

1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 01 (Class XI, Semester - 1)
Module Name/Title	Bills of Exchange – Part 2
Module Id	keac_10602
Pre- Requisites	Basic knowledge of recording of business transaction in journal and subsidiary books
Objectives	After going through this lesson, the learners will be able to understand the following : <ul style="list-style-type: none">• Entries in the books of Drawee• Entries relating to Dishonour, Noting charges, Renewal of the bill of Exchange in the books of drawer and drawee
Keywords	Bill of Exchange, Negotiable Instruments

2. Development Team

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Table of Contents :

1. Introduction
2. Entries relating to Dishonour, Noting charges and Renewal of B/E in the books of drawer and drawee.

In the earlier module you learned about the parties to bill of exchange and the accounting entries in the book of drawer. This module will help you in recording journal entries in the books of drawee and also the journal entries relating to Dishonour, Noting charges and Renewal of bill of exchange in the books of drawer and drawee.

Journal entries in books of drawee:

(1) *On purchase of goods:*

Purchase a/c Dr.

To Creditors a/c

(2) *When bill is accepted:*

Creditors a/c Dr.

To Bills Payable a/c

(3) On Maturity of bill of exchange:

The Drawee will record only one entry :

Bills payable a/c Dr.

To Cash/Bank a/c

This journal entry is applicable for all the following cases :

- (i) Bills retained till maturity
- (ii) Bills discounted by Bank

(iii) Bills endorsed to a third party

(iv) Bills sent for collection

Example:

Amit sold goods for Rs.20,000 to Sumit on credit on January 01, 2017. Amit drew a bill of exchange upon Sumit for the same amount for three months. Sumit accepted the bill and returned it to Amit. Sumit met his acceptance on maturity. Record the necessary journal entries under the following circumstances in the book of dower and drawee.

(i) Amit retained the bill till the date of its maturity and collected directly

(ii) Amit discounted the bill @ 12% p.a from his bank

(iii) Amit endorsed the bill to his creditor Ankit

(iv) Amit retained the bill and on March, 31 2017 Amit sent the bill for collection to its bank.

On April 05, 2017 bank advice was received.

Solution

(i) When the bill was retained till its maturity.

Books of Amit				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Sumit's A/c Dr. To Sales A/c (Sold goods to Sumit on credit)		20,000	20,000
Jan. 01	Bills Receivables A/c Dr. To Sumit's A/c (Received Sumit's acceptance payable after three months)		20,000	20,000
April 05	Bank's A/c Dr. To Bills Receivables A/c (Sumit met his acceptance on maturity)		20,000	20,000

(ii) When the bill was discounted from the book.

Books of Amit				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Sumit's A/c Dr. To Sales A/c (Sold goods to Sumit's)		20,000	20,000
Jan. 01	Bills Receivables A/c Dr. To Sumit's A/c (Received Sumit's acceptance payable three months)		20,000	20,000
Jan. 01	Bank's A/c Dr. Discount A/c Dr. To Bills Receivables A/c (Sumit's acceptance discounted with the bank)		19,400 600	20,000

(iii) When Amit endorsed the bill in favour of his creditor Ankit.

Books of Amit				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Sumit's A/c Dr. To Sales A/c (Sold goods to Sumit's on credit)		20,000	20,000
Jan. 01	Bills Receivables A/c Dr. To Sumit's A/c (Received Sumit's acceptance for three months)		20,000	20,000
Jan. 01	Ankit's A/c Dr. To Bills Receivables A/c (Sumit's acceptance endorsed in favour of Ankit)		20,000	20,000

(iv) When the bill was sent for collection by Amit to the bank.

Books of Amit				
Journal				
Date	Particulars	L.F.	Debit Amount	Credit Amount

2017			(Rs.)	(Rs.)
Jan. 01	Sumit's A/c Dr. To Sales A/c (Sold goods to Sumit's on credit)		20,000	20,000
Jan. 01	Bills Receivables A/c Dr. To Sumit's A/c (Received Sumit's acceptance after three months)		20,000	20,000
Mar. 31	Bills Sent for Collection A/c Dr. To Bills Receivables A/c (Bills sent for collection)		20,000	20,000
Apr. 05	Ankit's A/c Dr. To Bills sent for collection A/c (Bills sent for collection collected by the bank)		20,000	20,000

The following journal entries will be made in the books of Sumit under all the four circumstances:

In the books of Sumit				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Purchases A/c Dr. To Amit A/c (Purchase goods from Amit on credit)		20,000	20,000
Jan. 01	Amit's A/c Dr. To Bill's Payable A/c (Accepted bill drawn by Amit payable after three months)		20,000	20,000
Apr. 04	Bills Payable A/c Dr. To Bank A/c (Met acceptance maturity)		20,000	20,000

