

Liabilities:

Loan	20,000
Sum owing to Samuel	10,000

Mar.	2	Bought goods on credit from Naresh	5,000
"	3	Cash sales	2,000
"	4	Sold goods to Raman	5,000
"	5	Received from Sudhir in settlement of his account	5,000
"	6	Payment made to Samuel by cheque, in full settlement	9,950
"	9	Old furniture sold for cash	5,00
"	10	Cash purchases	4,000
"	11	Naveen pays by cheque which was deposited into bank	12,500
"	11	Paid for repairs to machinery	500
"	13	Purchased goods from Shyam	5,000
"	13	Paid carriage on these goods	250
"	16	Received cheque from Raman	5,000
"	17	Paid to Shyam by cheque	5,000
"	18	Bank intimates that cheque of Raman has been returned unpaid	
"	19	Cash sales	3,000
"	21	Cash deposited into bank	2,500
"	25	Paid municipal taxes in cash	500
"	26	Old newspaper sold	50
"	28	Paid for advertisements	500
"	31	Paid rent by cheque	600

(Answer: ~~Cash~~ in hand Rs. 2,800; Cash at bank Rs. 33,450; Total of Trial Balance Rs. 1,32,600.)

Hint: Find out the opening capital before working on the problem.

Note : These questions will help you to understand the unit better, Try to write answer for them. But do not submit your answers to the University. These are for your practice only.

UNIT 5 BILLS OF EXCHANGE

Structure

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- 5.12 Answers to Check Your Progress
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5.0 OBJECTIVES

After studying this unit, you should be able to:

- identify various instruments of credit
- define bill of exchange
- define promissory note
- distinguish between bill of exchange and promissory note
- record transactions relating to bills in the journal of drawer, drawee and endorsee
- explain the nature of accommodation bills and their accounting treatment
- prepare bills receivable and bills payable journals

5.1 INTRODUCTION

In Unit 4 you have learnt about various subsidiary **books commonly** used in the business for recording certain transactions. The businessman can also maintain separate subsidiary books for the transactions relating to bills of exchange. But the number of such transactions is usually small and therefore one may prefer to record them in the Journal itself. In this unit we shall first discuss the nature of various instruments of credit including bills of exchange and promissory notes, identify the type of transactions which usually take place in connection with bills and study how they are to be recorded in the books of various parties. We shall also discuss the preparation of Bills Receivable and Bills Payable Books and study how various details relating to bills are recorded in these books **and** how postings are done.

5.2 TYPES OF INSTRUMENTS OF CREDIT

Selling goods on credit has become a very common phenomenon in business. The producer takes raw material **on credit** and supplies the finished goods to the wholesalers on credit. **The** wholesalers in turn provide the credit facilities to the retailers. The retailers also sell on

credit to some of the ultimate consumers. Credit may also be granted by a moneylender, a bank or a financial institution. Credit is generally provided by obtaining a written document called 'Instrument of Credit'. They serve as a proof for existence of credit. The most commonly used instruments of credit are :

- i) Bills of Exchange,
- ii) Promissory Notes, and
- iii) Hundies.

5.2.1 Bill of Exchange

When a seller grants credit to his customers, he would like to have some written commitment from the buyer to pay the amount on a specified date, otherwise the payment may not be made on time. Such a written undertaking generally takes the form of a bill of exchange or a promissory note. A bill of exchange is drawn by the seller (a creditor) on the buyer (a debtor) asking him to pay the specified amount after a specified period to him, or his order, or to a person named in the bill. According to the Negotiable Instruments Act 1881, a bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a person to pay a certain sum of money only to, or to the order of a certain person, or to the bearer of the instrument.

The above definition makes it clear that there are three parties to a bill of exchange. They are :

- i) Drawer: a person who draws the bill
- ii) Drawee: a person who accepts the bill
- iii) Payee: a person who is to receive the payment.

Suppose A sells goods to B and draws on him a bill for Rs. 1,000 for two months payable to C. In this example 'A' is the drawer, 'B' is the drawee and 'C' is the payee. In most of the cases, however, the drawer himself is the payee.

Look at Figure 5.1 for the specimen of a bill of exchange. In this case Mukesh draws a bill on Nagesh for 2 months for Rs. 1,000, payable to himself.

Figure 5.1: Bill of Exchange

Hyderabad August 1, 1987	
Rs. 2,000	
<div style="border: 1px solid black; width: 60px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> Revenue Stamp </div>	
Two months after date pay to me or my order, the sum of rupees two thousands only, for value received.	
To Nagesh T. Nagar Madras.	A. Mukesh Signature

When the bill of exchange is drawn it is sent to the drawee for his acceptance. The drawee has to affix his signatures across the bill as a mark of his acceptance and return it to the drawer.

Thus, a bill of exchange has the following features :

- i) It must be in writing.
- ii) It must contain an order.
- iii) The order must be unconditional.
- iv) It must be signed by the maker of the instrument.
- v) It is made by the creditor.

- vi) It must be for a specified amount and specified period.
- vii) It should be duly accepted by the debtor.
- Bills of Exchange

5.2.2 Promissory Note

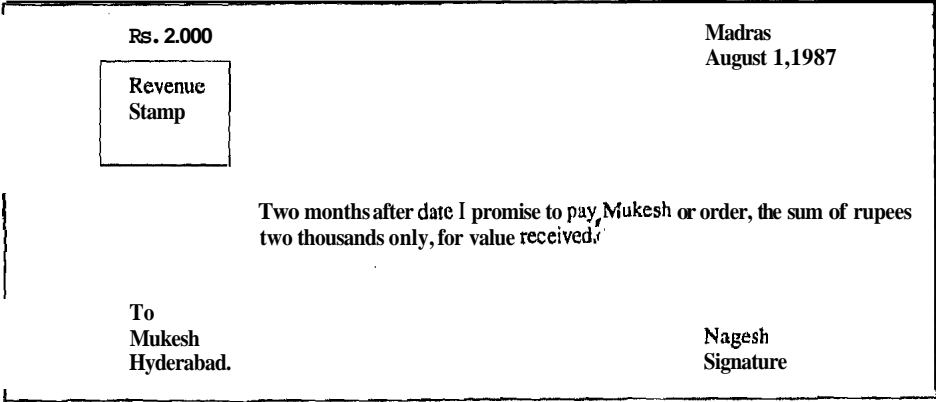
As **stated** earlier a written undertaking by the buyer to make payment on a specified data can **take** the form of a bill of exchange or as promissory note. You have **learnt** that a bill of exchange is drawn by the seller and accepted by the buyer. **A** promissory note, on the other hand, is **written** by the buyer promising the seller to pay a specified amount after a specified period to him, or his order. It can be defined as "*an instrument in writing (not being a hank note or a currency note) containing an unconditional undertaking, signed by the maker to pay a certain sum of money to, or to the order of a certain person, or to the bearer of the instrument*".

In **case** of a promissory note there are only two parties. They are :

- i) Maker: A person who makes the note and **promises** to pay the amount.
- ii) Payee: A person who is to receive the amount.

Suppose **A** sells the **goods** to B and B **writes** a promissory note in favour of **A**. In this example B is the maker and **A** is the payee. You should note that no acceptance is required in case of a promissory note because it is made by the person who has to make the payment. Look at Figure 5.2 for the specimen of a promissory note. In this case Nagesh promises to pay Rs. 1,000 to Mukesh.

