

Bills of Exchange

Bills of Exchange and Promissory Note

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Bill of Exchange
 - Features of Bill of Exchange
 - Parties to Bill of Exchange
 - Advantages of Bill of Exchange
- Meaning of Promissory Note
 - Features of a Promissory Note
 - Parties to a Promissory Note
- Distinction of Bill of Exchange and Promissory Note

Introduction

We know that more often goods are sold and purchased either in cash or on credit. In case of cash sales, the seller is more secured as he receives the cash on the spot; hence such sales involve low risks. On the other hand, in case of credit sales, the seller is not so certain about getting the payment. Thus, in this sense, we can say that credit sales involve higher risk. Here, comes the role of Bills of Exchange and Promissory Notes. These act as tools to assure the seller regarding the receipt of sale proceeds and thereby, reducing the risk involved.

In this lesson and forthcoming lessons, we will mainly focus on various aspects of Bills of Exchange and Promissory Notes.

Meaning of Bill of Exchange

From the above discussion, we can interpret that a Bill of Exchange is something that reduces our credit risk, Let's understand this concept better with the help of an example; Omkar being the seller sold goods worth Rs 10,000 to Ishaan being the buyer on credit. In the given case, Omkar has sold goods to Ishaan believing that on some future date he will make payment. Now, we can analyse that Omkar is little skeptical regarding the certainty of receipt and time of such payment. In order to set an exact date of payment and to make his transaction legally valid, Omkar will draw a document in writing. Such a document is called Bills of Exchange. Hence, we can derive the meaning of Bills of Exchange from this example, It is a document in writing given by seller to buyer, directing buyer to pay his debt amount on a date mentioned in it. In simple words, a Bill of Exchange is a credit instrument.

As per Negotiable Instrument Act, 1881, "A Bill of Exchange is an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument."

For Example: Arjun sold goods to Sahil worth Rs 10,000 on July 18, 2013. On the same day, Arjun drew a bill of Rs 10,000 on Sahil for 90 days which is duly accepted on the same date. Below is a representative format of the Bill.

Bill of Exchange	
Faridabad, 18 July 2013	Amount - Rs 10,000
At 90 days after sight pay against this Sole Bill of Exchange to the	
order of Ourselves the sum of Rupees Ten Thousand for value Received	
To: Sahil Azadpur, Delhi 110033	For and on behalf of: Arjun & Associates <i>Arjun</i> Arjun, Owner
Drawn under Arjun & Associates Faridabad, Haryana 121001	

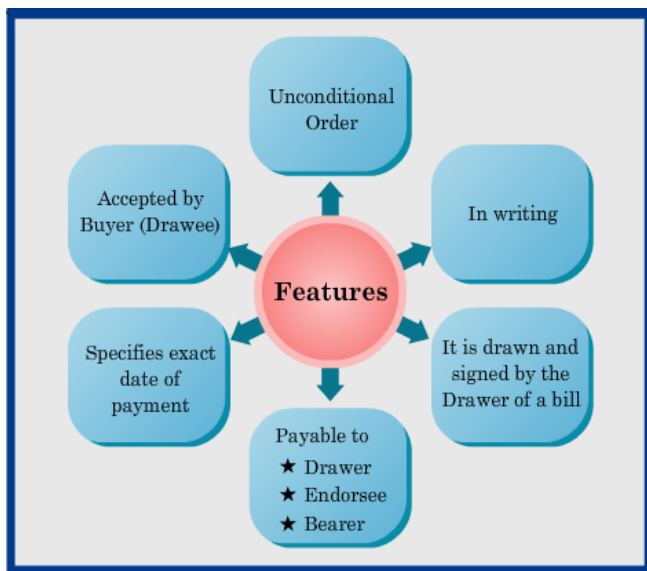
Forms of Bills of Exchange

Bills of exchange are majorly of two types:

- 1) Trade Bill:** Trade as we know means an exchange between two or more parties whereby all of them have something or the other to offer in a transaction. Hence, it is either drawn in case of exchange of good or when a loan is given. Therefore, the drawer of such a bill is the seller or creditor and the drawee is the buyer or debtor. Banks also discount (i.e. pay the amount written in the bill before the due date) such bills willingly. Also, a legal action can be initiated in case of a default because it works as an evidence of the transaction between the parties involved.
- 2) Accommodation Bill:** It is only drawn and accepted when funds are provided to one of the parties or both parties involved. Hence, is drawn with the motive of mutually helping each other. No legal remedy is available for such kinds of bill as they are self drawn bills.

Features of Bills of Exchange

1. It is an **unconditional order directing a certain person** to pay amount specified in it.
2. It is always **in writing**.
3. It is drawn and signed by the Drawer of the bill.
4. This amount is **to be paid either to person whose name is specified in the bill (Drawer) or on to order of that person (Endorsee) or bearer of instrument**.
5. It should be **accepted by buyer**.
6. It also specifies **exact date** till which amount is to be paid.

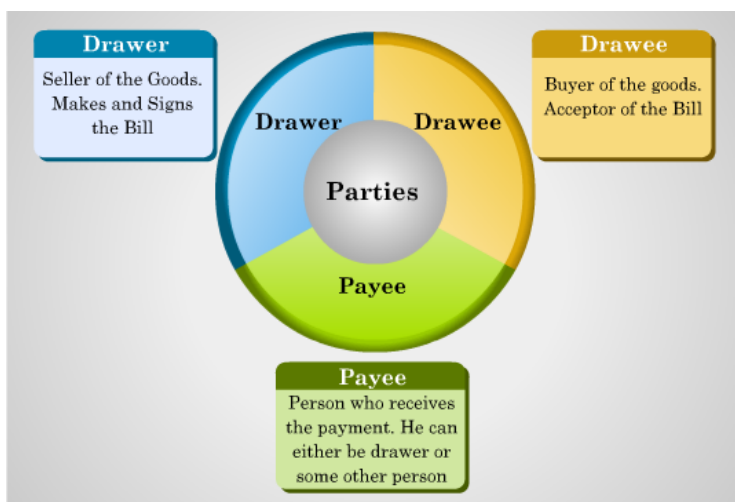


Parties to Bills of Exchange

Drawer: The Person who makes and signs the Bill of Exchange is known as Drawer. He/ She is the seller of the goods.

Drawee: The Person who accepts the Bill of Exchange is known as Drawee. He/ She is the buyer of the goods.

Payee: Payee is the Person whose name is mentioned in the Bill of Exchange, to whom the payment is to be made. Payee can be either Drawer or some other person.



Advantages of Bills of Exchange

The advantages of bills of exchange are listed below.

1. **Legally Valid:** It is a legally valid written, signed and stamped acceptance of the debt by the Drawee. In case of a failure on part of Drawee to honour his commitment a suit against him/her can be filed in the court of law on the basis of the Bill.
2. **Can be Endorsed:** Bill of Exchange can be easily endorsed (or transferred) in favour of Creditors or Suppliers or any other person.
3. **Ensures timely payment:** As date of payment is fixed in the Bill of Exchange, so this ensures seller that he/she will receive his/her payment in full and in time. Due to this certainty he/she can plan his future cash flows.
4. **No fear of dishonour, easily recoverable:** As Bill of Exchange is a legally acceptable document, so in case it gets dishonoured then the debt can be easily recovered as compared to other debts.
5. **Can be discounted:** It can be discounted with the bank any time before its maturity. It provides liquidity to the instrument because, whenever drawer requires cash then he/she can discount the bill of exchange with the Bank. Bank will deduct some amount of discounting charges and pay the remaining amount to Drawer.

Meaning of Promissory Note

A promissory note is an unconditional promise in writing given by buyer (or creditor) to seller (or debtor) to pay amount of money specified therein to the seller or to the order of seller or to bearer.

As per Negotiable Instrument Act, 1881, "A *promissory note is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument*".

For Example : Shri Amal sold goods to Shri Ram worth Rs 10,000 on July 12, 2013 . On the same day Shri Ram drew a promissory note of Rs 10,000 to be paid 3 months after date. Below is a representative format of the bill.

Promissory Note

Rs. 10,000 Guwahati
June 12, 2013

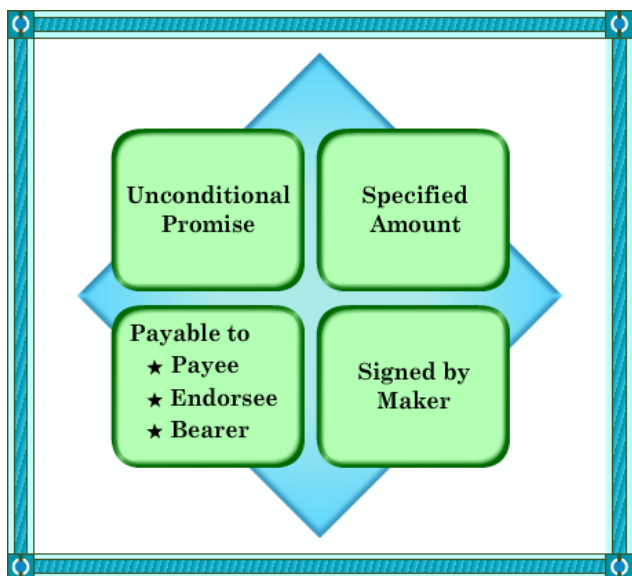
Three months after date, I Shri Ram promise to pay Shri Amal or order a sum of Rupees Ten Thousand, value received.

To: For and on behalf of:
 Shri Amal, Shri Ram & Associates
 Nalbari **Ram**
Ram, Owner

ACCEPTED

Features of Promissory Note

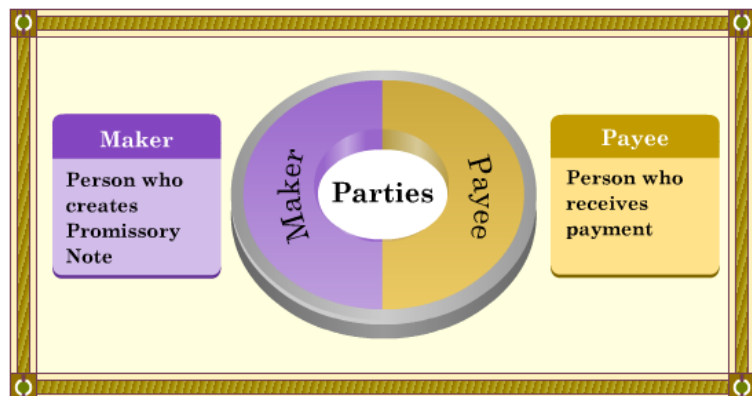
1. It is an **unconditional promise** in writing.
2. It is a promise to pay **Specified Amount on demand or at a determinable future date**.
3. It pays amount to the person **whose name is specified (Payee) or to his order (Endorsee) or to bearer**.
4. It is drawn as well **assigned by maker**.



Parties to Promissory Note

Maker: He is the person who creates Promissory Note and promises to pay amount to the debtors.

Payee: He is the person who is entitled to receive payment. Payee can be seller or person who is specified by seller or bearer.



Distinction between Bills of Exchange and Promissory Note

The major points of difference between Bills of Exchange and Promissory Note have been tabulated below.

Basis of Distinction	Bills of Exchange	Promissory Note
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Number of Parties	Parties involved: a. Drawer b. Drawee c. Payee	Parties involved: a. Maker b. Payee
Drawn by	Creditor or Drawer or Purchaser	Debtor (Maker)
Order / Promise	It is an order to pay debt.	It is a promise to pay debt.
Requirement of Acceptance	It attains validity only when it is accepted by the drawee.	It does not require any acceptance.
Liability of drawer	Drawer's liability is of secondary nature i.e. it will arise only if acceptor fails to pay.	Drawer (maker) Liability is of primary nature.
Drawer and Payee	Drawer and payee can be the same person.	Drawer (maker) and payee cannot be same person
Noting in case of Dishonour	Compulsory	Not compulsory
Number of Copies	If there are foreign bills, three copies are required and in other cases, only one copy is required.	Single copy is prepared; whether, it is a foreign bill or any other type of bill.
Stamping	Stamp is necessary for all types of bills. However, if bill is payable on demand, then stamp is not required.	Stamp is required for promissory note.

Meaning of Important terms used in Bills of Exchange

Objective

After going through this lesson, you shall be able to understand the following concepts.

Meaning of Important terms used in chapter of Bills of Exchange.

Drawer
 Drawee
 Payee
 Term of a Bill
 Days of Grace
 Due Date
 Date of Maturity
 Bill at Sight or Demand
 Bill after Date / after Sight
 Discounting of Bill
 Endorsement of Bill
 Bills sent for Collection
 Dishonour of Bill
 Noting of Bill

Introduction

After gaining an insight on the basic concepts regarding the Bills of Exchange and Promissory Notes in the first lesson, let us try and understand the basic terminology to be used while dealing in Bills of Exchange.