Books of Poonam				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Mar. 15	Bills Receivable A/c Dr. Discount Allowed A/c Dr.		8,000 250	

	To Ramesh's A/c (Ramesh endorsed Deepak's acceptance in our favour for discharge his dept of Rs. 8,250 in full settlement)			8,250
Mar. 15	Bank A/c Dr. Discount Allowed A/c Dr. To Bills Receivable A/c (Bills receivable encashed on maturity)		7,920 80	8,000

Dishonour of a Bill

A bill is said to have been dishonoured when the drawee fails to make the payment on the date of maturity. In this situation, liability of the acceptor is restored. Therefore, the entries made on the receipt of the bill should be reversed. For example, Anju received bill of exchange duly accepted by Manju, which was dishonoured. The entries of dishonour will be as follows in the books of Anju (receiver):

When the bill was kept by Anju with her till maturity

Manju's A/c	Dr.
To Bill Receivables A/c	

When the bill had been endorsed by Anju in favour of Sandhya

Manju's A/c	Dr.
To Sandhaya's A/c	

When the bill was discounted by Anju with his bank

Manju's A/c	Dr.
To Bank A/c	

When the bill was sent for collection by Anju

Manju's A/c	Dr.
To Bill Sent for Collection A/c	

On Jan 01, 2017 Shieba sold goods to Vishal for Rs. 10,000 and drew upon him a bill of exchange for 2 months. Vishal accepted the bill and returned it to Shieba. On the date of maturity the bill was dishonoured by Vishal. Record the necessary entries in all the cases listed below in the books of Shieba and Vishal:

- (i) When the bill kept by Shieba till its maturity;
(ii) When the bill is discounted by Shieba for Rs. 200;
(iii) When the bill is endorsed to Lal Chand by Shieba.

Solution

- (i) When the bill was kept by Shieba till its maturity.

Books of Shieba				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Vishal's A/c Dr. To Sales A/c (Sold goods to Vishal)		10,000	10,000
Jan. 01	Bills Receivable A/c Dr. To Vishal's A/c (Received Vishal's acceptance)		10,000	10,000
Mar. 04	Vishal's A/c Dr. To Bills Receivable A/c (Vishal dishonoured his acceptance)		10,000	10,000

- (ii) When the bill was discounted by shieba

Books of Shieba				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Vishal's A/c Dr. To Sales A/c (Sold goods to Vishal)		10,000	10,000
Jan. 01	Bills Receivable A/c Dr. To Vishal's A/c (Received Vishal's acceptance)		10,000	10,000
Jan. 01	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Vishal's Bill dishonoured his acceptance)		9,800 200	10,000

Mar. 04	Vishal's A/c To Bank A/c (Discounted bill dishonoured by Vishal)	Dr.	10,000	10,000
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(iii) When the bill was endorsed by Shieba to Lal Chand

Books of Shieba				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Vishal's A/c To Sales A/c (Sold goods to Vishal)	Dr.	10,000	10,000
Jan. 01	Bills Receivable A/c To Vishal's A/c (Received Vishal's acceptance)	Dr.	10,000	10,000
Jan. 01	Lal Chand A/c To Bills Receivable A/c (Vishal's acceptance endorsed in favour of Lal Chand)	Dr.	10,000	10,000
Mar. 04	Vishal's A/c To Lal Chand A/c (Endorsed bill dishonoured by Vishal)	Dr.	10,000	10,000

Whereas, in the book of Vishal, the following entries will be recorded

Books of Vishal				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Purchases A/c To Shieba's A/c (Purchased good from Shieba)	Dr.	10,000	10,000
Jan. 01	Shieba's A/c To Bills Payable A/c (Accepted Shieba's draft)	Dr.	10,000	10,000
Mar. 04	Bills Payable A/c To Shieba's A/c (Acceptance in favour of shieba dishonoured)	Dr.	10,000	10,000

Noting Charges

A bill of exchange should be duly presented for payment on the date of its maturity. The drawee is absolved of his liability if the bill is not duly presented. Proper presentation of the bill means that it should be presented on the date of maturity to the acceptor during business working hours. To establish beyond doubt that the bill was dishonoured, despite its due presentation, it may preferably be got noted by Notary Public. Noting authenticates the fact of dishonour. For providing this service, a fee is charged by the Notary Public which is called noting charges.

The following facts are generally noted by the Notary:

- Date, fact and reasons of dishonour;
- If the bill is not expressly dishonoured, the reasons may be stated;
- The amount of noting charges.