Figure 5.2: Promissory Note



Thus, a promissory note has the following features :

- i) It must be in writing.
- ii) It must be an undertaking to pay,
- iii) The undertaking must be unconditional.
- iv) It must be signed by the maker of the instrument.
- v) It **is** made by the debtor.
- vi) It must be for a specified amount and period.

5.2.3 Distinction between Bill of Exchange and Promissory Note

Keeping in view **the** features of a bill of exchange and a promissory note, following distinctions can be made between the two :

Bill of Exchange	Promissory Note
1) It is an unconditional order to pay	1) It is an unconditional promise to pay
2) It is made by the creditor	2) It is made by the debtor
3) Acceptance by the debtor is necessary	3) No acceptance is required
4) There are three parties to a hill of exchange	4) There are only two parties to a promissory note
5) When the bill is dishonoured it is better to get it noted by the notary public.	5) Noting is not necessary

A bill of exchange is a bill receivable (B/R) for the drawer or the payee and a bill payable (B/P) for the drawee. Similarly, a promissory note is a bill receivable for the payee and a bill payable for the maker. A bill receivable is an asset for the business whereas a bill payable is a liability. For accounting purposes, no distinction is made between bill of exchange and the promissory note.

5.3 TERM AND DUE DATE OF A BILL

A bill is generally written for a fixed period of time, say, two months (60 days), three months (90 days), etc. The period of a bill is called 'Term' or 'Tenor' of the bill. The date on which the bill falls due is called the 'due date' or the 'date of maturity'. The due date is calculated by adding three days of grace to the actual period of the bill. For example, a bill drawn on April 1 for a period of three months will become due for payment on July 4 (add three months and three days of grace to April 1, you arrive at July 4). If the due date is a public holiday, the bill becomes due on the previous working day. In the above example, if July 4 were to be a public holiday, July 3 would be treated as the due date.

Check Your Progress A

- I State whether each of the following statements is True or False.
- i) Bill of Exchange is drawn only when money is lent by moneylender, a banker, or a financial institution.
 - ii) Negotiable Instruments can be easily transferred to the third party.
 - iii) In case of a public holiday the due date of the bill falls on the next working day.
 - iv) Bill of Exchange is an unconditional promise to pay.
 - v) For a bill drawn on April 1 for two months, the due date falls on June 4.
 - vi) Acceptance is necessary in case of a promissory note.
- 2 On January 1, Laxman draws on Ram a bill for three months for Rs. 500 payable to Bharat. It is duly accepted by Ram and sent to Laxman. State the names of the drawer, the drawee and the payee.
-
-
-
- 3 State whether each of the following is a B/R or a B/P for Bhushan.
- i) On February 1, he drew a bill on Vinod for Rs. 800 for one month which is duly accepted by him.
 - ii) On March 1, he received an acceptance from Sam for Rs. 1,600.
 - iii) On April 1, Bhushan wrote a promissory note for Rs. 600 in favour of Alok payable two months after date.
 - iv) On April 10, he gave his acceptance to a bill drawn on him by Shyam for Rs. 900.
 - v) On April 25, he received a promissory note from Ram for Rs. 600.

5.4 TREATMENT OF BILL BY THE HOLDER AND ITS ACCOUNTING

As pointed out earlier no distinction is made between a bill of exchange and a promissory note for accounting purposes. When a bill or a promissory note is received by the person who is entitled to receive its payment, he becomes a holder of the bill. It is a bill receivable for him. He will pass the following journal entry in his books at the time of receiving the bill or the promissory note drawn in his favour.

Bills Receivable A/c Dr.
 To Drawee
(Being acceptance received from the drawee)

Bills of Exchange

The holder of the bill can deal with it in the following three ways :

- i) He may retain it till the date of maturity.
- ii) He may discount it with his banker and receive the amount less discount, immediately.
- iii) He may endorse it in favour of his own creditor.

Let us now study what journal entries are to be passed in each case.

5.4.1 Retaining the Bill

When the holder of the bill decides to retain the bill till the date of maturity no further entry is required till that date. If on the date of maturity the bill is honoured he will pass the following entry.

Bank A/c Dr.
 To Bills Receivable A/c
(Being payment received)

5.4.2 Discounting the Bill

If the holder of the bill needs funds he can approach the bank for encashment of the bill before due date. The bank will make the payment of the bill after deducting some interest. The process of encashing the bill with the bank before the date of maturity is called 'discounting a bill' and the interest charged by bank is called 'discount'.

When a bill is discounted the holder of the bill (drawer) will pass the following journal entry in his books.

Bank A/c Dr.
Discount A/c Dr.
 To Bills Receivable A/c
(Being bill discounted)

On the date of maturity, payment of a discounted bill will be received by the bank and not by the drawer.

Hence, at the time of payment, the drawer will not pass any entry in his books.

5.4.3 Endorsing the Bill

When the holder of the bill endorses the bill to a third party, the bill is said to be endorsed. He is called the endorser and the party to whom it is endorsed is called endorsee. At the time of endorsement, the following journal entries will be passed in the books of the endorser and the endorsee.

Books of Drawer (Endorser)	Books of Endorsee
Endorsee (creditor) Dr. To Bills Receivable A/c (Being bill endorsed)	Bills Receivable A/c Dr. To Endorser (Drawer) (Being bill received)

On the date of maturity, the payment will be received by the endorsee. Hence, at the time of payment, the endorser will not pass any entry in his books. However endorsee will pass the following entry in his books.

Bank A/c Dr.
 To Bills Receivable A/c
(Being payment received)

For the person who accepts a bill of exchange **or** makes a promissory note, it is a bill payable. He will pass the following journal entry in his **books** when he accepts a **bill** or makes a promissory note.

When a bill is discounted or endorsed by the holder of the bill, the drawee is not required to pass any entry in his books. He comes into picture only when the bill becomes due for payment. When he **makes** the payment on due date, he will pass the following journal entry in his books **irrespective** of the fact whether the bill is retained, discounted or endorsed:

Look at Illustration 1 and study how journal entries are passed in the books of various parties concerned with the bill.

On January 1, 1987 A sold to B goods worth Rs. 1,500. On the same date he drew on B three bills for Rs. 600, Rs. 500 and Rs. 400 for one month, two months and three months respectively. B accepted all the three bills and sent them back to A. A retained the first bill, discounted the second bill with the bank for Rs. 495 on January 5, and endorsed the third bill to C on January 6. On the due date B met his acceptances. Record the above transactions in the books of A, B and C.

BOOKS OF A (DRAWER)
.Journal

Date	Particulars	L.F.	Dr. Amount	Cr. 'Amount
1987 Jan, 1	B To Sales A/c (Being goods sold to B)	Dr.	Rs. 1,500	Rs. 1,500
" 1	Bills Receivable A/c To B (Being first bill received for one month)	Dr.	600	600
" 1	Bills Receivable A/c To B (Being second bill received for two months)	Dr.	500	500
" 1	Bills Receivable A/c To B (Being third bill received for three months)	Dr.	400	400
" 5	Bank A/c Discount A/c To Bills Receivable A/c (Being second bill discounted)	Dr. Dr.	495 5	500

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
Jan 6	C To Bills Receivable A/c (Being third bill endorsed to C)		Rs. 400	Rs. 400
Feb 4	Bank A/c To Bills Receivable A/c (Being first bill honoured on due)		600	600