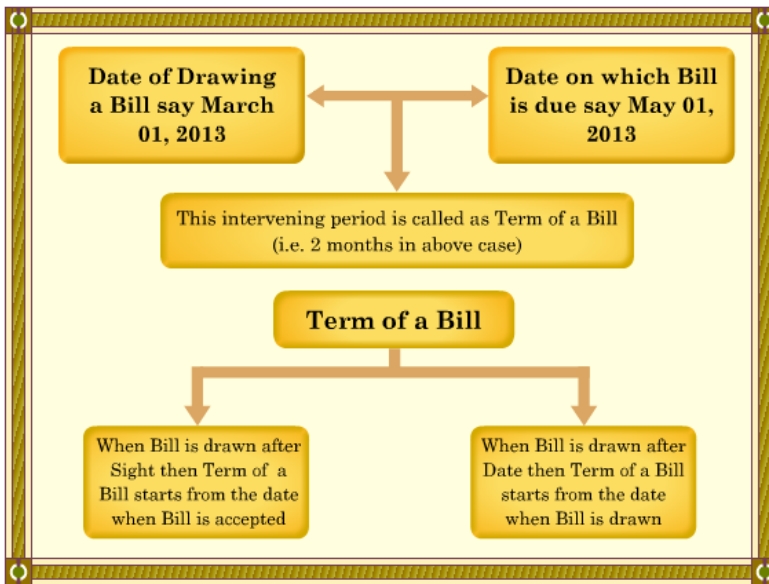
Drawer: He/She is the seller or creditor who has sold goods on credit and is entitled to recover money from the buyer or debtor. A drawer draws the Bill of Exchange upon the buyer /debtor. After writing the Bill of Exchange the drawer has to sign it as the maker of the Bill of Exchange.

Drawee: He/She is the purchaser / debtor of goods on whom Bill of Exch is drawn. When he gives his acceptance to the drawn bill of exchange he becomes the Drawee.

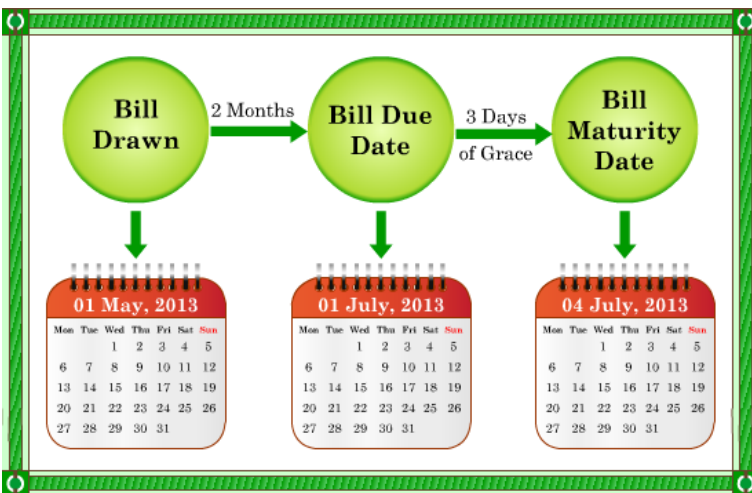
Payee: He/She is the person to whom payment has to be made and his/her name is mentioned on the Bill of Exchange .Usually Drawer is the payee but it is not necessary in all cases.

Term of Bill: Term of a Bill refers to the time period in-between the Date of drawing the bill and due date of the bill. In case the bill is drawn after

sight then Term of a Bill starts from the date of acceptance of the bill, where as when the bill is drawn after date then term of bill starts from the date when the bill is drawn.



Days of Grace: It is compulsory to add 3 days of grace while calculating the due date of a bill. Initially the three days of grace were granted as a matter of kindness towards the drawee but now according to the Negotiable Instrument Act three days of grace are a legal right of the Drawee. Days of Grace are not allowed when the Bill is payable "on demand".



Example 1: Ajay draws a one month bill on Bhaskar on May 01, 2013. Calculate due date and the maturity date of this Bill of Exchange.

Solution:

Due date of bill will be = May 01, 2013 + 1 month = June 01, 2013.

Maturity Date of Bill = Due date + 3 days of grace = June 01, 2013 + 3 days = June 04, 2013

In a case where the date of Maturity is to fall on a Public Holiday, then bill is to be paid on the preceding working day. If the date of maturity is declared as an emergency holiday then the due date falls on the succeeding date.

Example 2: Mr X drew a bill on Mr Y for 3 months on May 12, 2013 . Calculate the due date and maturity date of this Bill of Exchange.

Solution:

Due date of bill will be: May 12 , 2013 + 3 months = August 12, 2013

Maturity Date of bill = Due Date + 3 days = August 15, 2013

As 15 August is a Public Holiday the correct maturity date will be August 14, 2013

Example 3: Mr Amit drew a bill on Mr Anand for 1 month on April 16, 2013 . Calculate the due date and maturity date of this bill of exchange (19 May is a Sunday)

Solution:

Due date of bill will be : April 16, 2013 + 1 month = May 16, 2013

Maturity Date of bill = Due Date + 3 days = May 19, 2013

As May 19, 2013 is a Sunday the correct maturity date will be May 18,2013.

Example 4: Lali drew a bill on Kali for 2 months on May 12, 2013 . Calculate the due date and maturity date of this bill of exchange (July 15 ,2013 is declared as an emergency holiday)

Solution:

Due date of bill will be : May 12 , 2013 + 2 months = July 12, 2013

Maturity Date of bill = Due Date + 3 days = July 15, 2013

As 15 July is declared as an emergency holiday the correct maturity date will be July 16, 2013.

Important note: In case Bill is payable on demand (or at sight) then Days of Grace is not added.

Due Date: It is a date on which bill stands payable. In the above example 1- June 01, 2013 is the due date.

Date of Maturity: It is a maximum time upto which bill must be paid. It is calculated by adding days of grace in the due date of bill. In the above example 1 June 04, 2013 is the maturity date of bill.

Important Points:

(i) If tenure of bill is given in days then maturity date will also be calculated in days. While calculating maturity date in terms of days payment date is included but date on which transaction occurs is not included.

For example: A draws 60 days bill on B on May 01, 2013. Calculate maturity date of bill.

Solution

Due Date of Bill = May 01, 2013 + 60 days (i.e. 30 days of May + 30 days of June) = June 30, 2013

Maturity date of Bill = June 30, 2013 + 3 days of grace = July 03, 2013.

(ii) If tenure of bill is given in months then maturity date will also be calculated in months ignoring the number of days in a month.

For example: A draws a bill on B on Jan 01, 2013 for 3 months. Calculate maturity date of bill.

Solution

Due Date of Bill = Jan. 01, 2013 + 3 months = Apr. 01, 2013

Maturity date of Bill = Apr. 01, 2013 + 3 days of grace = Apr. 04, 2013.

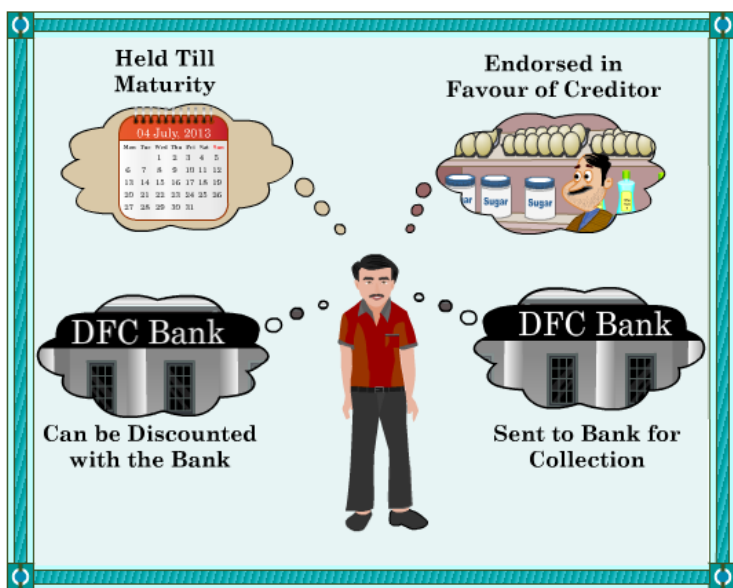
Bill at Sight or Demand: It is an instrument that is payable on demand by holder. No time is mentioned on such a bill for payment i.e. Holder of such a bill can demand Drawee to discharge such a bill at his/her will.

Bill After Sight: The period of bill is calculated from the date on which such a bill is accepted by the Drawee.

Bill After Date: The period of bill is calculated from the date of drawing the bill.

Discounting of Bill: It may happen that the holder of bill could be in urgent need of cash and he/she can't wait till the Date of Maturity of the bill. So, in such a situation he/she can obtain an amount from the bank against such bill. This is called Discounting of Bill with bank. Bank would charge a certain amount of Discounting charges based on Discounting Rates (or Interest Rate) and period of maturity. Discounting Charges are always calculated for the period starting from date of discounting till the due date of bill.

Endorsement of Bill: Transfer of a Bill of Exchange or Promissory Note to another person is known as Endorsement of Bill. The one who receives the bill is known as Endorsee and the one endorses the bill is known as Endorser. The Endorsee on endorsement of a bill by Endorser becomes authorized to receive payment.



Bills Sent for Collection: Sometimes a drawer may give bill to a bank and orders them to retain and realise the same on maturity date, such an activity is known as Bills Sent for Collection .

Dishonour of a Bill: A Bill is dishonoured when the acceptor of the bill fails to make the payment on the date of maturity of the bill. Hence, liability

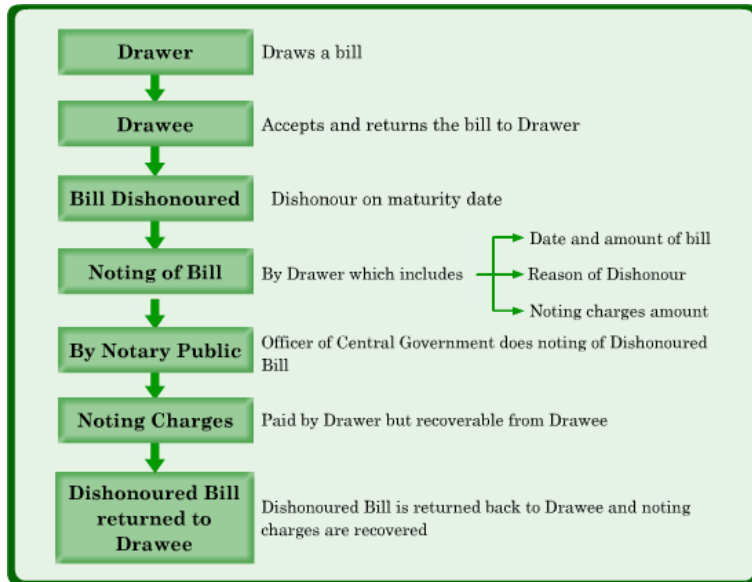
of the acceptor is restored. Entries made for recording dishonour of the Bill of Exchange are reverse of the entries of recording drawing of the bill.

Noting of Bill: When a bill is presented for payment and acceptor fails to make the payment, the bill gets dishonoured. In order to keep a legal proof of dishonour, the bill gets noted by the Notary public (which is approved by Central or State Government). In exchange of the Notary service, Notary public charges fees, known as Noting charges. Notary public notes the following facts:

1. Date and amount of the bill
2. Reasons for dishonour
3. Amount of Noting charges

Notary Public: He is an officer appointed by the Central or State Government who has the power of noting Negotiable Instruments at the time of their Dishonour.

Noting Charges: These are charges paid to Notary Public for noting the Negotiable Instruments at the time of their Dishonour.



Renewal of Bill: When an acceptor of a bill does not have sufficient fund to meet the obligations of the bill on time, he/she may request the drawer for an extension of time for payment. If the drawer agrees, then a new bill is drawn this is known as Renewal of Bill. Generally, a bill is renewed on the condition that the Drawee has to pay interest for the extended period.

Retirement of Bill: When a holder receives the amount of a bill before its maturity date it is called Retirement of Bill of Exchange. Holder of the bill may give discount for such early payment. This discount is termed as 'Rebate'.

Retention of Bill till Maturity- Accounting Treatment with Examples

Objective

After going through this lesson, you shall be able to understand the Accounting Treatment of Bills of Exchange and Promissory Note in the books of Drawer (or seller) as well as Drawee (or purchaser), **When a bill is retained till the date of maturity.**

Introduction

Till now we have understood the meaning, features and various advantages of Bills of Exchange and Promissory Note. Also, we are now well acquainted with different terminologies used in the context of Bills of Exchange and Promissory Notes. Now, we are in a position to understand their Accounting Treatment. In this lesson, our main focus will be on the Accounting Treatment of Bills of Exchange* both in the books of Drawer (or seller) as well in the books of Drawee (or purchaser). A Drawer can proceed with various ways with the bill. These ways are:

- > Hold the bill till its maturity date.
- > Get the bill discounted with the bank.
- > Endorsement of Bill in favour of other person
- > Sent bill for collection

***Note- It should be noted that the Accounting Treatment of Bills of Exchange and that of the Promissory Notes are exactly the same.**

Accounting Treatment of Bills of Exchange and Promissory Note in the books of Drawer as well as Drawee, when a bill is retained till the date of maturity

Drawer (or seller) is the person who writes or draws Bills of Exchange and the person on whom this bill is drawn is known as Drawee (or purchaser of goods). Procedure for drawing a bill is described in following steps:

- (1) Seller sold goods to Purchaser on Credit.
- (2) Now Seller (or Drawer) to avoid its credit risk draws a Bill of Exchange on the Purchaser (or Drawee).
- (3) This Bill is accepted by the Drawee and returned back to Drawer. By accepting the bill Drawee has admitted a liability which is payable at some fixed date in future. So, it will be treated as Bills Payable for Drawee.
- (4) On getting back bill after its acceptance from Drawee, it becomes an asset for Drawer and is recorded as Bills Receivable in his/her books.