The entries recorded for noting charges in the drawers book are as follows:

When Drawer himself pays

Drawee's A/c	Dr.
To Cash A/c	

Where endorsee pays

Drawee's A/c	Dr.
To Endorsee A/c	

When the bank pays on discounted bill

Drawee's A/c	Dr.
To Bank A/c	

When the bank pays in the event of sending the bill for collection to the bank

Drawee's A/c	Dr.
To Bank A/c	

It may be noticed that whosoever pays the noting charges, ultimately these have to be borne by the drawee. That is why the drawee is invariably debited in the drawer's books. This is because he is responsible for the dishonour of the bill and, hence, he has to bear these expenses. For recording the noting charges in his book the drawee opens Noting Charges Account. He debits the Noting Charges Account and credits the Drawer's Account. For example, Azad sold goods for Rs. 15,000 to Bunty and immediately drew a bill upon him on January 01, 2017 payable after 3 months. On maturity the bill was dishonoured and Rs. 50 were paid by the holder of the bill as noting charges. The journal entries will be recorded in the books of Azad and Bunty as given below under the following circumstances:

- (a) When the bill was kept by Azad till maturity.
- (b) When the bill was discounted by Azad with his bank immediately @ 12% p.a.
- (c) When the bill was endorsed by Azad in favour of his creditor Chitra.

In the books of Azad, entries will be recorded as:

- (i) When the bill was retained till its maturity

Books of Azad				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Bunty's A/c Dr. To Sales A/c (Sold goods to Bunty)		15,000	15,000
Jan. 01	Bills Receivable A/c Dr. To Bunty's A/c (Received Bunty's acceptance)		15,000	15,000
Apr. 04	Bunty's A/c Dr. To Bills Receivable A/c Dr. To Cash A/c (Bunty dishonoured his acceptance and paid Rs. 50 as noting charges)		15,050	15,000 50

- (ii) When the bill was discounted with the bank.

Books of Azad
Journal

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Bunty's A/c Dr. To Sales A/c (Sold goods to Bunty)		15,000	15,000
Jan. 01	Bills Receivable A/c Dr. To Bunty's A/c (Received Bunty's acceptance payable after three months)		15,000	15,000
Jan. 01	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Bunty's acceptance discounted)		14,550 450	15,000
Apr. 04	Bunty's A/c Dr. To Bank A/c (Bunty dishonoured his acceptance on maturity and bank paid noting charges)		15,050	15,050

(iii) When the bill was endorsed to Chitra

Books of Azad				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Bunty's A/c Dr. To Sales A/c (Sold goods to Bunty)		15,000	15,000
Jan. 01	Bills Receivable A/c Dr. To Bunty's A/c (Received Bunty's acceptance)		15,000	15,000
Jan. 01	Chitra's A/c Dr. To Bills Receivable A/c (Bunty's acceptance endorsed in favour of Chitra)		15,000	15,000
Apr. 04	Bunty's A/c Dr. To Chitra's A/c (Bunty dishonoured his acceptance on maturity and chitra paid Rs. 50 as noting charges)		15,050	15,050

The following journal entries will be made in the books of Bunty in all the three cases.

Books of Azad				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Purchases A/c Dr. To Azad's A/c (Purchase goods from Azad)		15,000	15,000
Jan. 01	Azad's A/c Dr. To Bills Payable A/c (Accepted Azad's draft)		15,000	15,000
Apr. 04	Bills Payable A/c Dr. Noting charges A/c Dr. To Azad's A/c (Acceptance in favour of Azad dishonoured)		15,000 50	15,050

Renewal of the Bill

Sometimes, the acceptor of the bill foresees that it may be difficult to meet the obligation of the bill on maturity and may, therefore, approach the drawer with the request for extension of time for payment. If it is so, the old bill is cancelled and the fresh bill with new terms of payment is drawn and duly accepted and delivered. This is called renewal of the bill. Since the cancellation of bill is mutually agreed upon noting of the bill is not required.

The journal entries recorded in case of renewal are given below:

Transaction	Books of Drawer	Books of Drawee
Cancellation of old bill	Drawee's A/c Dr. To Bills Receivable A/c	Bills Payable A/c Dr. To Drawer's A/c
Interest	Drawee's A/c Dr. To Interest A/c	Interest A/c Dr. To Drawer's A/c
New bill	Bill Receivable A/c Dr. To Drawee's A/c	Drawer's A/c Dr. To Bills Payable A/c

On February 01, 2015 Ravi sold goods to Mohan for Rs.18, 000; Rs. 3,000 were paid by Mohan immediately and for the balance he accepted three months bill drawn upon him by Ravi. On the date of maturity of the bill Mohan requested Ravi to cancel the old bill and a new bill upon him for a period of 2 months. He further agreed to pay interest in cash to Ravi @ 12% p.a. Ravi agreed to Mohan's request and cancelled the old bill and drew a new bill. The new bill was met on maturity by Mohan. In this case, the following entries will be recorded in the books of Ravi and Mohan.