BOOKS OF B (DRAWEE)
Journal

Date	Particulars	L. F.	Dr. Amount	Cr. Amount
1987			Rs.	Rs.
Jan. 1	Purchases A/c To A (Being goods purchased on credit)	Dr.	1,500	1,500
" 1	A To Bills Payable A/c (Being first bill accepted for one month)	Dr.	600	600
" 1	A To Bills Payable A/c (Being second bill accepted for two months)	Dr.	500	500
" 1	A To Bills Payable A/c (Being third bill accepted for three months)	Dr.	400	400
Feb. 4	Bills Payable A/c To Bank A/c (Being first bill honoured)	Dr.	600	600
Mar. 4	Bills Payable A/c To Bank A/c (Being second bill honoured)	Dr.	500	500
Apr. 4	Bills Payable A/c To Bank A/c (Being third bill honoured)	Dr.	400	400

BOOKS OF C (ENDORSEE)
Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1987			Rs.	Rs.
Jan. 6	Bills Receivable A/c To A (Being a bill received from A)	Dr.	400	400
Apr. 4	Bank A/c To Bills Receivable A/c (Being bill honoured)	Dr.	400	400

5.5.1 Dishonouring the Bill

When due to some reason the drawee (the person who has to **make** the payment) is not in a position to make the payment of the bill on the due date, the bill is said to be dishonoured. In such a situation the holder of the bill gets an endorsement from the Notary Public. The purpose of such notation is to establish the facts of presentation and of dishonour. The endorsement is done either on the bill or on a separate paper **attached to the** bill called 'allonge'. The holder of the bill has to pay a small charge for **service** of the Notary Public. It is called 'Noting charges'. These noting charges are to be **borne** ultimately by the **drawee**. The journal entries for the dishonour of the bill and noting charges in the books of the drawer, the drawee and the endorsee **are** as follows :

Books of Drawer	Books of Drawee	Books of Endorsee
i) If the bill is retained Drawee Dr. To Bills Receivable A/c To Cash A/c (Being bill dishonoured and noting charges paid)	The drawee passes the following entry in his books irrespective of the fact whether the bill is retained, discounted or endorsed.	—
ii) If the bill is discounted Drawee Dr. To Bank A/c (Being discounted bill dishonoured) (Note: The amount will be inclusive of noting charges)	Bills Payable A/c Dr. Noting charges A/c Dr. To Drawer (Being bill accepted dishonoured, noting charges involved)	—
iii) If the bill is endorsed Drawee Dr. To Endorsee (Being endorsed bill dishonoured) (Note: The amount will be inclusive of noting charges .)		Endorser Dr. To Bills Receivable A/c To Cash A/c (Being bill dishonoured and noting charges paid)

If the drawee is declared insolvent on or before the due date, the bill is deemed to have been dishonoured and all entries for dishonour will have to be passed in the books of the concerned parties as given above.

Look at Illustration 2 **and** see how dishonour entries are recorded in the books of various parties.

Illustration 2

On January 1, 1988 Q owes to P Rs. 2,400 and accepts three bills as per the following details.

- i) for Rs. 1,000 for 2 months, it is retained by P
- ii) for Rs. 800 for 3 months, it is endorsed to R
- iii) for Rs. 600 for 4 months, it is discounted with **the** bank for **Rs.** 580.

What will **be** the entries in the books of P, Q and R if the bills are dishonoured on due dates and noting charges Rs. 8 are paid in all the three cases.

BOOKS OF P (DRAWER)
Journal

Date	Particulars		L.F.	Dr. Amount	Cr. Amount
1986				Rs.	Rs.
Jan. 1	Bills Receivable A/c Dr. To Q (Being first bill Received for two months)			1,000	1,000

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
Apr. 4	Bills Payable A/c Dr. Noting charges A/c Dr. To P (Being second bill dishonoured, noting charges involved Rs. 8)		Rs. 800 8	Rs. 808
May 4	Bills Payable A/c Dr. Noting charges A/c Dr. To P (Being third bill dishonoured, noting charges involved Rs. 8)		600 8	608

BOOKS OF R (ENDORSEE)
Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1986 Jan. 1	Bills Receivable A/c Dr. To P (Being bill received from P)		Rs 800	Rs. 800
Apr. 4	P Dr. To Bills Receivable A/c To Cash A/c (Being bill dishonoured and noting charges paid)		808	800 8

Check Your Progress B

1 What do you mean by discounting of a bill?

.....

.....

.....

.....

.....

2 Fill in the blanks

- i) No distinction is made between a bill of exchange and a promissory note for. purposes.
- ii) The holder of a bill can deal with the bill in any of theways.
- iii) When bill is drawn..... Account is debited in the books of the drawer.
- iv) Bill payable is afor the drawee.
- v) When bill is endorsed or discounted, no entry is passed in the books of .. the
- vi) When an endorsed or discounted bill is honoured, no entry is passed in the books of the

3 On January 1,1988 a bill is drawn on Jack for Rs 2,000 payable after one month. State. the journal entries to be passed in the books of the drawer if :

- i) the bill is retained
- ii) the bill is discounted with the bank for Rs.1,975
- iii) the bill is endorsed to Jill . .

- 4 State whether each of the following statements is True or False.
- i) When the bill is honoured on the due date the drawee credits Bills Payable A/c in his books.
 - ii) When the bill is discounted or endorsed no entry for payment of the bill is passed in the books of the drawer.
 - iii) In case of the dishonour of a bill noting charges are initially paid by the drawee.
 - iv) The bill is treated as dishonoured in case of insolvency of the drawee.
 - v) When the bill is dishonoured, the drawee will be debited in books of drawer whether the bill is retained, endorsed or discounted.
- 5 On March 1, Alok drew a bill on Arun for Rs. 2,800 for three months. The bill was discounted by Alok for Rs. 2,750. The bill was dishonoured on the due date, noting charges of Rs.10 were paid by the bank. What will be the entries in the books of Drawer and Drawee for dishonour of the bill ?

Bills of Exchange

5.5.2 Renewal of the Bill .

There are certain instances when the drawee is in a position to foresee that he would not be able to honour the bill on the due date. In such a situation the drawee can request the drawer for extension of time. If the drawer agrees to such a request the old bill is mated as dishonoured and a new bill is drawn in Lieu thereof. This process is called 'Renewal of Bill'. In case of renewal, the drawer will charge some interest for the period of the new bill. This interest may be paid in cash or included in the amount of the new bill. There is no need for getting the bill noted since the drawee himself makes a request for cancellation of the bill. The journal entries passed at the time of renewal of the bill are as follows :

Books of Drawer	Books of Drawee
i) For dishonour of the bill Drawee Dr. To B/R A/C Bank A/c Endorsee A/c	i) Bills Ryable A/c Dr. To Drawer
ii) For Interest due Drawee Dr. To Interest A/c	ii) Interest A/c Dr. To Drawer
iii) For drawing new bill Bills Receivable A/c Dr. To Drawee	iii) For accepting new bill Drawer Dr. To Bills Payable A/c

Note: Dishonour entry is passed keeping in view whether the bill is retained, discounted or endorsed.

Look at Illustrations 3,4 and 5 and see how the journal entries are recorded in the books of various parties when the bill is renewed.