To record the above transactions following Journal Entries will be passed in the books of Drawer and Drawee

Journal					
S.No.	Transaction	In the Books of Drawer		In the Books of Drawee	
1	Goods sold on Credit	Party's Name (Purchaser)	Dr.	Purchases A/c	Dr.
		To Sales A/c		To Party's Name (Seller)	
		(Goods were sold on credit)		(Goods were purchased on credit)	
2	When bill is drawn, accepted and received*	Bills Receivable A/c	Dr.	Party's Name (Seller)	Dr.
		To Party's Name (Purchaser)		To Bills Payable A/c	
		(Acceptance received against amount due)		(Acceptance given)	
3	When bill is retained by Drawer till maturity date and it is duly honoured	Cash A/c	Dr.	Bills Payable A/c	Dr.
		To Bills Receivable A/c		To Cash A/c	
		(Amount received on maturity date of bill)		(Amount paid on maturity date of bill)	

*** Note: In the course of real trade, there exists a time gap between occurrence of different activities such as drawing a bill by Drawer, acceptance to that bill by Drawee and thereafter returning it back to Drawer. But for accounting purpose we always assume that all these activities (i.e. Drawing, accepting and receiving back) took place on the same day.**

Example 1 On February 01, 2013 Anand sold goods to Amit for Rs 15,000. On the same date, Anand drew a Bill of Exchange upon Amit at 3 months for Rs 15,000. Amit accepted the bill and this bill was met on the due date. Pass the Journal Entries in the books of Anand and Amit.

Solution

Books of Anand					Books of Amit						
Journal					Journal						
Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013						2013					
Feb.01	Amit	Dr.		15,000		Feb.01	Purchases A/c	Dr.		15,000	

	To Sales A/c			15,000			To Anand			15,000
	(Goods sold on credit)						(Goods purchased on credit)			
Feb.01	Bills Receivable A/c	Dr.		15,000		Feb.01	Anand	Dr.		15,000
	To Amit			15,000			To Bills Payable A/c			15,000
	(Acceptances received against amount due)						(Acceptances given)			
May 04	Cash A/c	Dr.		15,000		May 04	Bills Payable A/c	Dr.		15,000
	To Bills Receivable A/c			15,000			To Cash A/c			15,000
	(Bill honoured on its due date)						(Amount paid on maturity date of bill)			

Example 2 On April 01, 2013 Mandeep sold goods to Vikas for Rs 20,000, of which 50% is received in cash immediately and for the remaining balance 2 month bill was drawn. Mandeep accepted the bill. On the due date, Bill was met. Pass the Journal Entries in the books of both Mandeep and Vikas.

Solution

Books of Mandeep					Books of Vikas				
Journal					Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
April 01	Vikas	Dr.	10,000		April 01	Purchases A/c	Dr.	20,000	
	Cash A/c	Dr.	10,000			To Cash A/c			10,000
	To Sales A/c			20,000		To Mandeep			10,000
	(Goods sold on cash and credit)					(Goods purchased on cash and credit)			
April 01	Bills Receivable A/c	Dr.	10,000		April 01	Mandeep	Dr.	10,000	

	To Vikas			10,000			To Bills Payable A/c			10,000
	(Acceptances received from Vikas, for the balance 50%)						(Acceptances given for the balance 50%)			
June 04	Cash A/c	Dr.		10,000		June 04	Bills Payable A/c	Dr.		10,000
	To Bills Receivable A/c			10,000			To Cash A/c			10,000
	(Bill honoured on its due date)						(Amount paid on maturity date of bill)			

Example 3 Mohit sold goods to Shiv for Rs 16,000 on August 01, 2013 and drew upon him a 3 month bill. Shiv accepted the bill and returned it to Mohit. Date of maturity of bill was declared as emergency holiday by the Central Government. Bill was met as per the provisions of Negotiable Instrument Act, 1881. Pass the Journal Entries in the books of both Shiv and Mohit

Solution

Books of Mohit					Books of Shiv				
Journal					Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
Aug.01	Shiv	Dr.	16,000		Aug.01	Purchases A/c	Dr.	16,000	
	To Sales A/c			16,000		To Mohit			16,000
	(Goods sold on credit)					(Goods purchased on credit)			
Aug.01	Bills Receivable A/c	Dr.	16,000		Aug.01	Mohit	Dr.	16,000	
	To Shiv			16,000		To Bills Payable A/c			16,000
	(Acceptances received against amount due)					(Acceptances given)			
Nov.05	Cash A/c	Dr.	16,000		Nov.05	Bills Payable A/c	Dr.	16,000	
	To Bills Receivable A/c			16,000		To Cash A/c			16,000

(Bill honoured on its due date)					(Amount paid on maturity date of bill)			

Note: As emergency holiday was declared on the due date of the bill which was Nov.04, 2013, so in this case the due date as per Negotiable Instrument Act will be one day later which is Nov. 05, 2013.

Example 4 Rakesh purchased goods from Suresh for Rs 25,000 on January 01, 2013. On the same date, Rakesh drew a Promissory Note payable after 2 months in the favour of Suresh. Rakesh met the Promissory Note on its due date. Pass the Journal Entries in the books of Suresh and Rakesh.

Solution

Books of Suresh					Books of Rakesh				
Journal					Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
Jan.01	Rakesh	Dr.	25,000		Jan.01	Purchases A/c	Dr.	25,000	
	To Sales A/c			25,000		To Suresh			25,000
	(Goods sold on credit)					(Goods purchased on credit)			
Jan.01	Bills Receivable A/c	Dr.	25,000		Jan.01	Suresh	Dr.	25,000	
	To Rakesh			25,000		To Bills Payable A/c			25,000
	(Promissory Note received against amount due)					(Promissory Note drawn in favour of Suresh)			
Mar.04	Cash A/c	Dr.	25,000		Mar.04	Bills Payable A/c	Dr.	25,000	
	To Bills Receivable A/c			25,000		To Cash A/c			25,000
	(Bill honoured on its due date)					(Amount paid on maturity date of bill)			

Example 5 On July 01, 2013 Raj sold goods to Rahul for Rs 30,000. Rahul pays 60% of the amount due immediately and receives a discount of Rs 1,000. For the balance amount Raj draws a bill of exchange on Rahul payable after 2 months. Rahul accepts the bill and return it back to Raj. On the due date, bill was met. Pass the Journal Entries in the books of Raj and Rahul.

Solution

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Books of Raj					Books of Rahul						
Journal					Journal						
Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013						2013					
July 01	Rahul	Dr.		30,000		July 01	Purchases A/c	Dr.		30,000	
	To Sales A/c				30,000		To Raj				30,000
	(Goods sold on credit)						(Goods purchased on credit)				
July 01	Cash A/c	Dr.		17,000		July 01	Raj (60% × 30,000)	Dr.		18,000	
	Discount Allowed A/c	Dr.		1,000			To Cash A/c				17,000
	To Rahul (60% × 30,000)				18,000		To Discount Received A/c				1,000
	(60% of Rs 30,000 was received from Rahul, discount allowed Rs 1,000)						(60% of Rs 30,000 was paid to Raj and received a discount of Rs 1,000)				
July 01	Bills Receivable A/c	Dr.		12,000		July 01	Raj	Dr.		12,000	
	To Rahul				12,000		To Bills Payable A/c				12,000
	(Acceptances received from Rahul, for the balance 40%)						(Acceptances given to Raj, for the balance 40%)				
Sept.04	Cash A/c	Dr.		12,000		Sept.04	Bills Payable A/c	Dr.		12,000	
	To Bills Receivable A/c				12,000		To Cash A/c				12,000
	(Bill honoured on its due date)						(Amount paid on maturity date of bill)				

Answer:

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Date	Particulars		L.F.	Dr. (Rs.)	Cr.(Rs.)
2018 Apr.1	Sheetal's A/c To Output CGST A/c To Output SGST A/c To Sales A/c (Being goods sold to Sheetal)	Dr.		89,600	80,000 4,800 4,800
Apr.1	Bills Receivable A/c To Sheetal's A/c (Being bill of exchange received by Sheetal)	Dr.		89,600	89,600
Aug.1	Cash A/c To Bills Receivable A/c (Being amount received against Sheetal's acceptance)	Dr.		89,600	89,600

Sheetal's (Drawee) Journal

Date	Particulars		L.F.	Dr. (Rs.)	Cr.(Rs.)
2018 Apr.1	Purchases A/c Input CGST A/c Input SGST A/c To Poonam's A/c (Being goods purchased from Poonam)	Dr. Dr. Dr.		80,000 4,800 4,800	89,600
Apr.1	Poonam's A/c To Bills Payable A/c (Being the acceptance for the amount given to Poonam)	Dr.		89,600	89,600
Aug.1	Bills Payable A/c To Cash A/c (Being the payment of the bill made on due date)	Dr.		89,600	89,600

Discounting of Bill- Accounting Treatment with Examples

Objective

After going through this lesson, you shall be able to understand the concept of 'Accounting Treatment when bill is discounted with the bank'.

Introduction

We discussed in the previous lessons that drawer or holder of the bill carries certain ways to proceed with the bill. These ways are:

- > Hold the Bill till its Maturity Date
- > Get the Bill Discounted with the Bank
- > Endorsement of Bill in favour of other person
- > Send Bill for Collection

In the last lesson, we discussed Accounting Treatment in the Books of Drawer and Drawee when the drawer holds the bill till its maturity date. In this lesson, our discussion will be on Accounting Treatment in the Books of Drawer and Drawee when the drawer gets bill discounted with the bank.

Accounting Treatment when bill is discounted with the bank

Sometimes it happens that holder of the bill is in need of cash and he/she can't wait till the maturity date of bill. So in this case, he/she decides to obtain amount from Bank against such bill. This is called Discounting of Bill with bank. Bank will charge certain amount of discounting charges based

on Discounting Rate (or Interest Rate) and period of maturity. Discounting Charges are always calculated for the period starting from date of discounting till the due date of bill. Therefore it is calculated as:

Discounting Charges = Amount of Bill × Rate of Interest × Remaining period of bill (i.e. from discounting date to due date of bill).

Example: Bill of Rs 12,000 payable after 4 months was discounted @ 6% p.a. by holder after 1 month, in this case remaining period will be 3 months (4 – 1) and discounting charges will be

$12,000 \times 6 \times 100 \times 3 \div 12 \div 12,000 \times 6 \times 100 \times 3 \div 12$ that is Rs 180.

Following Journal Entries will be passed in the books of Drawer and Drawee.

Journal				
S.No.	In the Books of Drawer		In the Books of Drawee	
1	<i>At the time of sale of goods on credit</i>		<i>At the time of purchase of goods on credit</i>	
	Party's Name (Purchaser)	Dr.	Purchases A/c	Dr.
	To Sales A/c		To Party's Name (Seller)	
	(Goods sold on credit)		(Goods purchased on credit)	
2	<i>When bill is drawn and received</i>		<i>When bill is accepted and sent to drawer</i>	
	Bills Receivable A/c	Dr.	Party's Name (Seller)	Dr.
	To Party's Name (Purchaser)		To Bills Payable A/c	
	(Acceptances received against amount due)		(Acceptances given)	
3	<i>When Bill is discounted with Bank</i>		<i>When Bill is discounted with Bank</i>	
	Cash / Bank A/c	Dr.	NO ENTRY	
	Discounting Charges A/c	Dr.		
	To Bills Receivable A/c			
	(Bill discounted with Bank and Discounting Charges were charged)			
4	<i>At the time of Maturity of Bill</i>		<i>At the time of Maturity of Bill</i>	

	NO ENTRY	Bills Payable A/c Dr.
		To Cash A/c
		(Amount paid on maturity date of bill)

Example 1 Ankit sold goods to Sameer worth of Rs 15,000 on May 01, 2013. Ankit draws a 3 months bill on Sameer for the amount due. Ankit discounted this @ 6% p.a. with Bank on the same day. On the due date bill was honoured. Pass the necessary Journal Entries in the books of both the parties.

Solution

Books of Ankit					Books of Sameer				
Journal					Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
May 01	Sameer	Dr.	15,000		May 01	Purchases A/c	Dr.	15,000	
	To Sales A/c			15,000		To Ankit			15,000
	(Goods sold on credit)					(Goods purchased on credit)			
May 01	Bills Receivable A/c	Dr.	15,000		May 01	Ankit	Dr.	15,000	
	To Sameer			15,000		To Bills Payable A/c			15,000
	(Acceptance received against amount due)					(Acceptance given)			
May 01	Cash A/c	Dr.	14,775		Aug. 04	Bills Payable A/c	Dr.	15,000	
	Discounting Charges A/c (WN)	Dr.	225			To Cash A/c			15,000
	To Bills Receivable A/c			15,000		(Amount paid on maturity of bill)			
	(Bill discounted with the bank)								

Working Note:

Calculation of Discounting Charges:

Discounting Charges = $15,000 \times 6100 \times 312 = 225$ Discounting Charges = $15,000 \times 6100 \times 312 = 225$

Example 2 On July 01, 2013 Sumit sold goods of Rs 12,000 to Gautam. Sumit draws a bill on Gautam for the amount payable three months after date. Gautam accepts bill and thereafter return it to Sumit. On September 01, 2013 Sumit discounted this bill with bank @ 5% p.a. At the date of maturity, bill was duly honoured. Record the Journal Entries in the books of Sumit and Gautam.

