days of grace are allowed** for arriving at the date of maturity.

BILL AT SIGHT

- When **no time/date of payment is mentioned** on an instrument, it means that the instrument is **payable on demand/at sight**.
- It is to be noted that when a bill is to be payable on demand/at sight, then **days of grace are not applicable**.

IMPORTANT TERMS

DISCOUNTING OF A BILL

- It is a **process where a financial institution**, such as a **bank provides funds** to the holder of a bill of exchange **before its maturity date**.
- The holder of the bill **agrees to discount the bill**, which means that they **receive a reduced amount in exchange for early payment**.
- The **financial institution** then **collects the full amount of the bill from the drawee on its due date**, thereby making a profit from the discount.

BILL SENT FOR COLLECTION

When a bill is sent for collection, it means that **the holder of the bill entrusts it to a bank or financial institution to collect payment from the drawee on their behalf**.

ENDORSEMENT OF A BILL

When an bill of exchange is transferred to another person, it is known as endorsement of a bill. Here, the person receiving the instrument becomes **authorized to receive the payment**.

DISHONOUR OF A BILL

When the drawee of the bill is **unable or refuses to make payment on the due date**, the bill is said to be dishonored.

NOTING OF A BILL

Noting of a bill refers to the **process of recording and documenting the dishonor or non-payment** of a bill of exchange.

RETIREMENT OF A BILL

Retirement of a bill means when the **payment of a bill is made before the due date of the bill, by the drawee**.

10 Jan	Bank A/c Dr		XXXX	
	Discount A/c Dr		XXXX	
	To Bills Receivable A/c			XXXX

THE BILL IS ENDORSED

Date	Particulars	L.F	Dr	CR
10 Jan	Creditor's/ Endorsee's A/c Dr		XXXX	
	To Bills Receivable A/c			XXXX

JOURNAL ENTRIES IN THE BOOKS OF DRAWEE

THE ISSUE OF A BILL OF EXCHANGE

Date	Particulars	L.F	Dr	CR
1 Jan	Drawer's A/c Dr		XXXX	
	To Bills Payable A/c			XXXX

IN CASE OF HONOR OF BILL OF EXCHANGE

Date	Particulars	L.F	Dr	CR
5 Jan	Bills Payable A/c Dr		XXXX	

	To Cash/ Bank A/c			XXXX
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PROMISSORY NOTES

These are **legal instruments** that serve as a **written promise to pay a specified amount** of money to a **named individual or entity** at a designated **future date or upon demand**.

Amount	Place
	Date
Stamp	I, _____ do promise to pay the sum of ₹ _____ to Mr./Ms./Mrs. _____
	against the value received in 5 equal installment starting from _____.
To,	(Signed)
Name of the Payee	Name of the Maker
Address of the Payee	Address of the Maker

PARTIES



The maker is the individual or entity who issues the promissory note and promises to pay



The payee is the recipient who is entitled to receive the payment.

Q:1 Bill of exchange is a written agreement in which one party, the drawer, orders another party, the drawee, to pay a specific sum of money to the payee, at a future date or on demand. Which of these is a feature of a bills of exchange?

- I. A written document.
 - II. An unconditional order.
 - III. Specifies the date of payment.
 - IV. Accepted by the drawer.
- a) I, III, IV
 - b) II, III, IV
 - c) I, II, IV
 - d) I, II, III

Q:2 Company ABC, a manufacturer of electronic devices, sold a batch of products worth 10,000 to Company XYZ on credit. To secure the payment, they used a Bill of Exchange. In this transaction who is Drawer, Drawee and Payee?

- a) Drawer: Company ABC, Drawee: Company XYZ, Payee: Company XYZ
- b) Drawer: Company XYZ, Drawee: Company ABC, Payee: Company ABC
- c) Drawer: Company ABC, Drawee: Company XYZ, Payee: Company ABC
- d) Drawer: Company XYZ, Drawee: Company ABC, Payee: Company ABC

CASE STUDY ON MATURITY DATE CALCULATION

Q: 1 A bill of exchange dated 1st March 2022 payable 3 months after date. The bill was accepted on 15th April 2022. Considering the 3 days of grace, what will be the maturity date for this bill?

- a) 1st April
- b) 2nd May
- c) 4th June
- d) 5th July

Q: 2 A bill of exchange dated 1st March 2024 payable 3 months after sight. The bill was accepted on 1st April 2024. Considering the 3 days of grace, what will be the maturity date for this bill?

- a) 4th April
- b) 4th May
- c) 4th June
- d) 4th July

Q: 3 A bill of exchange dated 1st March 2024 is payable after 3 months. The bill was accepted on 15th April 2024. If the bill of exchange is after date, find out the maturity date If the Maturity date is a public holiday.

- a) 2th June
- b) 3th June

- c) 4th June
- d) 5th June

Q: 4 A bill of exchange drawn on 1st March 2024 payable after 60 days. The bill was accepted on 15th April 2024. If the bill of exchange is after sight find out the maturity date if the Maturity date is an emergency holiday.