Illustration 3

Ram drew a bill on Shyam for Rs. 1,000 on April 1,1988 for two months. On May 15 Shyam requested Ram to renew the bill for two months. Ram agreed to renew the bill and Charged interest @ 6% p.a. A new bill was drawn for Rs. 1,010 including interest. The bill was honoured on the due date. Record all this in the books of Ram and Shyam,

Ram's Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1988 Apr. 1	Bills Receivable A/c Dr. To Shyam (Being bill received)		Rs. 1,000	Rs. 1,000
May 15	Shyam Dr. To Bills Receivable A/c (Being bill dishonoured on account of renewal)		1,000	1,000
" 15	Shyam Dr. To Interest A/c (Being interest due for two months)		10	10
" 15	Bills Receivable A/c Dr. To Shyam (Being a new bill received inclusive of interest)		1,010	1,010
July 18	Bank A/c Dr. To Bills Receivable A/c (Being bill honoured on due date)		1,010	1,010

Shyam's Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1988 Apr. 1	Ram Dr. To Bills payable A/c (Being bill accepted)		Rs. 1,000	Rs. 1,000
May 15	Bills Payable A/c Dr. To Ram (Being bill dishonoured on account of renewal)		1,000	1,000
" 15	Interest A/c Dr. To Ram (Being interest due to Ram for two months)		10	10
" 15	Ram Dr. To Bills Payable A/c (Being new bill accepted together with interest)		1,010	1,010
July 18	Bills Payable A/c Dr. To Bank A/c (Being bill honoured on due date)		1,010	1,010

illustration 4

Sohan drew on **Mohan** a bill for **Rs. 1,500** for 3 months **on June 1, 1987**. The bill was endorsed to **Rohan**. On July 15, Mohan approaches **Sohan** to **renew** the bill for a **period of three months** and charges Rs. 25 as interest. **Sohan** ~~agress~~ agrees to renew the bill. Mohan pays the **amount** of interest in cash and accepts a **new** bill for Rs. 1,500. The bill is honoured on the due date. Record these transactions in the books of various parties.

Solution:

Sohan's Journal				
Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1987 June 1	Bills Receivable A/c Dr. To Mohan (Being bill received for three months)		Rs. 1,500	Rs. 1,500
" 1	Rohan Dr. To Bills Receivable A/c (Being bill endorsed to Rohan)		1,500	1,500
July 15	Mohan Dr. To Rohan (Being bill dishonoured on account of renewal)		1,500	1,500
" 15	Mohan Dr. To Interest A/c (Being interest due from Mohan)		25	25
" 15	Cash A/c Dr. To Mohan (Being cash received from Mohan for interest)		25	25
" 15	Bills Receivable A/c Dr. To Mohan (Being bill renewed for three months)		1,500	1,500
Oct. 18	Bank A/c Dr. To Bills Receivable A/c (Being bill honoured on due date)		1,500	1,500

Mohan's Journal				
Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1987 June 1	Sohan Dr. To Bills Payable A/c (Being bill accepted for three months)		Rs. 1,500	Rs. 1,500
July 15	Bills Payable A/c Dr. To Sohan (Being bill dishonoured on account of renewal)		1,500	1,500
" 15	Interest A/c Dr. To Sohan (Being interest due to Sohan)		25	25

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
July 15	Sohan Dr. To Cash A/c (Being cash paid for interest)		Rs. 25	Rs. 25
" 15	Sohan Dr. To Bills Payable A/c (Being new bill accepted for three months)		1,500	1,500
Oct. 18	Bills Payable A/c Dr. To Bank A/c (Being bills payable honoured)		1,500	1,500

Rohan's Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1987			Rs.	Rs.
June 1	Bills Receivable A/c Dr. To Sohan (Being bill received from Sohan)		1,500	1,500
July 1	Sohan Dr. To Bills Receivable A/c (Being bill dishonoured)		1,500	1,500

Illustration 5

On January 1, 1988 B owes to A Rs. 1,000. A draws on him a bill for Rs. 1,000 for three months. The bill is discounted for Rs. 980. On the date of maturity B requests A for renewal of the bill. A agrees to his request and the following arrangement is made.

B pays Rs. 400 in cash and requests for the renewal of the balance for two months, charging interest @ 6% p.a. to be included in the new bill.

B becomes insolvent on June 2, 1988 and only one third of the amount could be recovered from his estate.

Record the above transactions in the books of A and B.

Solution :

A's Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1988			Rs.	Rs.
Jan. 1	Bills Receivable A/c Dr. To B (Being bill received)		1,000	1,000
" 1	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being bill discounted)		980 20	1,000
Apr. 4	B Dr. To Bank A/c (Being bill cancelled)		1,000	1,000
Apr. 4	B Dr. To Interest A/c (Being interest due from B)		6	6

"	4	Cash A/c To B (Being part payment received in respect of the cancelled bill)	Dr.		as. 400	Rs. 400
"	4	Bills Receivable A/c To B (Being renewal of the bill for three months)	Dr.		606	606
June	2	B To Bills Receivable A/c (Being B became insolvent and bill treated as dishonoured)	Dr.		606	606
"	2	Cash A/c Bad Debts A/c To B (Being recovery of one third of the amount due)	Dr. Dr.		202 404	606

Bills of Exchange

B's Journal				
Date	Particulars	L.F.	Dr. Amount	Cr. Amount
- 1988 J . I	A To Bills Payable A/c (Being bill accepted)	Dr.	Rs. 1,000	Rs. 1,000
Apr. 4	Bills Payable A/c To A (Being bill cancelled)	Dr.	1,000	1,000
" 4	A To Cash A/c (Being part payment made in respect of cancelled bill)	Dr.	400	400
" 4	Interest A/c To A (Being interest due @ 6% p.a. on Rs. 600)	Dr.	6	6
" 4	A To Bills Payable A/c (Being acceptance for the renewed bill for three months)	Dr.	606	606
June 2	Bills Payable A/c To A (Being bill treated as dishonoured at the time of Insolvency)	Dr.	606	606
" 2	A To Cash A/c To Deficiency A/c (Being 1/3rd payment made for the amount due)	Dr.	606	202 404

5.5.3 Retiring The Bill

You have already learnt that the drawee can approach the drawer before the due date for the renewal of the bill. Sometimes he may offer the payment before the due date, In that case the bill is said to have been retired. The drawee is allowed some discount on account of early payment. Such a discount is termed as 'rebate'. Rebate is nothing but interest for unexpired period of the bill. The following entries are passed in the books of concerned parties incase of retiring the bill.

Books of Drawer	Books of Drawee	Books of Endorsee
i) When the bill is retained: Bank A/c Rebate A/c To Bills Receivable A/c	The following entry is made irrespective of the fact whether the bill is retained, discounted or endorsed Bills Payable A/c To Bank A/c To Rebate A/c	
ii) When the bill is discounted No entry		Bank A/c Rebate A/c To Bills Receivable A/c
iii) When the bill is endorsed: No entry		

Look at Illustration 6 and see how entries are passed in case the bill is retired.

Illustration 6
On April 1, 1987 Y owes to X Rs. 1,200, On the same date X drew two bills for Rs. 800 and Rs. 400 for two months and three months respectively. The first bill was endorsed to Z on April 5 and the second bill was retained. Both the bills were retired. On May 1, 1987, Y got a rebate of 6% p.a. on both the bills. Record the above transactions in the books of X, Y and Z.