Solution

Books of Sumit					Books of Gautam				
Journal					Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
July 01	Gautam	Dr.	12,000		July 01	Purchases A/c	Dr.	12,000	
	To Sales A/c			12,000		To Sumit			12,000
	(Goods sold on credit)					(Goods purchased on credit)			
July 01	Bills Receivable A/c	Dr.	12,000		July 01	Sumit	Dr.	12,000	
	To Gautam			12,000		To Bills Payable A/c			12,000
	(Acceptance received against amount due)					(Acceptance given)			
Sept 01	Cash A/c	Dr.	11,950		Oct.04	Bills Payable A/c	Dr.	12,000	
	Discounting Charges A/c (WN)	Dr.	50			To Cash A/c			12,000
	To Bills Receivable A/c			12,000		(Amount paid on maturity of bill)			
	(Bill discounted with the bank)								

Working Note:

Calculation of Discounting Charges:

Discounting Charges = $12,000 \times 5100 \times 112 = 50$ Discounting Charges = $12,000 \times 5100 \times 112 = 50$

Example 3 On January 01, 2013 Samrat received acceptances for Rs 6,000 from Karan at 2 months. On February 09, 2013 Samrat discounted these acceptances @ 8% p.a. from the Bank. On the due date Karan honoured the bill. Pass the necessary Journal Entries in the books of Samrat and Karan.

Solution

Books of Samrat	Books of Karan
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Journal					Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
Jan.01	Bills Receivable A/c	Dr.	6,000		Jan.01	Samrat	Dr.	6,000	
	To Karan			6,000		To Bills Payable A/c			6,000
	(Acceptance received against amount due)					(Acceptance given)			
Feb.09	Cash A/c	Dr.	5,970		Mar 1	Bills Payable A/c	Dr.	6,000	
	Discounting Charges A/c (WN)	Dr.	30			To Cash A/c			6,000
	To Bills Receivable A/c			6,000		(Amount paid on maturity of bill)			
	(Bill discounted with the bank)								

Working Note:

Calculation of Discounting Charges:

Discounting Charges = $6,000 \times 8100 \times 23 \times 365 = 30$ (approx.) Discounting Charges = $6,000 \times 8100 \times 23 \times 365 = 30$ (approx.)

* Remaining days are calculated from Feb 09 (*discounting date*) to March 04 (*maturity date*) that is 23 days.

Example 4: Pramod received from Harish an acceptance for Rs. 40,000 on 1st October, 2018 at 4 months. Pramod got this acceptance discounted on 1st November, 2018 @14% p.a. plus CGST and SGST @9% each. On the due date, Harish paid the required amount. Pass necessary Journal entries in the books of both the parties.

Answer:

Pramod's Journal					
Date	Particulars		L.F.	Dr. (Rs.)	Cr.(Rs.)
2018 Oct.1	Bills Receivable A/c To Harish's A/c (Being acceptance received)	Dr.		40,000	40,000
Nov.1	Bank A/c Discounting Charges A/c (WN1) Input CGST A/c Input SGST A/c To Bills Receivable A/c	Dr. Dr. Dr. Dr.		38,348 1,400 126 126	40,000

	(Being bill discounted from bank @ 14% p.a. plus CGST and SGST @9% each)				
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Working Notes:

1) Discounting Charges Paid to the bank (based on months left until maturity)	= $(40,000 \times 14/100 \times 3/12) = \text{Rs. } 1,400$
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Harish's Journal					
Date	Particulars		L.F.	Dr. (Rs.)	Cr.(Rs.)
2018 Oct.1	Pramod's A/c To Bills Payable A/c (Being the acceptance for the amount given to Pramod)	Dr.		40,000	40,000
2019 Feb.1	Bills Payable A/c To Cash A/c (Being the payment of the bill made on due date)	Dr.		40,000	40,000

Endorsement of Bill- Accounting Treatment with Examples

Objective

After going through this lesson, you shall be able to understand the concept of 'Accounting Treatment when bill is endorsed in favour of a creditor'.

Introduction

In the last lesson, we discussed the Accounting Treatment in the Books of Drawer, when he/she gets the bill discounted with the bank. In this lesson, our discussion will be on the Accounting Treatment in the Books of Drawer, Drawee and Endorsee (*i.e.* person to whom the bill is endorsed), when the bill is endorsed or negotiated in favour of a creditor.

Accounting Treatment when bill is endorsed or negotiated in the favour of creditors

Sometimes holder (or drawer) of the bill uses Bill of Exchange for paying off his/her debt. This is done by transferring the bill in favour of Creditors. Amount due to creditors will get reduced to the extent of bill amount. Person who is transferring the bill will be called as **Endorser** and person in whose favour this bill has been transferred will be termed as **Endorsee**. In simple terms by transferring Bill in favour of Creditors, Drawer becomes Endorser and Creditor of drawer becomes Endorsee.

Following entries will be passed to record the transactions of endorsement.

Journal					
S.No.	In the Books of Drawer		In the Books of Drawee		In the Books of Endorsee
1	At the time of sale of goods on credit		At the time of purchase of goods on credit		At the time of purchase or sale of goods on credit
	Party's Name (Purchaser)	Dr.	Purchases A/c	Dr.	NO ENTRY
	To Sales A/c		To Party's Name (Seller)		

	(Goods sold on credit)		(Goods purchased on credit)		
2	When Bill is drawn and received		When Bill is accepted and sent to drawer		When bill is drawn, accepted and received
	Bills Receivable A/c	Dr.	Party's Name (Seller)	Dr.	NO ENTRY
	To Party's Name (Purchaser)		To Bills Payable A/c		
	(Acceptance received against amount due)		(Acceptance given)		
3	When Bill is endorsed in favour of Creditor		When bill is endorsed in favour of Creditor		When bill is endorsed in favour of Creditor
	Party's Name (Creditor/Endorsee)	Dr.	NO ENTRY		Bills Receivable A/c
	To Bills Receivables A/c				To Party's Name (Endorser)
	(Bill endorsed in favour of creditor)				(Bill received)
4	Bill held till Maturity Date		Bill held till Maturity Date		Bill held till Maturity Date
	<u>At the time of Maturity of Bill</u>		<u>At the time of Maturity of Bill</u>		<u>At the time of Maturity of Bill</u>
	NO ENTRY		Bills Payable A/c	Dr.	Cash/Bank A/c
			To Cash/Bank A/c		To Bills Receivable A/c
			(Amount paid on maturity of bill)		(Amount received on maturity of bill)
5	When Bill is discounted with Bank		When Bill is discounted with Bank		When Bill is discounted with Bank
	<u>At the time of discounting bill</u>		<u>At the time of discounting bill</u>		<u>At the time of discounting bill</u>
	NO ENTRY		NO ENTRY		Cash / Bank A/c
					Dr.
					Discounting Charges A/c
					Dr.
					To Bills Receivable A/c

			(Bill discounted with bank and discounting charges were charged)
<u>On the date of Maturity of Bill</u>	<u>On the date of Maturity of Bill</u>	<u>On the date of Maturity of Bill</u>	
NO ENTRY	Bills Payable A/c	Dr.	NO ENTRY
	To Cash A/c		
	(Amount paid on maturity date of bill)		

Example 1 Vipul sold goods of Rs 12,500 to Himanshu on April 01, 2013. On the same date, Vipul draws a 2 month bill of Rs 12,000 on Himanshu in full settlement of his debt. Bill was accepted and returned back to Vipul. After 25 days, Vipul endorse the bill in favour of his creditor Shashank. Bill was met on the due date. Pass the necessary Journal Entries in the books of all the three parties.

Solution

Books of Vipul					Books of Himanshu					Books of Shashank				
Journal					Journal					Journal				
Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)
2013					2013					2013				
April 01	Himanshu	Dr.	12,500		April 01	Purchases A/c	Dr.	12,500		April 26	Bills Receivable A/c	Dr.	12,000	
	To Sales A/c			12,500		To Vipul			12,500		To Vipul			12,000
	(Goods sold on credit)					(Goods purchased on credit)					(Bill received from Vipul)			
April 01	Bills Receivable A/c	Dr.	12,000		April 01	Vipul	Dr.	12,500		June 04	Cash A/c	Dr.	12,000	
	Discount Allowed A/c	Dr.	500			To Bills Payable A/c			12,000		To Bills Receivable A/c			12,000
	To Himanshu			12,500		To Discount Received A/c			500		(Amount paid on maturity of bill)			
	(Acceptance received against amount due)					(Acceptance given)								

[illegible]

Example 2 On Sept 01, 2013 Mitali sold goods of Rs 20,000 to Chaaya. On the same date Mitali gave a Bill of Rs 20,000 to Chaaya payable after 3 months. Bill was accepted and returned back to Mitali. Immediately on receiving the bill back she endorsed it in the favour of Amita in order to clear her debt. On Nov.01, 2013 Amita discounted this bill with bank @6%. Bill was duly honoured on its due date. Record the Journal Entries in the books of all the parties involved.

Solution:

Books of Mitali					Books of Chaaya					Books of Amita					
Journal					Journal					Journal					
Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013					2013					
Sept.01	Chaaya	Dr.	20,000		Sept.01	Purchases A/c	Dr.	20,000		Sept.01	Bills Receivable A/c	Dr.		20,000	
	To Sales A/c			20,000		To Mitali			20,000		To Mitali				20,000
	(Goods sold on credit)					(Goods purchased on credit)					(Bill received from Mitali)				
Sept.01	Bills Receivable A/c	Dr.	20,000		Sept.01	Mitali	Dr.	20,000		Nov.01	Cash A/c	Dr.		19,900	
	To Chaaya			20,000		To Bills Payable A/c			20,000		Discounting Charges A/c		Dr.	100	
	(Acceptance received against amount due)					(Acceptance given)					To Bills Receivable A/c				20,000
											(Bill discounted with bank)				
Sept.01	Amita	Dr.	20,000		Dec.04	Bills Payable A/c	Dr.	20,000							

	To Bills Receivable A/c		20,000		To Cash A/c		20,000					
	(Bill endorsed in favour of Amita)				(Amount paid on maturity of bill)							

Working Note:

Calculation of Discounting Charges:

Discounting Charges = $20,000 \times 6100 \times 112 = 100$ Discounting Charges = $20,000 \times 6100 \times 112 = 100$

Example 3 On May 21, 2013 Pawan sold goods to Sanjay for Rs 35,000 and drew a 3 month bill upon Sanjay for the amount due. Sanjay gives his acceptances on bill and return it back to Pawan. On the same date, just after receiving acceptances Pawan endorsed the bill in favour of Hem Chand in payment of his debt. On June 21, 2013 Hem Chand discounted the bill @ 12% from the bank. The bill is met on the due date. Pass necessary Journal Entries in the books of Pawan, Sanjay and Hem Chand.

Solution

Books of Pawan Journal				Books of Sanjay Journal				Books of Hem Chand Journal			
Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)
2013				2013				2013			
May 21	Sanjay	Dr. 35,000		May 21	Purchases A/c	Dr. 35,000		May 21	Bills Receivable A/c	Dr. 35,000	
	To Sales A/c		35,000		To Pawan		35,000		To Pawan		35,000
	(Goods sold on credit)				(Goods purchased on credit)				(Bill received from Mitali)		
May 21	Bills Receivable A/c	Dr. 35,000		May 21	Pawan	Dr. 35,000		June 21	Cash A/c	Dr. 34,300	
	To Sanjay		35,000		To Bills Payable A/c		35,000		Discounting Charges A/c	Dr. 700	
	(Acceptance received against amount due)				(Acceptance given)				To Bills Receivable A/c		35,000
									(Bill discounted with bank @12% for two months)		
May 21	Hem Chand	Dr. 35,000		Aug 24	Bills Payable A/c	Dr. 35,000					
	To Bills Receivable A/c		35,000		To Cash A/c		35,000				

	(Bill endorsed in favour of Hem Chand)				(Amount paid on maturity of bill)						

Working Note:

Calculation of Discounting Charges:

Discounting Charges = $35,000 \times 12100 \times 212 = 700$ Discounting Charges = $35,000 \times 12100 \times 212 = 700$

Bill is sent to Bank for Collection-Accounting Treatment with Examples
Objective

After going through this lesson, you shall be able to understand the concept of 'Accounting Treatment when the bill is sent to bank for collection'.

Introduction

In the last lesson, we discussed the Accounting Treatment in the books of Drawer and Drawee when the drawer endorsed the bill in favour of a third party. In this lesson, we will discuss about the Accounting Treatment when the bill is sent to bank for collection.

Accounting Treatment when bill is sent to bank for collection

When the bill is received the person may retain the bill till maturity, but sometimes the bill is sent to the bank with instructions that the bill should be retained till maturity and realised on its due date. Thus, when bill is sent to bank with such instructions it is known as Bill Sent to Bank for Collection. Here, the entry will be made in the books of Drawer and not in the books of Drawee. In the books of Drawee entry will be made at the time of making the payment.