Books of Ravi				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Feb. 01	Mohan's A/c Dr. To Sales A/c (Sold goods to Mohan)		18,000	18,000
Feb. 01	Cash A/c Dr. Bills Receivable A/c Dr. To Mohan's A/c (Received Rs. 3,000 in cash from Ravi and an acceptance for the balance)		3,000 15,000	18,000
May 01	Mohan's Account Dr. To Bills Receivable A/c To Interest A/c (Cancelled old bill on renewal Rs. 300 as interest)		15,300	15,000 300
May 04	Bills Receivable A/c Dr. Cash A/c Dr. To Mohan's A/c (Received new acceptance from Mohan)		15,000 300	15,300
Jul. 07	Bank A/c Dr. To Bills Receivable A/c (Mohan met his new acceptance)		15,000	15,000

Books of Mohan				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Feb. 01	Purchases A/c Dr. To Ravi A/c		18,000	18,000

Feb. 01	(Purchased goods from Ravi)			
	Ravi's A/c Dr. To Cash's A/c Bills Payable A/c (Received cash from Ravi and his acceptance)		18,000	3,000 18,000
May 04	Bill Payable Dr. Interest A/c Dr. To Interest A/c (Old bill cancelled on renewal, Rs. 300 charged as interest)		15,000 300	15,300
May 04	Ravi's A/c Dr. To Bills Payable To Cash A/c (Accepted new bill and paid cash for interest)		15,300	15,000 300
Jul. 07	Bill Payable A/c Dr. To Bank A/c (Met acceptance of the new bill on maturity)		15,000	15,000

Retiring of the Bill

There are instances when a bill of exchange is arranged to be retired before the due date by mutual understanding between the drawer and the drawee. This happens when the drawee of the bill has funds at his disposal and makes a request to the drawer or holder to accept the payment of the bill before its maturity. If the holder agrees to do so, the bill is said to have been retired.

The following journal entries are recorded

On retiring the acceptance and rebate allowed

Cash A/c Dr.

Rebate on bills A/c Dr.

To Bills Receivables A/c

In the books of the drawee

Bills Payable A/c Dr.

To Cash A/c

Dr.

To Rebate on Bills A/c

Amit sold goods Rs. 10,000 to Babli on Jan. 01, 2017 and immediately drew a bill on Babli for three month for the same amount, Babli accepted the bill and returned it to Amit. On March 04, 2017 Babli retired her acceptance under rebate of 6% per annum.

Books of Azad				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Babli's A/c Dr. To Sales A/c (Sold goods to Babli)		10,000	10,000
Jan. 01	Bills Receivable A/c Dr. To Babli's A/c (Received Babli's acceptance for three months)		10,000	10,000
Mar. 04	Bank A/c Dr. Rebate on bills A/c Dr. To Bills Receivable A/c (Babli retired her acceptance and rebate allowed to him)		9,950 50	10,000

The recorded entries will be posted to the following ledger accounts

Babli's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
2017				2017			10,000
Jan. 01	Sales		10,000	Jan. 06	Bills Receivable		
			10,000				10,000

Bill Receivable Account

Dr.

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
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			(Rs.)				(Rs.)
2017				2017			
Jan. 01	Babli			Mar. 04	Cash		9,950
			10,000		Rebate on bill		50
			10,000				10,000

Books of Babli				
Journal				
Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
2017				
Jan. 01	Purchases A/c Dr. To Amit A/c (Purchased goods from Amit)		10,000	10,000
Jan. 01	Amit's A/c Dr. To Bills Payable A/c (Accepted Amit's draft payable after three months)		10,000	10,000
Mar. 04	Bill Payable A/c Dr. To Cash A/c To Rebate on bills A/c (Acceptance in favour of Amit retired and rebate received)		10,000	9,950 50

Amit's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
2017				2017			
Jan. 01	Bills Payable		10,000	Jan. 04	Purchases		10,000
			10,000				10,000

Bills Payable Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)

2017				2017			
Jan. 01	Cash		9,950	Jan. 06	Amit		10,000
	Rebate on		50				
	bills						
			10,000				10,000

Summary

- 1) *Bill of exchange as an Instrument:* A bill of exchange is a device by which the purchaser or debtor in a credit transaction is not required to make immediate payment but satisfies the seller or creditor by accepting in writing the liability to pay the amount due from him.
- 2) *Bill of Exchange and Promissory Note:* A bill of exchange is an acknowledgement of debt given by one person to another, incorporating all the terms and conditions of payments. A promissory note is an undertaking in writing given by the debtor to the creditor to pay the latter a certain sum of money in accordance with the conditions stated therein.