Solution:

X's Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1987			Rs.	Rs.
Apr. 1	Bills Receivable A/c To Y (Being first bill received for two months)	Dr.	800	800
" 1	Bills Receivable A/c To Y (Being second bill received for three months)	Dr.	400	400
" 5	Z To Bills Receivable A/c (Being first bill endorsed to Z)	Dr.	800	800
May 1	Bank A/c Rebate A/c To Bills Receivable A/c (Being second bill retired before due date)	Dr. Dr.	396 4	400

Y's Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1987			Rs.	Rs.
Apr. 1	X To Bills Payable A/c (Being first bill accepted for two months)	Dr.	800	800
" 1	X To Bills Payable A/c (Being second bill accepted for three months)	Dr.	400	400
May 1	Bills Payable A/c To Bank A/c To Rebate A/c (Being first bill retired one month before due date)	Dr.	800	796 4
	Bills Payable A/c To Bank A/c To Rebate A/c (Being second bill retired two months before due date)	Dr.	400	396 4

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1987 Apr. 1	Bills Receivable A/c Dr. To X (Being bill received from X)		Rs. 800	Rs. 800
May 1	Bank A/c Dr. Rebate A/c Dr. To Bills Receivable A/c (Being payment receivect before due date)		796 4	800

Note: Rebate is calculated as follows:

First bill was paid one month before due date -

$\frac{6}{100} \times \frac{1}{12} \times 800 = \text{Rs. } 4$

Second hill was paid two months before due date -

$\frac{6}{100} \times \frac{2}{12} \times 400 = \text{Rs. } 4$

5.6 ACCOMMODATION BILLS

Normally a bill is drawn by tile seller on the buyer or by the lender on the borrower. In other words, a bill is drawn for some debt. Sometimes, a bill is drawn even when no debt is involved. This is done primarily to help or accommodate a fellow businessman and is called an 'accommodation bill'. When such a bill is drawn and accepted, the drawer discounts it with the bank and the money so raised is either fully utilised by him or shared with the drawee. Before or on the due date, the drawer remits the ainount utilised by him to the drawee and the drawee then meets the acceptance on the due date by making payment to the bank with which the bill had been discounted. The parties can also draw separate bills on each other. In such a situation, each party discounts his own bill with the bank and utilises the amount. When the bills become due for payment they meet their acceptances and settle their accounts. From the above discussion it is clear that there can be three types of arrangements in case of accommodation bill. They are as follows:

- i) A bill is drawn for accominodation of the drawer only.
- ii) A bill is drawn and the proceeds are shared by drawer and drawee.
- iii) Qne bill each is drawn by both the parties on each other i.e. two bills are drawn.

The accounting treatment of accommodation bill is similar to the treatment of normal bills. However, in case of accommodation bills you should remember that if the amount of the bills is shared by both the parties, the amount of discount charged by the bank is to be borne by both the parties. It is shared in the same proportion as the amount utilised by each party. A suitable entry for proportionate amount of discount shall also be pssed in the journals of both the parties. Look at Illustrations 7 and 8 and see how entries are passed when the bill is drawn and accepted for mutual accommodation.

Illustration 7
On January 1, 1988 Woolmer draws a bill on Steele for Rs. 600 for three months. Steele accepts the bill and returns it to Woolmer who discounts it for Rs. 585 and remits one third of the proceeds to Steele. On March 30 Woolmer sends the requisite amount to Steele who meets the bill, on the due date. Pass the necessary journal entries in the books of Woolmer and Steele.

Woolmer's Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1988			Rs.	Rs.
Jan. 1	Bills Receivable A/c Dr. To Steele (Being bills received)		600	600
Jan 1	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being bill discounted with the bank)		585 15	600
" 1	Steele Dr. To Bank A/c To Discount A/c (Being one third amount remitted to Steele)		200	195 5
Mar. 30	Steele Dr. To Bank A/c (Being amount utilised, remitted to Steele)		400	400

Steele's Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1988			Rs.	Rs.
Jan. 1	Woolmer Dr. To Bills Payable A/c (Being bill accepted)		600	600
" 1	Bank A/c Dr. Discount A/c Dr. To Woolmer (Being one third of the proceeds received)		195 5	200
Mar. 30	Bank A/c Dr. To Woolmer (Being money received from Woolmer)		400	400
Apr. 4	Bills Payable A/c Dr. To Bank A/c (Being bill met on maturity)		600	600

Illustration 8.

A drew on B a bill for Rs. 1,000 on January 1, 1988 for four months for mutual accommodation. After receiving B's acceptance the same day. A discounted it with the bank @ 5% p.a. and remitted half the proceeds to B. On February 1, 1988, B drew a bill on A for Rs. 1,500 for three months and after obtaining A's acceptance, he discounted it @ 8% p.a. and remitted one-third of the proceeds to A. On April 30, 1988 B became insolvent and only 50% was received from his estate. Write journal entries and prepare A's A/c in B's books and B's A/c in A's Books.

Books of A
Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1988			Rs.	Rs.
Jan. 1	Bills Receivable A/c Dr. To B (Being bill received from B)		1,000	1,000
" 4	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being bill discounted with the bank)		980 20	1,000
	B Dr. To Bank A/c To Discount A/c (Being 50% of the proceeds remitted to B)		500	490 10
Feb. 1	B Dr. To Bills Payable A/c (Being bill accepted)		1,500	1,500
" 4	Bank A/c Dr. Discount A/c Dr. To B (Being one-third of the proceeds received from B)		490 10	500
Apr. 30	B Dr. To Bank A/c (Being bill receivable dishonoured, as B became insolvent)		1,000	1,000
May 4	Bills Payable A/c Dr. To Bank A/c (Being bill met on maturity)		1,500	1,500
" 4	Bank A/c Dr. Bad Debts A/c Dr. To B (Being 50% of amount due received from B's estate)		750 750	1,500

B's Account

Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
1988		Rs.	1988		Rs.
Jan. 4	To Bank A/c	490	Jan. 1	By B/R A/c	1,000
" 4	To Discount A/c	10	Feb. 4	By Bank A/c	490
Feb. 1	To B/P A/c	1,500	" 4		10
Apr. 30	To Bank A/c	1,000	May 4		750
			" 4	By Bad Debts A/c	750
		3,000			3,000

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1988			Rs.	Rs.
Jan. 1	A Dr. To Bills Payable A/c (Being bill accepted)		1,000	1,000
" 4	Bank A/c Dr. Discount A/c Dr. To A (Being half of the proceeds received from A)		490 10	500
Feb. 1	Bills Receivable A/c Dr. To A (Being bill received from A)		1,500	1,500
" 4	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Being bill discounted @ 5% p.a. with the bank)		1,470 30	1,500
" 4	A Dr. To Bank A/c To Discount A/c (Being one-third of proceeds remitted to A)		500	490 10
Apr. 30	Bills Payable A/c Dr. To A (Being bill dishonoured due to insolvency)		1,000	1,000
May 4	A Dr. To Bank A/c To Deficiency A/c (Being payment of 50% of the amount due to A)		1,500	750 750

A's Account

Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
1988		Rs.	1988		Rs.
Jan. 1	To B/P A/c	1,000	Jan. 4	By Bank A/c	490
Feb. 4	To Bank A/c	490	" 4	By Discount A/c	10
" 4	To Discount A/c	10	Feb. 1	By B/R A/c	1,500
May 4	To Bank A/c	750	Apr. 30	By B/P A/c	1,000
" 4	To Deficiency A/c	750			
		3,000			3,000

Note: Amount due from B is calculated by preparing B's Account in A's books

5.7 BILLS SENT FOR COLLECTION

When bill becomes due for payment, the holder of the bill usually presents it to the drawee through the bank. In other words the bills are sent for collection to the bank as and when they fall due. The bank will credit the account of the drawer when it receives the payment of the bill. Generally, no entries are passed when bills are sent for collection. An entry is made in the Cash Book when an intimation about the payment is received from the bank. But, some accountants prefer to record the entries even when the bills are sent for collection, In that case the following entry will have to be made in the journal of the holder for the bill sent for collection.