Following Journal Entries will be passed in the books of Drawer and Drawee

	Journal			
S.No.	In the Books of Drawer		In the Books of Drawee	
1	At the time of sale of goods on credit		At the time of purchase of goods on credit	
	Party's Name (Purchaser)	Dr.	Purchases A/c	Dr.
	To Sales A/c		To Party's Name (Seller)	
	(Goods sold on credit)		(Goods purchased on credit)	
2	When bill is drawn and received		When bill is accepted and sent to drawer	
	Bills Receivable A/c	Dr.	Party's Name (Seller)	Dr.
	To Party's Name (Purchaser)		To Bills Payable A/c	
	(Acceptance received against amount due)		(Acceptance given)	
3	When Bill is sent to bank for collection		When Bill is sent to bank for collection	

	Bills Sent for Collection A/c	Dr.	NO ENTRY	
	To Bills Receivable A/c			
	(Bill is sent to bank for collection)			
4	<i>At the time of Maturity of Bill</i>		<i>At the time of Maturity of Bill</i>	
	Bank A/c	Dr	Bills Payable A/c	Dr.
	Bank Charges A/c	Dr	To Cash A/c/Bank A/c	
	To Bills Sent for Collection A/c			
	(Amount collected by bank for the bill sent to bank for collection)		(Amount paid on maturity date of bill)	

Example 1 On 1st May 2013 X draws a three month bill on Y for Rs 30,000 for the goods sold on credit. After its acceptance, X sends the bill to his bank for collection. On the due date the bill is honoured. Pass the necessary Journal Entries in the books of both the parties.

Solution

[illegible]

[illegible]

Example 2: On 1st March 2013 Ram sold goods to Shyam worth Rs 65,000 and drew a two months bill on him for this amount. Immediately after receiving its acceptance, Ram sends the bill to bank for collection. Bill was duly honoured on due date and bank charged commission of Rs 600 from Ram. Pass the necessary journal entries in the books of both the parties.

Solution

Books of Ram					Books of Shyam				
Journal					Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
Mar 01	Shyam	Dr.	65,000		Mar 01	Purchases A/c	Dr.	65,000	
	To Sales A/c			65,000		To Ram			65,000
	(Goods sold on credit)					(Goods purchased on credit)			
Mar 01	Bills Receivable A/c	Dr.	65,000		Mar 01	Ram	Dr.	65,000	
	To Shyam			65,000		To Bills Payable A/c			65,000
	(Acceptances received against amount due)					(Acceptances given)			
Mar 01	Bills Sent for Collection A/c	Dr.	65,000		May 04	Bills Payable A/c	Dr.	65,000	
	To Bills Receivable A/c			65,000		To Cash or Bank A/c			65,000
	(Bill is sent to bank for collection)					(Amount paid on maturity of bill)			

May 04	Bank A/c	Dr	64,400						
	Bank Charges A/c	Dr	600						
	To Bills Sent for Collection A/c			65,000					
	(Amount collected by bank)								

Example 3 On June 01, 2013 A received acceptances for Rs 60,000 from B at 2 months. After one month A sends the bill to bank for collection. The bill was duly honoured on due date and bank charged 1% commission. Pass the necessary journal entries in the books of A and B.

Solution

Books of A Journal					Books of B Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
Jun 01	Bills Receivable A/c	Dr.	60,000		Jun.01	A	Dr.	60,000	
	To B			60,000		To Bills Payable A/c			60,000
	(Acceptances received against amount due)					(Acceptances given)			
July 01	Bills Sent for Collection A/c	Dr	60,000		Aug 04	Bills Payable A/c	Dr.	60,000	
	To Bills Receivable A/c			60,000		To Cash or Bank A/c			60,000
	(Bill is sent to bank for collection)					(Amount paid on maturity of bill)			
Aug 04	Bank A/c	Dr	59,400						
	Bank Charges A/c		600						
	To Bills Sent for Collection A/c			60,000					
	(Amount is collected by Bank)								

Example 4: On 1st July, 2018, P sold goods to Q for Rs. 30,000 plus IGST @ 12% and draws a bill of exchange on him for 3 months on the same date. Q accepts the bill. The bill is sent to the bank for collection. The bill was duly paid by Q and the bank charged a commission of 2% for this service from P. Pass the necessary Journal entries in the books of both the parties.

Answer:

P's Journal					
Date	Particulars		L.F.	Dr.(Rs.)	Cr.(Rs.)
2018 Jul.1	Q's A/c To Sales A/c To Output IGST A/c (Being inter-state sale of goods to P and IGST charged @12%)	Dr.		33,600	30,000 3,600
Jul.1	Bills Receivable A/c To Q's A/c (Being bill accepted by Q)	Dr.		33,600	33,600
Jul.1	Bills Sent to Bank for Collection A/c To Bills Receivable A/c (Being bill sent to bank for collection)	Dr.		33,600	33,600
Oct.1	Bank A/c Bank Charges A/c To Bills Sent to Bank for Collection A/c (Being amount collected by Bank)	Dr. Dr.		32,928 672	33,600

Q's Journal					
Date	Particulars		L.F.	Dr.(Rs.)	Cr.(Rs.)
2018 Jul.1	Purchases A/c Input IGST A/c To P's A/c (Being goods purchased and IGST paid)	Dr.		30,000 3,600	33,600
Jul.1	P's A/c To Bills Payable A/c (Being the acceptance for the amount given to Pramod)	Dr.		33,600	33,600
Oct.1	Bills Payable A/c To Cash A/c (Being the payment of the bill made on due date)	Dr.		33,600	33,600

Dishonour of Bill- Accounting Treatment with Examples**Objective**

After going through this lesson, you shall be able to understand the concept of 'Accounting Treatment on dishonour of bill'.

Introduction

Till now, we have learnt the Accounting Treatment of Bill of Exchange in case of holding the bill till its maturity, Discounting of Bill, Bills sent to Bank for Collection and in case of Endorsement of Bill. In all cases, bill was honoured on its due date. But sometimes, there may be a case when drawee refuses to pay or is not in a position to pay the amount on the maturity date, this is known as Dishonour of Bill. In this lesson, we will discuss accounting treatment when a bill is dishonoured.

Dishonour of a Bill

Dishonour in simpler words means state of disgrace, where one does not value his words. Normally bill is honoured by Drawee at its maturity date but in some cases he/she may refuse to pay the amount or becomes insolvent. Under such circumstances bill is not met on its due date and which leads to dishonour of a bill. When a Bill is dishonoured then the drawer must have some evidence regarding its dishonour, for this he/she gets the dishonoured bill noted from the Notary Public. Although it is not mandatory to get a bill noted at the time of its dishonour but to be on a safer side Drawer or Holder is advised to do this.

Notary Public charges certain amount of fees for providing service of Noting, this fees is termed as Noting Charges. It is payable by the holder of bill, however he/she recovers it along with the bill amount from the Drawee.

Accounting Treatment when bill is dishonoured

When the bill is dishonoured it is accounted in the books of Drawer and Drawee in the following manner.

(a) In the books of Drawer: When the bill which is held till its maturity gets dishonoured, it has two effects in the books of Drawer. Firstly, Bills Receivable Account is credited as Bill (asset) as no bill exists now, on the other hand Drawee's Account is debited with the bill amount as Drawee will again become the debtor of the Drawer. Similarly, in all the other cases of Bills of Exchange Drawee's Account will be debited in case of dishonour whereas Bank Account is credited when the bill which is discounted with the bank gets dishonoured, Endorsee Account is credited when the bill is endorsed and Bills sent for collection and Cash Account(with the amount of noting charges) is credited in the last case.

If Noting Charges are paid by the Drawer, then for this he/she will debit Drawee's Account (as noting charges are recoverable from the Drawee) and credit Cash Account with the amount of Noting Charges. Point to be noted here, is that although Noting Charges is paid by Drawer but he/she is also recovering the same from Drawee, so it will not be treated as an expense in the books of Drawer.

(b) In the books of Drawee: When bill gets dishonoured it has two effects in the books of Drawee as well. Firstly due to dishonour, Bills Payable is debited as no bill exists now and on the other hand Creditor's Account is credited as the liability is to be recreated. In case bill is noted by Drawer then, Noting Charges are to be debited because it is an expense for the Drawee. On the other hand, Creditor's Account will be credited as these charges are to be paid back to Drawer (or Creditor).

Following Journal Entries will be passed in the books of Drawer and Drawee on the dishonour of a bill.

	Journal			
S.No.	In the Books of Drawer		In the Books of Drawee	
1	<i>At the time of sale of goods on credit</i>		<i>At the time of purchase of goods on credit</i>	
	Party's Name (Purchaser)	Dr.	Purchases A/c	Dr.
	To Sales A/c		To Party's Name (Seller)	
	(Goods sold on credit)		(Goods purchased on credit)	
2	<i>When bill is drawn and received</i>		<i>When bill is accepted and sent to drawer</i>	
	Bills Receivable A/c	Dr.	Party's Name (Seller)	Dr.
	To Party's Name (Purchaser)		To Bills Payable A/c	
	(Acceptances received against amount due)		(Acceptances given)	

3	When Bill is held till its maturity		When Bill is held till its maturity
	<u>On dishonour of bill on the due date</u>		<u>On dishonour of bill on the due date</u>
	Drawee	Dr.	Bills Payable A/c
	To Bills Receivable A/c		To Drawer
	(Dishonour of bill)		(Dishonour of bill)
	<u>Noting Charges paid during the year</u>		<u>Noting Charges paid during the year</u>
	Drawee	Dr.	Noting Charges A/c
	To Cash/Bank A/c		To Drawer
	(Noting Charges recoverable)		(Noting Charges are required to be paid to Drawer)
	Instead of above two entries a Combined entry can be passed		Instead of above two entries a Combined entry can be passed
	Drawee	Dr.	Bills Payable A/c
	To Bills Receivable A/c		Noting Charges A/c
	To Cash/Bank A/c		To Drawer
	(Bill is dishonoured and noting charges paid)		(Bill is dishonoured and noting charges paid)
4	When Bill is discounted and thereafter it gets dishonoured		When Bill is discounted and thereafter it gets dishonoured
	<u>When bill is discounted with Bank</u>		<u>When bill is discounted with Bank</u>
	Cash A/c	Dr.	NO ENTRY
	Discounting Charges A/c	Dr.	
	To Bills Receivable A/c		
	<u>On dishonour of bill</u>		<u>On dishonour of bill</u>

	Drawee	Dr.	Bills Payable A/c	Dr.
	To Cash or Bank A/c		Noting Charges A/c	Dr.
	(Dishonour of a discounted bill)		To Drawer	
			(Dishonour of bill)	
5	When bill is endorsed to creditors and thereafter it get dishonoured		When bill is endorsed to creditors and thereafter it get dishonoured	
	<u>When bill is endorsed in favour of Creditors</u>		<u>When bill is endorsed in favour of Creditors</u>	
	Party's Name (Creditor/Endorsee)	Dr.	NO ENTRY	
	To Bills Receivable A/c			
	<u>On dishonour of bill</u>		<u>On dishonour of bill</u>	
	Drawee	Dr.	Bills Payable A/c	Dr.
	To Endorsee		Noting Charges A/c	Dr.
	(Dishonour of a endorsed bill)		To Drawer	
			(Dishonour of bill)	
6	When bill is sent to bank for collection and thereafter it get dishonoured		When bill is sent to bank for collection and thereafter it get dishonoured	
	Bills Sent for Collection A/c	Dr.		
	To Bills Receivable A/c		NO ENTRY	
	(Bill is sent to bank for collection)			
	<u>On dishonour of bill</u>		<u>On dishonour of bill</u>	
	Drawee	Dr.	Bills Payable A/c	Dr.
	To Bills Sent for Collection A/c		Noting Charges A/c	Dr.
	To Cash or Bank A/c		To Drawer	

	(Bill sent for collection is dishonoured)		(Bill dishonoured and noting charges are paid)		

Example 1 Preetam sold goods to Anu for Rs 24,500 on April 01, 2013. On the same day Preetam drew a 2 month bill for the same amount and it was duly accepted. On the due date bill got dishonoured and Preetam paid Rs 1,000 as noting charges. Pass the Journal Entries in the Books of Preetam and Anu.

Solution

Books of Preetam Journal					Books of Anu Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
April 01	Anu	Dr.	24,500		April 01	Purchases A/c	Dr.	24,500	
	To Sales A/c			24,500		To Preetam			24,500
	(Goods sold on credit)					(Goods purchased on credit)			
April 01	Bills Receivable A/c	Dr.	24,500		April 01	Preetam	Dr.	24,500	
	To Anu			24,500		To Bills Payable A/c			24,500
	(Acceptance received against amount due)					(Acceptance given)			
June 04	Anu	Dr.	25,500		June 04	Bills Payable A/c	Dr.	24,500	
	To Bills Receivable A/c			24,500		Noting Charges A/c	Dr.	1,000	
	To Cash A/c			1,000		To Preetam			25,500
	(Bill dishonoured and noting charges paid)					(Amount paid on maturity of bill)			

Example 2 On March 01, 2013 Sonu sold goods to Rinku of Rs 20,000. On same day Sonu draws a bill of the amount payable at 3 months, Rinku accepts it and return back to Sonu. On April 01, 2013 Sonu discounts this bill with bank @ 9% p.a. On the due date bill was dishonoured and Noting Charges of Rs 200 were paid by the bank. Pass the Journal Entries in the books of Sonu and Rinku.