- a) 12th June
- b) 13th June
- c) 16th June
- d) 18th June

Q:3 Which of the following statements defines endorsement of a bill of exchange?

- a) It is not a common practice in business transactions.
- b) It refers to the cancellation of the bill after it is presented for payment.
- c) It involves the transfer of rights to receive payment from one party to another.
- d) It is a form of payment made by the acceptor of the bill.

Q:4 Rahul, an electronics supplier, drew a bill of exchange worth Rs. 6,000 on Rohan, a local retailer, to settle a transaction. However, Rahul needed funds for an urgent business expansion, so he endorsed the bill to Kamal. Who will be the payee of the bill after the endorsement?

- a) Kamal
- b) Rahul
- c) Sahil
- d) Rohan

Q:5 When an acceptor refuses to pay the amount of bill to the holder of bill on its maturity is called?

- a) Dishonoured bill
- b) Retired bill
- c) Honored bill
- d) Endorsed bill.

Q:6 Which of the following is a risk associated with bill discounting?

- a) Market risk
- b) Operational risk
- c) Credit risk
- d) Legal risk

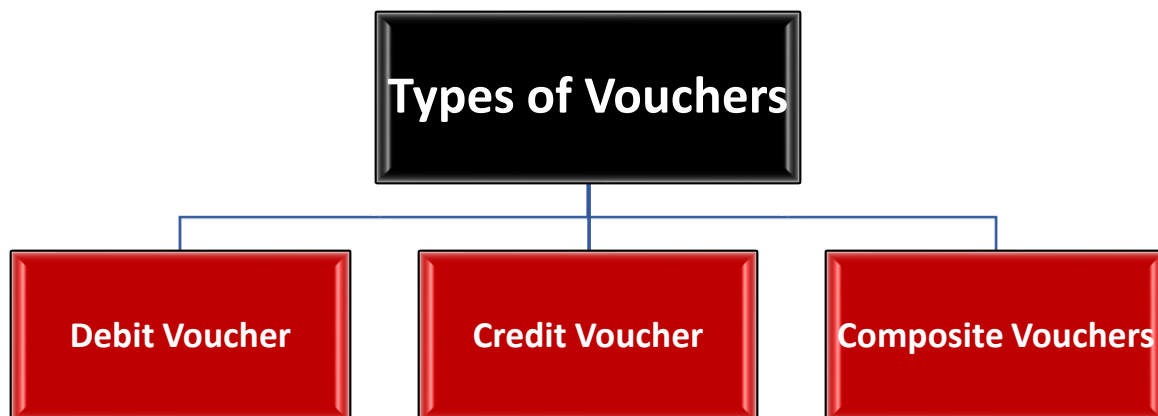
Q:7 Mr. Aman draws a bill on Mr. Raman for 100000 on 01-04-2024 for 3 months. On 01/05/2024 Mr. Sham got the bill discounted at the rate of 10% p.a. The amount of discount will be_____.

- a) 1500
- b) 1700
- c) 1667
- d) 1800

OPERATIONAL ASPECTS OF ACCOUNTING ENTRIES

VOUCHERS

A voucher is a document that acts as a **proof of statement for accounting transactions.**



DEBIT VOUCHER

- A debit voucher is a document used in **banking to record the debiting of funds from an account.**
- It is typically used when a **customer withdraws money or funds are transferred** from their account.

TYPES OF DEBIT VOUCHER

- The **customers issue cheques.**
- The **bank issues cheques/pay orders.**
- The savings bank **account holders submit withdrawal forms.**
- Other branches of the bank issue **draft payable at the branch.**
- The branch itself issues **drafts/pay orders which are cancelled** upon customer request, and the **refunded amount is returned to the customer.**

CREDIT VOUCHER

A credit voucher is document used to record the **crediting of funds into an account.**

TYPES OF CREDIT VOUCHER

- **Pay-in-slips** to deposit funds **into their accounts.**

- **Customers submit applications** to request various banking instruments such as **term deposits, demand drafts, RTGS/NEFT transfers, similar instruments.**
- Challans are **used for depositing funds** into Central/State Government accounts, such as for **direct/indirect taxes or under schemes like the public provident fund.**

COMPOSITE VOUCHERS

- It is type of transaction document that combines **both debit and credit entries within a single voucher.**
- It allows for the **recording of multiple financial transactions** involving **both the debit and credit** aspects in a consolidated manner.

Example

In case the saving account is debited in general ledger instead of cash credit account by mistake, the composite voucher will show **debit to cash credit account with a corresponding credit to saving account.**

SIGNIFICANT FEATURES OF ACCOUNTING SYSTEMS OF BANKS (SLIP SYSTEM)

- **Entries in the personal ledgers** are made **directly from the vouchers.**
- From such entries in the **personal ledgers each day summary sheets in total are prepared** which are **posted to the control accounts in the general ledger.**
- The general ledger's **trial balance is extracted and agreed every day.**
- **All entries** in the personal ledgers and summary sheets **are checked by persons other than those who have recorded entries.** It helps in detection of mistakes.