- 1 Bills Sent for Collection A/c Dr.
To Bills Receivable A/c
(Being bill sent for collection)
- 2 On receipt of intimation from the bank that the payment has been received against the bill, the journal will be:

Bank A/c Dr.
To Bills Sent for Collection A/c
(Being bill sent for collection honoured)
- 3 If the bill is dishonoured, the journal entry will be:

i) Bills Receivable A/c Dr.
To Bills Sent for Collection A/c
(Being bill sent for collection dishonoured)

ii) Drawee Dr.
To Bills Receivable A/c
(Being bill dishonoured)

Note that no entry is passed in the books of the drawee for bills sent to bank for collection, He will make the entries in his books in the usual manner when he makes the payment.

5.8 BILE BOOKS

You have learnt how transactions relating to bills can be recorded In the Journal. But, if the dealings in bills are numerous, it is better to maintain separate books both for bills receivable and bills payable. A book in which we record all bills receivable by the firm is called 'Bills Receivable Journal' and the books in which we record all bills accepted and payable by the firm is called 'Bills Payable Journal'. Look at Figures 5.3 and 5.4 for rulings of these two books.

Figure 5.3 : Bills Receivable Journal

Sl. No.	Date of receipt	From whom received	Acceptor	Date of bill	Term	Due date	Where Payable	Amount	L.F.	How disposed of	Remarks
								Rs.			

Figure 5.4 : Bills Payable Journal

Sl. No.	Date of acceptance	Drawn by	Payee	Date of bill	Term	Due date	Where payable	Amount	L.F.	Remarks
								Rs.		

5.8.1 Recording in Bills Receivable Journal and its Posting

As and when promissory notes or bills of exchange are received, the particulars are noted in the Bills Receivable Journal as per the columns given in Figure 5.3. Note that entries in Bills Receivable Journal are made only at the time of receiving the bills from the drawee. The

entries for their realisation and discounting are made in the Cash Book. Similarly the **entries** for endorsement and dishonour of bills are made in Journal Proper. However, if a discounted bill is dishonoured, the entry for dishonour will be made in the Cash Book, not in the Journal Proper.

All entries made in Bills Receivable Journal are posted to the credit side of the individual accounts of the **parties** from whom the bills were received. Periodic **total** of the Bills Receivable Journal is posted to the debit of Bills Receivable Account by writing 'To Sundries — as per B/R Journal'.

5.8.2 Recording in Bills Payable Journal and its Posting

As and when the **firm** accepts the bills, they are entered in the Bills Payable Journal as per columns given in Figure 5.4. Note that entries for the payment of these bills are made in the Cash Book and those for dishonour in the Journal Proper.

All entries made in the Bills Payable Journal are posted to the debit side of the individual accounts of the parties at whose request the acceptances have been given. Periodical total of the Bills Payable Journal is posted to the credit side of the Bill Payable Account by writing 'By Sundries—as per B/P Journal'.

Look at Illustration 9 and study how transactions are recorded in Bills Receivable Journal and Bills Payable Journal, and how they have been posted into ledger.

Illustration 9

The following are the bill transactions of Saptagiri Agencies, Hyderabad. All bills accepted by Saptagiri Agencies are payable at the Andhra Bank, Hyderabad. Prepare Bills **Receivable** and Bills Payable Journals and post them into ledger.

1987

- Aug. 3 **A** bill is drawn on Ram **Narayan** of Hyderabad, payable after **three** months for Rs. 5,000. It was duly accepted by him on the same day, payable at State Bank of India, Hyderabad.
- ” **5** Accepted a bill dated August 1, 1987 drawn **by B Agarwal** of **Lucknow**, payable after 60 days for Rs. 3,000.
- ” **8** Drew. a bill on **Manohar** Singh of Chandigarh for Rs. 4,000 payable after two months at **Punjab** National Bank, Chandigarh. The bill is received on August 16, duly accepted.
- ” **12** Accepted a bill dated August 6, 1987 drawn by Ghanshyam Oza of **Rajkot**, payable after one month for Rs. 2,500.
- ” **18** Received an acceptance dated August **12**, 1987 from **N.** Mirdha of Jaipur, payable at State Bank of Bikaner, Jaipur, 90 days after date for Rs. 6,000. It was endorsed to S. **Saklecha** of Bhopal on the same day.
- ” **22** Accepted the bill dated July 14, 1987 drawn by P. Obul Reddy, **Tirupathi**, for Rs. 3,500, payable after 2 months.
- ” **23** A bill is drawn on S. Mukherjee of Calcutta for Rs. 9,000 payable at Allahabad Bank, Calcutta, 90 days after date, The bill was received duly accepted on August 28, 1987 and was discounted with **Andhra** Bank on the **same day**.
- ” **30** Accepted the **bill** dated August **25, 1987** by **Palerio** of **Panaji**, for Rs. 2,800, payable after 30 days.

Solution:

Bills Receivable Journal

S1. No.	Date of receipt	From whom received	Acceptor	Date of bill	Term	Due date	Where payable	Amount	L. F.	How disposed of	Remarks
1	1987 Aug. 3	Ram Narayan Hyderabad	Ram Narayan Hyderabad	Aug. 3	3 months	Nov. 6	State Bank of India, Hyderabad	Rs. 5,000			
2	" 16	Manohar Singh Chandigarh	Manohar Singh Chandigarh	" 8	2 months	Oct.11	Punjab National Bank, Chandigarh	4,000			
3	" 18	N. Mirdha Jaipur	N. Mirdha, Jaipur	" 12	3 months	Nov. 15	State Bank of Bikaner, Jaipur	6,000		Endorsed to S. Saklecha	
4	" 28	S. Mukherjee Calcutta	S. Mukherjee, Calcutta	" 23	3 months	" 36	Allahabad Bank, Calcutta	9,000		Discount- ed	
						Total		24,000			

Bills Payable Journal

S1. No.	Date of Accept- ance	Drawn by	Payee	Date of Bill	Term	Due date	Where payable	Amount	L. F.	Remarks
1	1987 Aug. 5	B. Agarwal Lucknow	B. Agarwal Lucknow	Aug. 1	2 months	Oct. 4	Andhra Bank, Hyderabad	Rs. 3,000		
2	" 12	Ghanshyam Oza Rajkot	Ghanshyam Oza Rajkot	" 6	1 month	Sept. 9	—do—	2,500		
3	" .22	P. Obul Reddy Tirupathi	P. Obul Reddy Tirupathi	Jul.14	2 months	" 17	—do—	3,500		
4	" 30	Palerio Panaji	Palerio Panaji	Aug. 25	1 month	" 28	—do—	2,800		
						Total		11,800		

LEDGER
Ram Narayan's Account

Dr.				Cr.		
1987			Rs.	1987		Rs.
Aug.	1	To Balance b/d	5,000	Aug. 3	By Bills Receivable A/c	5,000

Manohar Singh's Account

1987			Rs.	1687		Rs.
Aug.	1	To Balance b/d	4,000	Aug. 16	By Bills Receivable A/c	4,000

1987		Rs.	1987		Rs.
Aug. 1	To Balance b/d	6,000	Aug. 18	By Bills Receivable A/c	6,000

S. Mukherjee's Account

1987		Rs.	1987		Rs.
Aug. 1	To Balance b/d	9,000	Aug. 28	By Bills Receivable A/c	9,000

Bills Receivable Account

1987		Rs.			
Aug. 31	To Sundries— as per B/R Journal	24,000			

B. Agarwal's Account

1987		Rs.	1987		Rs.
Aug. 5	To Bills Payable A/c	3,000	Aug. 1	By Balance b/d	3,000

Ghnnshynn Oza's Account

1987		Rs.	1987		Rs.
Aug. 12	To Bills Payable A/c	2,500	Aug. 1	By Balance b/d	2,500

P. Obul Reddy's Account

1987		Rs.	1987		Rs.
Aug. 22	To Bills Payable A/c	3,500	Aug. 1	By Balance b/d	3,500

Palerio's Account

1987		Rs.	1987		Rs.
Aug. 30	To Bills Payable A/c	2,800	Aug. 1	By Balance b/d	2,800

Bills Payable Account

			1987		Rs.
			Aug. 31	By Sundries—as per B/P Journal	11,800

Check Your Progress C

- 1 What is an Accommodation Bill?
- 2 What do you understand by Bills Sent for Collection?
- 3 State whether each of the following statements is True or False.

i) When the bill is drawn for mutual help it is called accommodation bill.