Solution

Books of Sonu Journal					Books of Rinku Journal				
Date	Particulars	L.F.	Debit	Credit	Date	Particulars	L.F.	Debit	Credit

			Amount (Rs)	Amount (Rs)				Amount (Rs)	Amount (Rs)
2013					2013				
March 01	Rinku	Dr.	20,000		Mar 01	Purchases A/c	Dr.	20,000	
	To Sales A/c			20,000		To Sonu			20,000
	(Goods sold on credit)					(Goods purchased on credit)			
March 01	Bills Receivable A/c	Dr.	20,000		Mar 01	Sonu	Dr.	20,000	
	To Rinku			20,000		To Bills Payable A/c			20,000
	(Acceptance received against amount due)					(Acceptance given)			
April 01	Cash A/c	Dr.	19,700		June 04	Bills Payable A/c	Dr.	20,000	
	Discounting Charges A/c	Dr.	300			Noting Charges A/c	Dr.	200	
	To Bills Receivable A/c			20,000		To Sonu			20,200
	(Bill Discounted with Bank @ 9%)					(Bill dishonoured on the due date and Noting Charges were paid)			
June 04	Rinku	Dr.	20,200						
	To Bank A/c			20,200					
	(Discounted bill dishonoured)								

Working Note:

Calculation of Discounting Charges:

Discounting Charges = $20,000 \times 9\% \times \frac{21}{360} = 300$

Example 3 Kapil drew a bill of Rs 16,500 on May 01, 2013 on Vishal payable after 4 months. Vishal accepted this bill and return back to Kapil. On June 15, 2013 Kapil endorsed this bill in favour of Ajay one of his Creditor. On the due date, bill was dishonoured and noting charges of Rs 250 were paid. Pass the Journal Entries in the books of Kapil, Vishal and Ajay.

Solution

Books of Kapil	Books of Vishal	Books of Ajay
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Journal					Journal					Journal				
Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)
2013					2013					2013				
May 01	Bills Receivable A/c	Dr.	16,500		May 01	Kapil	Dr.	16,500		June 15	Bills Receivable A/c	Dr.	16,500	
	To Vishal			16,500		To Bills Payable A/c			16,500		To Kapil			16,500
	(Acceptances received from Vishal)					(Acceptances were given to Kapil)					(Endorsement were received from Kapil)			
June 15	Ajay	Dr.	16,500		Sept. 04	Bills Payable A/c	Dr.	16,500		Sept. 04	Kapil	Dr.	16,750	
	To Bills Receivable A/c			16,500		Noting Charges A/c	Dr.	250			To Bills Receivable A/c			16,500
	(Bill endorsed in favour of Ajay)					To Kapil			16,750		To Cash A/c			250
						(Bill dishonoured on maturity date)					(Bill dishonoured on maturity date)			
Sept. 04	Vishal	Dr.	16,750											
	To Ajay			16,750										
	(Bill dishonoured and noting charges paid)													

Solution

2013					2013					2013				
Oct. 01	Bills Receivable A/c	Dr.	30,000		Oct. 01	Sushma	Dr.	30,000		Oct. 15	Bills Receivable A/c	Dr.	30,000	
	To Rekha			30,000		To Bills Payable A/c			30,000		To Sushma			30,000
	(Acceptances received from Rekha)					(Acceptances were given to Sushma)					(Endorsement were received from Sushma)			
					2014									
Oct. 15	Jaya	Dr.	30,000		Jan. 04	Bills Payable A/c	Dr.	30,000		Nov. 01	Cash A/c	Dr.	29,650	
	To Bills Receivable A/c			30,000		Noting Charges A/c	Dr.	300			Discounting Charges A/c	Dr.	350	
	(Bill endorsed in favour of Jaya)					To Sushma			30,300		To Bills Receivable A/c			30,000
2014						(Bill dishonoured on maturity date)					(Bill discounted from bank @7%)			
Jan. 04	Rekha	Dr.	30,300							2014				
	To Jaya			30,300						Jan. 04	Sushma	Dr.	30,300	
	(Bill dishonoured and noting charges paid)										To Bank A/c			30,300
											(Bill dishonoured and noting charges paid)			

Working Note:

Calculation of Discounting Charges:

$$\text{Discounting Charges} = 30,000 \times 7100 \times 212 = 350$$

Example 5 On 1st May 2013 L draws a three month bill on M for Rs 30,000 for the goods sold on credit. After its acceptance, L sends the bill to his bank for collection. On the due date the bill is dishonoured and bank charged Rs 100 as noting charges. Pass the necessary Journal Entries in the books of both the parties.

Solution

Books of L					Books of M				
Journal					Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)

2013					2013				
May 01	M	Dr.	30,000		May 01	Purchases A/c	Dr.	30,000	
	To Sales A/c			30,000		To L			30,000
	(Goods sold on credit)					(Goods purchased on credit)			
May 01	Bills Receivable A/c	Dr.	30,000		May 01	L	Dr.	30,000	
	To M			30,000		To Bills Payable A/c			30,000
	(Acceptance received against amount due)					(Acceptance given)			
May 01	Bills Sent for Collection A/c	Dr.	30,000		Aug 04	Bills Payable A/c	Dr.	30,000	
	To Bills Receivable A/c			30,000		Noting Charges A/c	Dr.	100	
	(Bill is sent to bank for collection on due date)					To Cash or Bank A/c			30,100
						(Bill dishonoured on due date)			
Aug 04	M	Dr.	30,100						
	To Bills Sent for Collection A/c			30,000					
	To Cash A/c			100					
	(Bill dishonoured on due date)								

Example 6 On July 01, 2013 Rachna decides to draw a bill of 3 months on Yamini for the due amount, it was duly accepted and then returned by her. Bill was dishonoured on the due date and Noting Charges were Rs 300. Pass the Journal Entries in the books of Rachna under the following cases:

- (1) Bill was held till maturity date
- (2) Bill was endorsed in the favour of Priya on July 25, 2013.
- (3) Bill was discounted @10% p.a. on August 01, 2013.

Solution

Case (1) Bill was held till maturity date.

Books of Rachna			
Journal			
Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)

2013				
July 01	Bills Receivable A/c	Dr.	45,000	
	To Yamini			45,000
	(Acceptance received from Yamini)			
Oct.04	Yamini	Dr.	45,300	
	To Bills Receivable A/c			45,000
	To Cash A/c			300
	(Bill dishonoured on the maturity date and noting charges were paid)			

Case (2) Bill was endorsed in the favour of Priya on July 25, 2013.

Books of Rachna				
Journal				
Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)
2013				
July 01	Bills Receivable A/c	Dr.	45,000	
	To Yamini			45,000
	(Acceptance received from Yamini)			
July 25	Priya	Dr.	45,000	
	To Bills Receivable A/c			45,000
	(Bill endorsed in favour of Priya)			
Oct.04	Yamini	Dr.	45,300	
	To Priya			45,300

	(Bill dishonoured on the maturity date and noting charges were paid)		

Case (3) Bill was discounted @10% p.a. on August 01, 2013.

Books of Rachna				
Journal				
Date	Particulars		Debit Amount (Rs)	Credit Amount (Rs)
2013				
July 01	Bills Receivable A/c	Dr.	45,000	
	To Yamini			45,000
	(Acceptance received from Yamini)			
Aug. 01	Bank A/c	Dr.	44,250	
	Discounting Charges A/c	Dr.	750	
	To Bills Receivable A/c			45,000
	(Bill discounted with the Bank)			
Oct. 04	Yamini	Dr.	45,300	
	To Bank			45,300
	(Bill dishonoured on the maturity date and noting charges were paid)			

Working Note:

Calculation of Discounting Charges:

Discounting Charges = $45,000 \times 10\% \times \frac{12}{12} = 750$ Discounting Charges = $45,000 \times 10\% \times \frac{12}{12} = 750$

Example 6: Moti sold goods to Rita on 1st April, 2018 for Rs. 80,000 plus CGST and SGST @9% each. A bill of exchange was drawn for 4 months and was duly accepted by Rita. However, on the due date the bill was dishonored and noting charges were paid were Rs. 200. Give Journal entries in the books of Moti and Rita.

Answer:

Moti's Journal				

Date	Particulars		L.F.	Dr.(Rs.)	Cr.(Rs.)
2018 Apr.1	Rita's A/c To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold to Rita plus CGST & SGST paid @ 9% each)	Dr.		94,400	80,000 7,200 7,200
Apr. 1	Bills Receivable A/c To Rita's A/c (Being acceptance received)	Dr.		94,400	94,400
Aug.1	Rita's A/c To Bills Receivable A/c To Cash/Bank A/c (Being bill dishonored and noting charges paid)	Dr.		94,600	94,400 200

Rita's Journal					
Date	Particulars		L.F.	Dr.(Rs.)	Cr.(Rs.)
2018 Apr.1	Purchases A/c Input CGST A/c Input SGST A/c To Moti's A/c (Being goods purchased plus CGST and SGST paid @ 9%)	Dr. Dr. Dr.		80,000 7,200 7,200	94,400
Apr.1	Moti's A/c To Bills Payable A/c (Being bill accepted)	Dr.		94,400	94,400
Aug.1	Bills Payable A/c Noting Charges A/c To Moti's A/c (Being bill dishonored and noting charges payable)	Dr. Dr.		94,400 200	94,600

Distinction between Noting Charges and Discounting Charges

Basis	Noting Charges	Discounting Charges
1) When Paid?	When a bill is dishonored by the drawee.	When a bill is discounted by the drawer from the bank.

2) Who Pays?	To be paid by the drawee. In case the drawee pays then the same shall be recovered from the debtor or drawee.	To be paid by the drawer. Hence, not recoverable from the drawee.
3) Purpose	It is paid to the notary to record the fact of dishonour of the bill.	It is paid to the bank for paying the bill amount to the drawer before the due date.
4) Timing of the payment	Paid at the due date of the bill.	Paid before the due date of the bill.
5) Disclosure	Entry is passed in the books of drawee.	No entry is passed in the books of drawee.

Insolvency of Drawee- Accounting Treatment with Examples

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Insolvency of Drawee/Acceptor
- Accounting Treatment of bill when drawee becomes insolvent

Introduction

In the previous lesson, we have extensively studied the accounting treatment of the cases involving Dishonour of a Bill. Moving forward in the same swing, we will now discuss the accounting treatment of a Bill of Exchange particularly when an acceptor becomes insolvent. As you know that Dishonour of a bill is due to the insolvency of the Drawee, so in a way this lesson is an extension of the topic dishonour of a bill.

Insolvency of Drawee

Insolvency is a situation where the person is not able to pay off his/her liabilities or debts. Sometimes a bill may get dishonoured due to the insolvency of the Drawee on the due date. In such a case the Drawer has no option but to recover his dues from the estates of Drawee and in case his estate remains insufficient then the remaining amount would be treated as Bad Debt by the Drawer.

Accounting Treatment when drawee (acceptor) is insolvent

The insolvency of the acceptor will subsequently lead to dishonour of the bill, which will be accounted in the Books of Drawer and Drawee in the following manner.

(a) In the Books of Drawer: On Dishonour of bill, entry would remain same as passed in previous lesson. When Drawer recovers his dues from estates of Drawee, Cash Account is debited and any remaining balance is transferred to the Bad Debts Account.

(b) In the Books of Drawee: In case a bill is dishonoured its treatment would remain the same as done in the previous lesson. At the time of paying-off part of dues of drawer by drawee from his/her estates, Drawer Account will be debited with simultaneous credit of Cash Account and Deficiency Account. Deficiency Account refers to Account which contains the amount that remain unpaid by Drawee.

So, Journal Entries for these are:

	Journal			
S.No.	(a) In the Books of Drawer		(b) In the Books of Drawee	
1	On dishonour of bill on the due date		On dishonour of bill	
	Drawee	Dr.	Bills Payable A/c	Dr.
	To Bills Receivable A/c		Noting Charges A/c	Dr.
	To Cash or Bank A/c		To Creditor or Drawer	
	(Dishonour of bill)		(Bill dishonoured)	
	Entries for dishonour in other cases are already discussed in the previous lesson.			
2	On recovery of part payment as dividend from Insolvent's		On recovery of part payment as dividend from Insolvent's	

Estates			Estates		
Cash / Bank A/c	Dr.		Drawer A/c	Dr.	
Bad Debts A/c	Dr.		To Cash A/c		
To Drawee			To Deficiency A/c		
(On recovery of part of dues and balance transferred to Bad Debts)			(On payment of part of dues and balance transferred to Deficiency A/c)		

Example -1: Shiv sold goods to Narayan of Rs 12,000 on July 01, 2013. On the same day, Shiv draws bill of the due amount payable after 3 months. Bill was accepted and returned by Narayan. Shiv get the bill discounted with Bank for Rs 11,500. On the due date bill was dishonoured due to insolvency of Narayan, only 40% was recovered from his estates. Pass the Journal Entries in the Books of Shiv and Narayan.

Solution

Books of Shiv Journal					Books of Narayan Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
July 01	Narayan	Dr.	12,000		July 01	Purchases A/c	Dr.	12,000	
	To Sales A/c			12,000		To Shiv			12,000
	(Goods sold on credit)					(Goods purchased on credit)			
July 01	Bills Receivable A/c	Dr.	12,000		July 01	Shiv	Dr.	12,000	
	To Narayan			12,000		To Bills Payable A/c			12,000
	(Acceptance received from Narayan)					(Acceptance given to Shiv)			
July 01	Bank A/c	Dr.	11,500		Oct. 04	Bills Payable A/c	Dr.	12,000	
	Discounting Charges A/c	Dr.	500			To Shiv			12,000
	To Bills Receivable A/c			12,000		(Bill dishonoured due to insolvency)			

[illegible]

Example-2: On April 01, 2013 Puneet sold goods to Kamal of Rs 15,000. On same day Puneet draws a bill of the amount payable at 3 months, Kamal accepts it and return back to Puneet. On May 01, 2013 Puneet discounts this bill with bank @ 10% p.a. On the due date bill was dishonoured due to insolvency of Kamal and Noting Charges of Rs 300 were paid by the bank. 30% was recovered from his estates. Pass the Journal Entries in the books of Puneet and Kamal.

