



## Bills of Exchange – Quick Revision Notes (CMA Foundation)

By FCMA Abhishek Jain sir

[ Author ]

### 1. Meaning of Bill of Exchange

A Bill of Exchange is a *written unconditional order* given by the drawer to the drawee to pay a certain sum of money to a particular person on demand or on a specified future date.

#### Essentials

- Must be in writing
- Must contain unconditional order to pay
- Amount must be certain
- Parties must be certain
- Must be signed by drawer
- Payable on demand or fixed date



### 2. Parties in a Bill

Party	Meaning
Drawer	Person who writes (draws) the bill (creditor)
Drawee	Person on whom bill is drawn (debtor)
Payee	Person who receives payment

Sometimes drawer = payee (when drawer keeps the bill till maturity).

### 3. Types of Bills

#### 1. Trade Bill

Drawn for credit sale of goods/services.

#### 2. Accommodation Bill

Drawn for mutual financial assistance, not against any sale.

#### 3. Inland Bill



Both parties reside in India.

## 4. Foreign Bill

Either drawer or drawee lives outside India.

### 4. Days of Grace

- 3 days added to date of maturity (except bill at sight).

Example:

Bill dated 1 Jan for 2 months → 1 Mar

- 3 days grace = 4 March (maturity date)

### 5. Dishonour of Bill

When the acceptor fails to make payment on maturity.

Bank or noter sends "Noting Charges", borne by drawee.

### 6. Important Treatments

#### ✓ (A) Bill Retained till Maturity

- Drawer holds bill and receives cash on maturity.

#### ✓ (B) Bill Endorsed

Bill transferred to a creditor.

#### ✓ (C) Bill Discounted

Drawer discounts with bank and gets cash before maturity.

#### ✓ (D) Bill Sent for Collection

Bank collects the amount on behalf of drawer.

### 7. Journal Entries (Key Cases)

#### Case 1: Bill Drawn & Accepted

In Books of Drawer:

Bills Receivable A/c.....Dr



**To Debtor (A) A/c**

**In Books of Drawee:**

**Creditor (Drawer) A/c.....Dr**

**To Bills Payable A/c**

**Case 2: Discounting**

**Bank A/c.....Dr**

**Discount A/c.....Dr**

**To Bills Receivable A/c**

**Case 3: Endorsement**

**Creditor A/c.....Dr**

**To Bills Receivable A/c**

**Case 4: Dishonour**

**In Books of Drawer:**

**Debtor A/c.....Dr**

**To Bills Receivable A/c**

**To Bank/Cash A/c (noting charges)**

**In Books of Drawee:**

**Bills Payable A/c.....Dr**

**Noting Charges A/c.....Dr**

**To Creditor (Drawer)**



**JAIN INSTITUTE OF COMMERCE**  
**“QUALITY WITHOUT COMPROMISE”**

## **8. Solved Examples**

**Example 1: Maturity Date**

**Bill dated 10 Feb for 3 months**

**→ Due date = 10 May**

- 3 days grace = 13 May**



### Example 2: Discounting

Face value = ₹50,000

Discount rate = 12% p.a.

Period = 3 months

Discount =  $50,000 \times 12\% \times 3/12 = ₹1,500$

Cash received =  $50,000 - 1,500 = ₹48,500$

### Example 3: Dishonour

A draws bill on B for ₹20,000. Noting charges ₹200.

Entry in Books of A:

B A/c.....Dr 20,200

To Bills Receivable A/c 20,000

To Bank A/c (Noting) 200



### 9. MCQs – Exam-Level

1. A bill of exchange must be —

- a) Oral
- b) Written
- c) Telephonic
- d) Verbal

Answer: (b) Written

2. Days of grace for a bill are —

- a) 2 days
- b) 3 days
- c) 5 days
- d) No grace

Answer: (b) 3 days



**3. The person who accepts the bill is known as —**

- a) Drawer**
- b) Drawee**
- c) Payee**
- d) Endorsee**

**Answer: (b) Drawee**

**4. Discount on bill is —**

- a) Income of bank**
- b) Expense for bank**
- c) Income for drawer**
- d) Expense for drawer**