- ii)

For drawing an accommodation bill some valuable consideration must pass **between** the two parties.

.....
- iii)

When an accommodation bill is discounted and the amount received is shared by the two parties, discount is borne by the drawer only.

.....
- iv)

Total of Bills Receivable Journal is posted to the debit of Bills Receivable **A/c**.

.....
- v)

All the entries **from** Bills Payable **Journal** are to be individually recorded in Bills Payable **A/c**.

.....
- 4

An accommodation bill of Rs. 1,500 is discounted for **Rs.** 1,470. One-third of the proceeds of the bill are sent to the drawee. State the amount of discount which will be **borne** by the drawer.

5.9 LET US SUM UP

Credit transactions are very common in business. The seller or the lender likes to have some written undertaking from the debtor to pay the amount on a specified date. This may take the form of a bill of exchange or a promissory note. A bill of exchange is drawn by a creditor on the debtor. The debtor accepts it by putting his signatures across the bill. **A** promissory note is written by a debtor in favour of the creditor. It is a promise by the debtor to pay a certain sum on a certain date. There is no need for acceptance of a promissory note. A bill is a bills receivable for the drawer and the payee and a bills payable for the drawee. Similarly, the promissory note is a bills payable for the maker and a bills receivable for the payee,

For accounting purposes no distinction is made between the bill of exchange and a promissory note. When the businessman receives a promissory note or an acceptance to a **bill he may** deal with it in three ways. He may retain it, discount it with the bank, or endorse it to his own creditor, When a bill or a promissory becomes due for payment, the drawee of a bill or the maker of a promissory note may deal with it in four ways: he may honour it, dishonour it, renew it or retire it. All transactions with regard to bills and promissory notes are recorded in the journal. The journal entries to be made by various parties are shown in Chart 5.1.

CHART 5.1
Journal Entries in Books of Various Parties

TRANSACTION	DRAWER'S BOOKS	DRAWEE'S BOOKS	ENDORSEE'S BOOKS
When the bill is drawn and accepted	Bills Receivable A/c Dr. To Drawee	Drawer Dr. To Bills Payable A/c	No Entry
i) If retained	No entry	No entry	No entry
ii) If discounted	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c	No entry	No entry
iii) If endorsed	Endorsee Dr. To Bills Receivable A/c	No entry	Bills Receivable A/c Dr. To Drawer (Endorser)
Honouring the Bill			
i) If retained	Bank A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Bank A/c	No entry
ii) If discounted	No entry	Bills Payable A/c Dr. To Bank A/c	No entry
iii) If endorsed	No entry	Bills Payable A/c Dr. To Bank A/c	Bank A/c Dr. To Bills Receivable A/c

	TRANSACTION	DRAWER'S BOOKS	DRAWEE'S BOOKS	ENDORSEE'S BOOKS
4	Dishonouring the Bill			
	i) If retained	Drawee Dr. To Bills Receivable A/c To Cash A/c (N. charges)	Bills Payable A/c Dr. Noting Charges A/c Dr. To Drawer	No entry
	ii) If discounted	Drawee Dr. To Bank A/c (Amount of the bill plus N. charges)	Bills Payable A/c Dr. Noting Charges A/c Dr. To Drawer	No entry
	iii) If endorsed	Drawee Dr. To Endorsee (Amount of the bill plus N. charges)	Bills Payable A/c Dr. Noting charges A/c Dr. To Drawer Dr.	Drawer (Endorser) Dr. To Bills Receivable A/c To Cash A/c (Noting charges)
5	Renewing the Bill			
	i) Dishonouring the Bill	Pass dishonour entry keeping in view whether the bill is retained, endorsed or discounted	Pass dishonour entry	Pass dishonour entry only if the bill had been endorsed
	ii) For interest	Drawee Dr. To Interest A/c	Interest A/c Dr. To Drawer	No entry
	iii) For new bill drawn and accepted	Bills Receivable A/c Dr. To Drawee	Drawer Dr. To Bills Payable A/c	No entry
	Amount for the new bill will depend on whether interest and noting charges have been paid in cash			
6	Retiring the Bill			
	i) If retained	Bank A/c Dr. Rebate A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Bank A/c To Rebate A/c	No entry
	ii) If discounted	No entry	Bills Payable A/c Dr. To Bank A/c To Rebate A/c	No entry
	iii) If endorsed	No entry	Bills Payable A/c Dr. To Bank A/c To Rebate A/c	Bank A/c Dr. Rebate A/c Dr. To Bills Receivable A/c

Accommodation bills are drawn when no valuable consideration has passed between the two parties. It is done for mutual help. **Accommodation** bill can be used fully by the drawer, or its proceeds may be shared both by the drawer and the drawee. **They** can also draw separate bills on each other. The accounting treatment for **accommodation** bills is similar to that of the normal bills.

If the number of transactions relating to bills is large, separate bill books can be maintained. In that case, all bills and promissory notes received by the firm are recorded in the 'Bills Receivable Journal' and all bills accepted and promissory note written by the **firm** are recorded in the 'Bills Payable Journal',

5.10 KEY WORDS

Acceptance: **A** signing across the bill by the drawee to show that the **terms** of the bill are accepted.

Accommodation Bill: Bills drawn to accommodate or help a fellow businessman.

Allonge: A separate paper attached to the bill for noting by the Notary Public.

Bills **of** Exchange: An instrument in writing containing an unconditional order, directing a certain person to pay a certain sum of money on demand or after a specified period to a certain person or his order,

Bills Payable: **A** bill of **exchange** or a promissory note payable by the bysiness.

Bills Receivable: A bill of exchange or a promissory note receivable by the business.

Date of Maturity: The date on which bill is due for payment.

Days of Grace: Three days to be added to the actual period of the bill to **arrive** at the due date.

Discounting of Bill: Encashment of bill with the bank before due date.

Drawer: One who draws the bill, usually a creditor.

Drawee: A person on whom the bill is drawn, usually a debtor.

Endorser: A person who transfers a **bill receivable** to his own creditor in full or part payment of his debt.

Endorsee: A person in whose favour the bills receivable is transferred.

Holder: A person who is entitled to the possession of the bill and is to receive its payment.

Hundi: It is an Indian name for the bill of exchange.

Instrument of Credit: A written document used for the purpose of settlement of mutual indebtedness arising from commercial transactions.

Negotiable Instruments: A written document the title of which can be transferred to the third party for valuable consideration.

Notary Public: A person authorised by the Government for recording the fact of dishonour (noting) in respect of the bill.

Payee,: A person who has the right to receive the payment against the bill.

Rebate: The discount allowed to the drawee for early payment of the bill.