Solution

[illegible]

April 01	Bills Receivable A/c	Dr.	15,000		April 01	Puneet	Dr.	15,000	
	To Kamal			15,000		To Bills Payable A/c			15,000
	(Acceptance received from Kamal)					(Acceptance given to puneet)			
May 01	Bank A/c	Dr.	14,750		July 04	Bills Payable A/c	Dr.	15,000	
	Discounting Charges A/c (WN)	Dr.	250			Noting Charges A/c	Dr.	300	
	To Bills Receivable A/c			15,000		To Puneet			15,300
	(Bill discounted with the bank @ 10%)					(Bill dishonoured on the due date and Noting Charges were paid)			
July 04	Kamal	Dr.	15,300		July 04	Puneet	Dr.	15,300	
	To Bank			15,300		To Bank A/c			4,590
	(Bill dishonoured)					To Deficiency A/c			10,710
						(Payment of 30% part of dues and balance transferred to Deficiency Account)			
July 04	Bank A/c (30% × 15,300)	Dr.	4,590						
	Bad Debts A/c	Dr.	10,710						
	To Kamal			15,300					
	(Recovery of 30% part of dues and balance transferred to Bad Debts)								

Working Note:

Calculation of Discounting Charges:

$$\text{Discounting Charges} = 15,000 \times 10/100 \times 212 = 250$$

Example-3: On August 01, 2013 Ravi sold goods valued Rs 75,000 to Goldy, in return received cash of Rs 30,000 and two bills of Rs 25,000 and 20,000 of two months each. Both bills were duly accepted by Goldy and returned to Ravi. First bill was discounted with the Bank @ 6% on the date of acceptance whereas second bill was endorsed in favour of Deepak. On the due date both the bills get dishonoured due to insolvency of Goldy. Bank has paid Rs 350 and Deepak has paid Rs 120 as noting charges. Nothing was realized from the estates of Goldy. Pass the necessary Journal Entries in the books of Ravi and Goldy.

Solution

Books of Ravi Journal					Books of Goldy Journal						
Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013						2013					
Aug 01	Goldy	Dr.		75,000		Aug 01	Purchases A/c	Dr.		75,000	
	To Sales A/c				75,000		To Ravi				75,000
	(Goods sold on credit)						(Goods purchased on credit)				
Aug 01	Cash A/c	Dr.		30,000		Aug 01	Ravi	Dr.		75,000	
	Bills Receivable (1) A/c	Dr.		25,000			To Cash A/c				30,000
	Bills Receivable(2) A/c	Dr.		20,000			To Bills Payable(1) A/c				25,000
	To Goldy				75,000		To Bills Payable(2) A/c				20,000
	(Cash & Acceptances received from Kamal)						(Acceptances were given to Ravi)				
Aug 01	Bank A/c	Dr.		24,750		Oct 04	Bills Payable(1) A/c	Dr.		25,000	
	Discounting Charges A/c	Dr.		250			Bills Payable(2) A/c	Dr.		20,000	
	To Bills Receivable (1) A/c				25,000		Noting Charges A/c	Dr.		470	
	(Bill discounted with the bank)						To Ravi A/c				45,470
							(Bill dishonoured on maturity date)				
Aug 01	Deepak	Dr.		20,000		Oct 04	Ravi	Dr.		45,470	
	To Bills Receivable (2) A/c				20,000		To Deficiency A/c				45,470

	(Bill endorsed in favour of Deepak)						(Nothing is paid)			
Oct 04	Goldy	Dr.		45,470						
	To Bank A/c				25,350					
	To Deepak				20,120					
	(Bill dishonoured and noting charges paid)									
Oct 04	Bad debts A/c Dr To Goldy			45,470	45,470					
	(Amount written off as bad debts)									

Example-4: Rajat accepted a bill of Rs 20,000 for two months on March 1,2013 , drawn by Lalit . Lalit discounted the same with his bank on March 4,2013 at 6% p.a. At maturity the bill was dishonoured and noting charge of Rs 120 was paid. One month after maturity, Rajat paid Rs 5000 to Lalit and accepted a fresh bill for three months including interest at 6% p.a. Please pass the journal entries in the books of Rajat and Lalit.

Solution

Books of Lalit					Books of Rajat				
Journal					Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
Mar 01	Bills Receivable A/c	Dr.	20,000		Mar 01	Lalit	Dr.	20,000	
	To Rajat			20,000		To Bills Payable A/c			20,000
	(Acceptances received from Rajat for two months)					(Acceptances given to Lalit)			
Mar 04	Bank A/c	Dr.	19,800		May 04	Bills Payable A/c	Dr.	20,000	

	Discounting Charges A/c	Dr.	200			Noting Charges A/c	Dr.	120	
	To Bills Receivable A/c			20,000		To Lalit			20,120
	(Bill discounted with the bank)					(Amount paid on maturity of bill)			
May 04	Rajat	Dr.	20,120		June 04	Lalit	Dr.	5,000	
	To Bank A/c			20,120		To Bank A/c			5,000
	(Bill dishonoured)					(Being cash paid to Lalit)			
June 04	Bank A/c	Dr.	5,000		June 04	Interest A/c	Dr.	327	
	To Rajat			5,000		To Lalit			327
	(Being cash received from Rajat)					(Being interest charged @ 6% p.a.)			
June 04	Rajat	Dr.	327		June 04	Lalit	Dr.	15,447	
	To Interest A/c			327		To Bills Payable A/c			15,447
	(Being interest Charged @ 6% p.a.)					(Being the acceptance given for three months)			
June 04	Bills Receivable A/c			15,447					
	To Rajat			15,447					
	(Being the acceptance received for three months)								

Working Notes:

WN1: Calculation of Interest on the outstanding balance of Bill Dishonoured at maturity:

On Rs 20,120 for 1 month @ 6% = $20,120 \times 6100 \times 112 = 100.60$ On Rs 15,120 for 3 months @ 6% = $15,120 \times 6100 \times 312 = 226.80$ ∴ Total Interest charged = $100.60 + 226.80 = \text{Rs } 327$ (Approx.) On Rs 20,120 for 1 month @ 6% = $20,120 \times 6100 \times 112 = 100.60$ On Rs 15,120 for 3 months @ 6% = $15,120 \times 6100 \times 312 = 226.80$ ∴ Total Interest charged = $100.60 + 226.80 = \text{Rs } 327$ (Approx.)

WN2: Calculation of Amount of Fresh Bill Drawn on Renewal

	20,000
--	--------

Original Bill	
Add: Noting Charges	120
	20,120
Less: Cash Received	5,000
Outstanding Amount	15,120
Add: Interest Charged	327
Amount of fresh bill issued	15,447

Renewal and Retirement of Bill- Accounting Treatment with Examples

Objectives

After going through this lesson, you shall be able to understand the following concepts.

- Renewal of Bill and its Accounting Treatment
- Retirement of Bill and its Accounting Treatment

Introduction

In the previous lesson, we learnt the accounting treatment in the case when bill is dishonoured due to insolvency of drawee in detail. In this lesson, we will discuss the accounting treatment in case of renewal and retirement of bill.

Renewal of Bill

In some case it happens that on the due date of bill, drawee is unable to pay the bill amount and request Drawer to cancel it. In place of this cancelled bill he ask Drawer to issue a new bill, this gives him some extra time to pay the debts of Drawer. This whole process is called Renewal of Bill where old bill is replaced by a new bill. Drawer in return of issuing new bill charges interest from Drawee. This interest can either be paid in cash or its value can be included in the value of new bill. This interest is always calculated on the amount of new bill with the given rate for the period equal to new bill period. Point to be remembered here is Interest is always calculated on the amount of New Bill.

Also in case of Renewal of Bill there is no need of noting bill, this is because here cancellation of bill has been made on the request of drawee and not due to any dishonour.

Accounting Treatment of Renewal of Bill

Following Journal Entries will be passed in the Books of Drawer and Drawee.

	Journal			
S.No.	In the Books of Drawer		In the Books of Drawee	
1	<i>At the time of sale of goods on credit</i>		<i>At the time of purchase of goods on credit</i>	
	Party's Name (Purchaser)	Dr.	Purchases A/c	Dr.
	To Sales A/c		To Party's Name (Seller)	
	(Goods sold on credit)		(Goods purchased on credit)	
2	<i>When bill is drawn and received</i>		<i>When bill is accepted and sent to drawer</i>	

	Bills Receivable A/c	Dr.	Party's Name (Seller)	Dr.
	To Party's Name (Purchaser)		To Bills Payable A/c	
	(Acceptance received against amount due)		(Acceptance given)	
3	<i>When Original Bill is cancelled and New Bill is issued in its place</i>		<i>When Original Bill is cancelled and New Bill is issued in its place</i>	
	<u>On Cancellation of Original Bill: _</u>		<u>On Cancellation of Original Bill:</u>	
	Party's Name (Purchaser)	Dr.	Bills Payable A/c	Dr.
	To Bills Receivable A/c		To Party's Name (Seller)	
	(Cancellation of bill)		(Cancellation of bill)	
	<u>Interest charged on new bill for extended period</u>		<u>Interest charged on new bill for extended period</u>	
	Party's Name (Purchaser)	Dr.	Interest A/c	Dr.
	To Interest A/c		To Party's Name (Seller)	
	(Interest charged for the extended period)		(Interest charged for the extended period)	
	<u>If part payment of debt is received</u>		<u>If part payment of debt is paid</u>	
	Cash or Bank A/c	Dr.	Party's Name (Seller)	Dr.
	To Party's Name (Purchaser)		To Cash or Bank A/c	
	(Part payment is received)		(Part payment is made)	
	<u>New Bill drawn</u>		<u>New Bill accepted</u>	
	Bills Receivable A/c	Dr.	Party's Name (Seller)	Dr.
	To Party's Name (Purchaser)		To Bills Payable A/c	
	(New Bill was drawn)		(New bill was accepted)	
4	<i>At the time of Maturity of New Bill</i>		<i>At the time of Maturity of New Bill</i>	

Cash A/c	Dr.	Bills Payable A/c	Dr.
To Bills Receivable A/c		To Cash A/c	
(Amount received on maturity of bill)		(Amount paid on maturity date of bill)	

Example 1 Karan sold goods to Kunal of Rs 18,000 on September 01, 2013. On the same day Karan drew a bill of the amount due payable after 3 months. Bill was accepted and returned by Kunal. On November 01, 2013 Kunal requested Karan to cancel the bill, to accept Rs 6,000 as part payment and drew a fresh bill of Rs 12,500 for a further period of two months. Rs 500 is the interest for renewal of bill. Bill was honoured on its due date. Pass the Journal Entries in the Books of Karan and Kunal.

Solution

Books of Karan					Books of Kunal				
Journal					Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
Sept.01	Kunal Dr.		18,000		Sept.01	Purchases A/c Dr.		18,000	
	To Sales A/c			18,000		To Karan			18,000
	(Goods sold on credit)					(Goods purchased on credit)			
Sept.01	Bills Receivable A/c Dr.		18,000		Sept.01	Karan Dr.		18,000	
	To Kunal			18,000		To Bills Payable A/c			18,000
	(Acceptances received from Kunal)					(Acceptances given)			
Nov.01	Kunal Dr.		18,000		Nov.01	Bills Payable A/c Dr.		18,000	
	To Bills Receivable A/c			18,000		To Karan			18,000
	(Bill was cancelled)					(Bill was cancelled)			
Nov.01	Cash A/c Dr.		6,000		Nov.01	Karan Dr.		6,000	
	To Kunal			6,000		To Cash A/c			6,000
	(Part payment was received)					(Part payment was made)			

Nov.01	Kunal	Dr.		500			Nov.01	Interest A/c	Dr.		500	
	To Interest				500		To Karan				500	
	(Interest charged for the extended period)						(Interest made due for the extended period)					
Nov.01	Bill Receivable A/c	Dr.		12,500			Nov.01	Karan	Dr.		12,500	
	To Kunal				12,500		To Bills Payable A/c				12,500	
	(Acceptances of new bill was received)						(Acceptances of New bill were given)					
2014							2014					
Jan.04	Cash A/c	Dr.		12,500			Jan.04	Bills Payable A/c	Dr.		12,500	
	To Bills Receivable A/c				12,500		To Cash A/c				12,500	
	(Bill was met on the due date)						(Bill was met on the due date)					

Solution

May 01	Imran	Dr.		204		May 01	Interest A/c	Dr.		204	
	To Interest A/c				204		To Ranbir				204
	(Interest charged for the extended period)						(Interest charged for the extended period)				
May 01	Cash A/c	Dr.		6,000		May 01	Ranbir	Dr.		16,404	
	Bills Receivable A/c	Dr.		10,404			To Cash A/c				6,000
	To Imran				16,404		To Bills Payable A/c				10,404
	(Cash received for part payment and fresh acceptances of balance amount along with interest received from Imran)						(Cash paid for part payment and fresh acceptances of balance amount along with interest sent to Imran)				

Working Note:

Calculation of Interest:

$$\text{Interest} = 10,200 \times 8100 \times 312 = 204 \quad \text{Interest} = 10,200 \times 8100 \times 312 = 204$$

Retirement of Bill

Sometimes Acceptor/Drawee wants to pay the bill before its due date this is called retirement of bill. As a result of early payment the drawer/holder allows Drawee to pay amount lesser than the bill amount. Difference between Bill amount and actual payment amount is termed as Rebate. This rebate is a loss for holder as he/she is getting short payment and it is a gain for Drawee as he has to pay less amount.