**Answer: (d) Expense for drawer**



**5. Noting charges are ultimately borne by —**

- a) Drawer**
- b) Drawee**
- c) Bank**
- d) Endorsee**

**Answer: (b) Drawee**

**6. When bill is endorsed, BR A/c is —**

- a) Debited**
- b) Credited**
- c) Not affected**
- d) Closed**

**Answer: (b) Credited**

**7. Foreign bill requires —**



- a) Oral acceptance
- b) Written acceptance
- c) Stamp
- d) Noting

Answer: (c) Stamp

8. If a bill is dishonoured, which account is debited in drawer's books?

- a) Bills Receivable
- b) Bills Payable
- c) Debtor's Account
- d) Discount Account

Answer: (c) Debtor's Account

## 10. Ultra-Short Summary (Exam Revision)

- Bill = Written unconditional order.
- Parties: Drawer, Drawee, Payee.
- BR (asset), BP (liability).
- 3 days grace.
- Can be endorsed / discounted / sent for collection.
- Dishonour → drawee bears noting charges.

## ■ Bills of Exchange – Advanced Topics (Renewal, Insolvency, etc.)

### ■ 1. Renewal of Bill

#### ✓ Meaning

When the drawee cannot pay the bill on the due date, he requests the drawer to cancel the old bill and draw a new bill for an extended period.

This process is called Renewal of Bill.



### ✓ Why Renewal Happens?

- **Drawee is unable to pay on maturity**
- **Wants more time**
- **Drawer agrees with or without:**
  - **Interest**
  - **Partial payment**

### ✓ Steps in Renewal

1. **Old bill is cancelled (dishonoured)**
2. **Drawee may pay:**
  - **Interest, OR**
  - **Part payment, OR**
  - **Both**
3. **New bill is drawn for the balance amount.**



### ✓ Journal Entries (Renewal Case)

#### Step 1: Old Bill Dishonoured

**Drawer's Books**

**Drawee A/c.....Dr**  
**To Bills Receivable A/c**

**Drawee's Books**

**Bills Payable A/c.....Dr**  
**To Drawer A/c**

#### Step 2: Interest Charged

**(Interest becomes drawer's income)**

**Drawer**

**Drawee A/c.....Dr**  
**To Interest A/c**

**Drawee**



Interest A/c.....Dr

To Drawer A/c

**Step 3: Part Payment (if any)**

Drawer

Cash/Bank A/c.....Dr

To Drawee A/c

Drawee

Drawer A/c.....Dr

To Cash/Bank A/c

**Step 4: New Bill Drawn**

Drawer

Bills Receivable A/c.....Dr

To Drawee A/c

Drawee

Drawer A/c.....Dr

To Bills Payable A/c



**Example – Renewal of Bill (With Interest + Part Payment)**

A owes B ₹10,000.

B draws bill for 3 months.

On maturity, A cannot pay.

A makes part payment ₹4,000 and agrees to pay interest ₹300.

A new bill is drawn for balance.

**Calculation of new bill amount**

Old bill = ₹10,000

Part payment = ₹4,000

Interest = ₹300

Balance =  $10,000 - 4,000 + 300 = ₹6,300$



✓ New bill is drawn for ₹6,300

### Entries in B's (Drawer) Books

#### 1 Dishonour

A A/c.....Dr 10,000

    To Bills Receivable A/c 10,000

#### 2 Interest

A A/c.....Dr 300

    To Interest A/c 300

#### 3 Part payment

Cash A/c.....Dr 4,000

    To A A/c 4,000

#### 4 New bill

Bills Receivable A/c.....Dr 6,300

    To A A/c 6,300

## 2. Insolvency of Acceptor (Drawee)

#### ✓ Meaning

If drawee becomes insolvent, he cannot pay full amount of the bill.

Drawer can recover only a part – called Dividend.

Remaining balance = Bad Debt for the drawer.