Tenor: The period for which the bill is drawn and accepted.

5.11 SOME USEFUL BOOKS

1 Maheshwari, S.N., 1986. *Introduction to Accounting*, Vikas Publishing House, New Delhi. (Chapter 6)

2 Patil, V.A. and J.S. Korlahalli, 1986, *Principles and Practice of Accounting*, R. Chand & Co., New Delhi. (Chapter 12)

3 William Pickles, 1982, *Accountancy*, E.L.B.S. and Pitman, London. (Chapter 6)

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5.12 ANSWERS TO CHECK YOUR PROGRESS

- A 1 (i) False (ii) True (iii) False (iv) False (v) True (vi) False
- 2 Laxman: Drawer; Ram: Drawee; Bharat: Payee
- 3 (i) B/R (ii) B/R (iii) B/P (iv) B/P (v) B/R
- B. 2 (i) accounting (ii) three (iii) Bills Receivable (iv) liability (v) drawee (vi) drawer
- 3 (i) No entry
- | | | | |
|-------|-------------------------|-----|-------|
| (ii) | Bank A/c | Dr. | 1975 |
| | Discount A/c | Dr. | 25 |
| | To Bills Receivable | A/c | 2,000 |
| (iii) | Jill | Dr. | 2,000 |
| | To Bills Receivable A/c | | 2,000 |
- 4 (i) False (ii) True (iii) False (iv) True (v) True
- | | | | |
|---|--------------|-----|-------|
| 5 | Alok's Books | | |
| | Arun | Dr. | 2,810 |
| | To Bank A/c | | 2,810 |

Bills Payable A/c	Dr.	2,800	
Noting Charges A/c	Dr.	10	
. To Alok			2,810

- C 3 (i) True (ii) False (iii) False (iv) True (v) False
- 4 Rs. 20

5.13 TERMINAL QUESTIONS/EXERCISES

Questions

- 1 Differentiate between a Bill of Exchange and a Promissory Note? State their importance for the modern business?
- 2 What is the purpose of noting on the bill? Is it necessary in case of a promissory note?
- 3 Why do you maintain bill books? State the transactions recorded in Bills Receivable and Bills Payable Journals.

Exercises

- 1 Three bills for Rs. 2,400, Rs. 2,500 and Rs. 2,600 were drawn for two months, three months and four months **respectively**. First bill was discounted with the bank for Rs. 2,300. **The** second bill was endorsed to a creditor in settlement of a debt and the third bill was retained by the drawer. What will be the journal **entries** in the books of drawer, drawee and endorsee if :

i)' the bills is honoured on the due date;
ii) the bill is dishonoured on the due date and noting charges Rs. 20 are paid in all the three cases by the holder of the bill.
- 2 **Raman** owes to **Suman Rs.** 4,800. The debt is discharged by **Raman** on January 1,1988 by accepting three bills of **Rs.** 1,600 for two months, Rs. 1,400 for three months, and **Rs.** 1,800 for four months. First bill is endorsed to **Aman**, the second bill is retained whereas the thud bill is discounted for Rs. 1,350 with the bank. On the due date all the bills were dishonoured. The noting charges paid in each case were Rs. 15. On May 15, **Raman** accepted another bill for **three** months for the total amount including interest @ 15% **p.a.** The new bill was duly honoured on the due date. Record the above **transactions** in the **books** of **Raman, Suman** and **Aman**.
- 3 Krishna owed to Govinda **Rs.** 2,400. On January 1, 1988 he accepted two bills of Rs. 1,200 each for one month and two months respectively. First bill was retained whereas the second was endorsed to **Karim** in settlement of a debt. Both the bills were dishonoured on the due date and noting charges Rs. 10 were paid in each case. A new bill for the full amount was drawn for 4 months and was accepted including interest @ 6% **p.a.** Before the due date of the renewed bill **Krishna** was declared insolvent and only 50 paise in a rupee was received from his **estate..** **Journalise** the above hansactions in the **books** of Krishna, Govinda and Karim.
- 4 On April 1,1988 Pradeep drew on Sandeep two bills for Rs. 900 and Rs. 800 for two months and three months respectively. Second bill was discounted with the **Bank @** 6% **p.a.** On May 1 Sandeep approached Pradeep and made the payment for the first bill before the due date at a discount of 6% **p.a.** On the same date Sandeep asked to renew the second bill for a further period **of** 2 mopths. Pradeep agreed and **drew** a new bill for **the** amount. **Interest @** 6% **p.a.** was paid in cash. Record the above transactions in the books of **Pradeep** and Sandeep.
- 5 **On October** 1,1987 Shashi owed to Rishi Rs. 1,500. Rishi draws on Shashi two bills for Rs. 900 and **Rs.** 600 for 3 months. The fust bill is retained and the second bill is discounted with the bank for Rs. 585.

On the due date **Shashi** approaches **Rishi** for renewal of both the bilk. Rishi agrees to the **arrangement** and for the **first** bill he draws a new bill for a **period** of **three** months including **interest @** 6% **p.a.** In respect of the second bill Shashi pays Rs. 303 in cash including Rs. 3 for interest, accepts a new bill for the balance for two months. Shashi **meets** the bill due on February 7,1988. He became insolvent on February 20 and only

- two-third of the amount could be received from his estate. Record the above transactions in the books of Rishi and Shashi.
- 6! On January 1, 1988 Rajiv drew on Sanjeev, a bill for three months for Rs. 1,000 for mutual and temporary accommodation. Sanjeev sent his acceptance to Rajiv who discounted the bill with the bank for Rs. 960 and remitted half the proceeds to Sanjeev. On the same date, Sanjeev drew a bill for 3 months for Rs. 900 for similar purpose. He discounted the bill for Rs. 870 with the bank and remitted half the proceeds to Rajiv. Sanjeev became insolvent on March 31, 1988 and failed to meet his acceptance. On June 30 twenty-five paise in a rupee was received from his estate. Journalise the above transactions in the books of Rajiv and Sanjeev.
- 7 On Nov 1, 1987 the debtors and creditors of a firm were as follows :

Debtors	Rs.	Creditors	Rs.
Amita	5,000	Asha	6,000
Sunita	10,000	Usha	8,000
Kavita	13,000	Varsha	7,000

During November, the following transactions relating to bills of exchange took place.

- Nov. 6 Received a bill dated November 1, duly accepted by Amita of Bangalore, payable at Karnataka Bank, Bangalore, after three months for Rs. 5,000.
- ” 9 Accepted a bill dated November 3 of Asha of Ghaziabad, payable at State Bank of Hyderabad, Hyderabad, after one month for Rs. 6,000.
- ” 11 Drew a bill on Sunita of Jaipur for Rs. 10,000, payable after 90 days. The bill was duly accepted. It is payable at Bank of Baroda, Jaipur. Bill was discounted with State Bank of Hyderabad on the same date.
- ” 15 Sent our acceptance to Usha on November 10, payable at State Bank of Hyderabad, Hyderabad, two months after date for Rs. 8,000.
- ” 21 Accepted a bill for Rs. 7,000 drawn by Varsha of Chandigarh dated November 12, payable after 3 months at State Bank of Hyderabad, Hyderabad.
- ” 25 Drew a bill on Kavita for Rs. 13,000, payable after 2 months, The bill was returned duly accepted on November 30, payable at Allahabad Bank, Chandigarh. It was endorsed to Sohan & Sons, Ambala.

Prepare Bills Receivable and Bills Payable Journals and show their posting into ledgers.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.