#### ✓ Process When Drawee Becomes Insolvent

1. Bill is dishonoured
2. Drawee is declared insolvent
3. Drawer receives Final Dividend from the Official Receiver
4. Balance amount = Bad Debts for drawer

#### ✓ Journal Entries – Insolvency



### Step 1: Dishonour

Drawer

Drawee A/c.....Dr

To Bills Receivable A/c

### Step 2: Amount received from the receiver

(Say dividend ₹2,000 received)

Cash/Bank A/c.....Dr

To Drawee A/c

### Step 3: Balance written off as bad debts

Bad Debts A/c.....Dr

To Drawee A/c

### Example – Insolvency of Acceptor

Bill amount = ₹15,000

Drawee becomes insolvent

Drawer receives 40% dividend

Calculation:

Dividend received =  $15,000 \times 40\% = ₹6,000$

Balance =  $15,000 - 6,000 = ₹9,000 \rightarrow \text{Bad debts}$



### Entries in Drawer's Books

#### **1 On Dishonour**

Drawee A/c.....Dr 15,000

To Bills Receivable A/c 15,000

#### **2 Dividend received**

Bank A/c.....Dr 6,000

To Drawee A/c 6,000

#### **3 Balance written off**

Bad Debts A/c.....Dr 9,000

To Drawee A/c 9,000



### 3. Retirement of Bill (Extra Topic)

#### ✓ Meaning

When the drawee pays the bill before maturity at a discount OR without discount.

#### ✓ Rebate

- If the drawer allows concession
- It is called Rebate on Bills

Drawee: gets rebate (income)

Drawer: gives rebate (expense)

#### Example – Retirement

Bill amount = ₹20,000

Paid 1 month earlier

Agreed rebate = ₹200

Amount payable =  $20,000 - 200 = ₹19,800$

Drawer books:

Cash A/c.....Dr 19,800

Rebate A/c.....Dr 200

To Bills Receivable A/c 20,000



**JAIN INSTITUTE OF COMMERCE**  
**"Quality Without Compromise"**

### 4. Accommodation Bill

#### ✓ Meaning

A bill drawn without any trade transaction for mutual financial help.

#### ✓ Features

- No sale/purchase of goods
- One party helps the other to raise funds
- At maturity, the party benefiting pays the total amount

#### Simple Example



**X and Y draw bills on each other to raise money.**

**X discounts Y's bill for ₹50,000 and gives the money to Y.**

**At maturity, Y must pay the full amount.**

## **5. Endorsement of Bill – Short Revision**

### **Meaning**

**Transfer of a bill to someone else (creditor).**

**Entry (Drawer):**

**Creditor A/c.....Dr**

**To Bills Receivable A/c**

## **6. Noting Charges (Extra)**

**If bill dishonoured → Noting charges paid by drawer → recovered from drawee.**

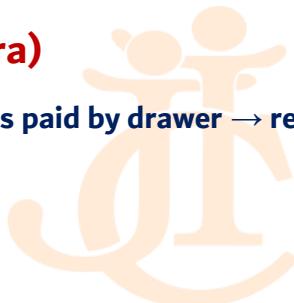
**Example:**

**Noting charges = ₹150**

**Drawer:**

**Drawee A/c.....Dr**

**To Cash A/c (Noting)**



**"Quality Without Compromise"**

## **7. MCQs – Renewal, Insolvency & Others**

**1. Renewal means —**

- a) Extending credit period**
- b) Closing business**
- c) Cancel old bill and draw new bill**
- d) Discounting bill**

**Answer: (c)**

**2. In renewal, interest is —**

- a) Expense for drawer**
- b) Income for drawer**



c) Expense for drawee

d) Both (b) and (c)

**Answer: (d)**

**3. When acceptor becomes insolvent, unpaid balance is —**

a) Discount

b) Endorsement

c) Bad debts

d) Interest

**Answer: (c)**

**4. Amount received from Official Receiver is called —**

a) Discount

b) Dividend

c) Rebate

d) Noting

**Answer: (b)**



**5. Rebate allowed on retirement is —**

a) Income for drawer

b) Expense for drawer

c) Income for drawee

d) Both (b) and (c)

**Answer: (d)**

**6. Accommodation bill is drawn for —**

a) Goods sold

b) Mutual financial help

c) Cash withdrawal

d) Bank overdraft

**Answer: (b)**