Accounting Treatment of Retirement of Bill

Following Journal Entries will be passed in the Books of Drawer and Drawee.

	Journal			
S.No.	In the Books of Drawer		In the Books of Drawee	
1	When Bill is retired under Rebate		When Bill is retired under Rebate	
	Cash A/c	Dr.	Bills Payable A/c	Dr.
	Rebate A/c	Dr.	To Cash (or Bank) A/c	
	To Bills Receivables A/c		To Rebate A/c	
	(Amount received before due date and rebate allowed)		(Acceptance met before due date and rebate was received)	

Example 3 On April 01, 2013 Vikas sold goods valued Rs 25,000 to Mohit, in return drew a bill of 5 months. Bill was duly accepted by Mohit and returned to Vikas. On June 04, 2013 Mohit retired bill under the rebate of 8% p.a. Pass the necessary Journal Entries in the books of Vikas and Mohit.

Solution

Books of Vikas					Books of Mohit				
Journal					Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
April 01	Mohit	Dr.	25,000		April 01	Purchases A/c	Dr.	25,000	
	To Sales A/c			25,000		To Vikas			25,000
	(Goods sold on credit)					(Goods purchased on credit)			
April 01	Bills Receivable A/c	Dr.	25,000		April 01	Vikas	Dr.	25,000	
	To Mohit			25,000		To Bills Payable A/c			25,000
	(Acceptances of the bill were received from Mohit)					(Acceptances were given to Vikas)			
June 04	Cash A/c	Dr.	24,500		June 04	Bills Payable A/c	Dr.	25,000	
	Rebate A/c (WN)	Dr.	500			To Cash A/c			24,500
	To Bills Receivable A/c			25,000		To Rebate A/c			500
	(Amount received before due date and rebate allowed)					(Acceptance met before due date and rebate was received)			

Working Note:

Calculation of Rebate:

$$\text{Rebate} = 25,000 \times 8 \times 100 \div 360 = 500$$

Example 4: R sells goods to S for Rs. 60,000 plus CGST and SGST paid @6% each. S accepts a bill for 3 months. Before the due date, S makes a request to R to cancel the bill by accepting a part payment of Rs. 10,000 and drawing another bill for a further period of 2 months. Interest of Rs. 150 is to be paid for the extended period. R agrees to the proposition. The new bill is duly honoured by S. Pass Journal entries in the books of both the parties.

Answer:

Journal of R				

Date	Particulars		L.F.	Dr.(Rs.)	Cr.(Rs.)
	S's A/c To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold and GST charged)	Dr.		67,200	60,000 3,600 3,600
	Bills Receivable A/c To S's A/c (Being acceptance received from S)	Dr.		67,200	67,200
	S' A/c To Bills Receivable A/c (Being the bill cancelled for renewal)	Dr.		67,200	67,200
	Cash/ bank A/c To S's A/c (Being part payment received)	Dr.		10,000	10,000
	S's A/c To Interest A/c (Being interest charged for the extended period)	Dr.		150	150
	Bills Receivable A/c To S's A/c (Being new bill drawn for the balance plus the interest)	Dr.		57,350	57,350
	Bank/Cash A/ To Bills Receivable A/c (Being the new bill duly honoured)	Dr.		57,350	57,350

Journal of S					
Date	Particulars		L.F.	Dr.(Rs.)	Cr.(Rs.)
	Purchases A/c Input CGST A/c Input SGST A/c To R's A/c (Being goods purchased and GST paid)	Dr. Dr. Dr.		60,000 3,600 3,600	67,200
	R's A/c To Bills Payable A/c (Being acceptance given)	Dr.		67,200	67,200

	Bills Payable A/c To R's A/c (Being the bill cancelled for renewal)	Dr.		67,200	67,200
	R's A/c To Cash / Bank A/c (Being part payment paid)	Dr.		10,000	10,000
	Interest A/c To R's A/c (Being interest to be paid to R for the extended period)	Dr.		150	150
	R's A/c To Bills Payable A/c (Being new bill drawn)	Dr.		57,350	57,350
	Bills Payable A/c To Cash/Bank A/c (Being new bill duly honoured)	Dr.		57,350	57,350

Comprehensive Examples

Example 1 Rohit owed Rs 12,000 to Dinesh. On January 01, 2013 Rohit accepted a 3 month bill drawn by Dinesh for the debt amount. Dinesh discounts this bill with bank on January 15, 2013 for Rs 11,200. On March 26, 2013 Rohit requested Dinesh for renewal of Bill. Dinesh agrees on the condition that Rs 2,000 to be paid immediately together with an interest on the remaining amount at 9% p.a. for 2 months and for the remaining balance Rohit should accept a new bill for 2 months. Arrangements were carried out but on the maturity date of the new bill, Rohit get insolvent and only 30% recovered from his estates. Pass the Journal Entries in the books of Dinesh and Rohit.

Solution

Books of Dinesh Journal					Books of Rohit Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
Jan.01	Bills Receivable A/c	Dr.	12,000		Jan.01	Dinesh	Dr.	12,000	
	To Rohit			12,000		To Bills Payable A/c			12,000
	(Acceptances received from Rohit)					(Acceptances given)			
Jan.15	Bank A/c	Dr.	11,200		Mar 26	Bills Payable A/c	Dr.	12,000	
	Discounting Charges A/c	Dr.	800			To Dinesh			12,000
	To Bills Receivable A/c			12,000		(Bill was cancelled)			

[illegible]

May 29	Bank A/c	Dr.		3,000						
	Bad Debts A/c	Dr.		7,000						
	To Rohit				10,000					
	(30% of the amount due was received on the bill from Rohit estates)									

Working Note:

(1) Calculation of Interest:

Interest = $10,000 \times 9100 \times 212 = 150$ Interest = $10,000 \times 9100 \times 212 = 150$

Example 2 Rishi draws two bills on March 01, 2013 for Rs 5,000 and Rs 8,000. Bill for Rs 5,000 is for the three months while bill of Rs 8,000 is for two months. Both the bills were accepted by Piyush. On April 10, 2013 Piyush requested Rishi to renew Rs 5,000 bill with interest @15% for further period of two months. Rishi agrees on this proposal. On April 15, 2013, Piyush retires bill of Rs 8,000 at a rebate of Rs 250. On the due date of renewed bill, Piyush becomes insolvent and only 40 paise in a rupee were recovered from his estates. Pass the Journal Entries in the books of Rishi and Piyush.

Solution

Books of Rishi Journal					Books of Piyush Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
Mar 01	Bills Receivable (No 1) A/c Dr.		5,000		Mar 01	Rishi Dr.		13,000	
	Bills Receivable (No 2) A/c Dr.		8,000			To Bills Payable (No 1) A/c			5,000
	To Piyush			13,000		To Bills Payable (No 2) A/c			8,000
	(Acceptances received from Piyush)					(Acceptances given)			
Apr. 10	Piyush Dr.		5,000		Apr. 10	Bills Payable (No 1) A/c Dr.		5,000	
	To Bills Receivable (No 1) A/c			5,000		To Rishi			5,000
	(Bill cancelled for renewal)					(Bill was cancelled)			
Apr. 10	Piyush Dr. To Interest A/c (WN 1) (Interest charged for the extended period)		125	125	Apr. 10	Interest A/c Dr. To Rishi (Interest charged for the extended period)		125	125

Apr. 10	Bills Receivable (No 3) A/c	Dr.		5,125		Apr. 10	Rishi	Dr.		5,125
	To Piyush			5,125			To Bills Payable (No 3) A/c			5,125
	(New bill (No 3) drawn together with an interest @15% against cancellation of original bill (no 1))						(New Acceptance (No 3) were given together with an interest @15% against cancellation of original acceptances (no 1))			
Apr. 15	Bank A/c	Dr.		7,750		Apr. 15	Bills Payable (No 2) A/c	Dr.		8,000
	Rebate A/c	Dr.		250			To Bank A/c			7,750
	To Bills Receivable (No 2) A/c			8,000			To Rebate A/c			250
	(Amount received on retirement of Bill no 2 before its due date)						(Amount paid for retiring bill no 2 before its due date)			
June 13	Piyush	Dr.		5,125		June 13	Bills Payable (No 3)	Dr.		5,125
	To Bills Receivable (No 3) A/c			5,125			To Rishi			5,125
	(Bill dishonoured due to insolvency of Piyush)						(Bill dishonoured due to insolvency)			
June 13	Bank A/c (40% × 5,125)	Dr.		2,050		June 13	Rishi	Dr.		5,125
	Bad Debts A/c (5,125 – 2,050)	Dr.		3,075			To Bank A/c (40% × 5,125)			2,050
	To Piyush			5,125			To Deficiency A/c (5,125 – 2,050)			3,075
	(40 paisa in a rupee were received on the bill amount from Piyush estates)						(40 paisa in a rupee were paid on the bill amount and balance transferred to deficiency account)			

Working Note:

(1) Calculation of Interest:

$$\text{Interest} = 5,000 \times 15 \div 100 \times 212 = 125 \quad \text{Interest} = 5,000 \times 15 \div 100 \times 212 = 125$$

Example 3 Sachin sold goods to Vinod for Rs 30,000 on April 01, 2013. Sachin immediately receives cash of Rs 12,000 and for remaining amount he draw three bills of equal amount, each payable after 3 months. All the three bills were accepted by Vinod. First bill was discounted with bank at the rate of 10%, second bill was endorsed in favour of Saurav and third bill was send to Bank for collection. On the maturity date all the three bills were dishonoured. Bank pays Rs 300 and Saurav pays Rs 450 as noting charges. Pass the journal entries in the books of Sachin and Vinod.

Solution

Books of Sachin Journal					Books of Vinod Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
Apr. 01	Vinod	Dr.	30,000		Apr. 01	Purchases A/c	Dr.	30,000	
	To Sales A/c			30,000		To Sachin			30,000
	(Goods were sold)					(Goods were purchased)			
Apr. 01	Cash A/c	Dr.	12,000		Apr. 01	Sachin	Dr.	30,000	
	Bills Receivable (No 1) A/c	Dr.	6,000			To Cash A/c			12,000
	Bills Receivable (No 2) A/c	Dr.	6,000			To Bills Payable (No 1) A/c			6,000
	Bills Receivable (No 3) A/c	Dr.	6,000			To Bills Payable (No 2) A/c			6,000
	To Vinod			30,000		To Bills Payable (No 3) A/c			6,000
	(Cash and acceptances received from Vinod)					(Cash and acceptances were given)			
Apr. 01	Cash A/c	Dr.	5,850		July 04	Bills Payable (No 1) A/c	Dr.	6,000	
	Discounting Charges A/c	Dr.	150			Bills Payable (No 2) A/c	Dr.	6,000	
	To Bills Receivable (No 1) A/c			6,000		Bills Payable (No 3) A/c	Dr.	6,000	
	(Bill no 1 discounted with bank @10% for 3 months)					Noting Charges A/c (300 + 450)	Dr.	750	
						To Sachin			18,750
						(Bill no 1, 2 and 3 were dishonoured and noting charges of Rs 300 and 450 were payable)			

Apr. 01	Saurav	Dr.	6,000								
	To Bills Receivable (No 2) A/c			6,000							
	(Bill no 2 endorsed in favour of creditors)										
Apr. 01	Bills Sent for Collection A/c	Dr.	6,000								
	To Bills Receivable (No 3) A/c			6,000							
	(Bill no 3 sent for collection to the bank)										
July 04	Vinod (6,300 + 6,450 + 6,000)	Dr.	18,750								
	To Bank A/c (6,000 + 300)			6,300							
	To Saurav (6,000 + 450)			6,450							
	To Bills Sent for Collection A/c			6,000							
	(Bill no1,2 and 3 were dishonoured and noting charges of Rs 300 and 450 were paid by Bank and Saurav respectively)										

Example 4 On July 01, 2013 Manas discounted a 2 month bill of Rs 15,000 with a bank @12%. On the maturity date, bill was dishonoured and noting charges of Rs 750 were paid by bank. On the same date Sushant, drawee of the bill paid Rs 5,000 in cash and gives his acceptances to a new bill equal to remaining balance amount *plus* interest @ 12% p.a. for two months drawn by Manas. This new bill was discounted immediately by Manas with bank by paying discounting charges of Rs 250. On September 28, 2013 Sushant was declared insolvent and 40 paise in rupee were declared from his estates. Pass journal entries in the books of Manas and Sushant.

Solution

Books of Manas					Books of Sushant				
Journal					Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
July 01	Bank A/c	Dr.	14,700		Sept.04	Bills Payable A/c	Dr.	15,000	

	Discounting Charges A/c	Dr.		300			Noting Charges A/c	Dr.		750	
	To Bills Receivable A/c				15,000		To Manas				15,750
	(Bill discounted with bank)						(Bill was dishonoured)				
Sept.04	Sushant	Dr.		15,750		Sept.04	Manas	Dr.		5,000	
	To Bank A/c				15,750		To Cash A/c				5,000
	(Bill dishonoured on its due date and noting charges were paid)						(Cash paid to Manas)				
Sept.04	Cash A/c	Dr.		5,000		Sept.04	Interest A/c	Dr.		215	
	To Sushant				5,000		To Manas				215
	(Cash is paid)						(Interest payable @ 12% p.a. on the remaining balance Rs 10,750 for 2 months)				
Sept.04	Sushant	Dr.		215		Sept.04	Manas	Dr.		10,965	
	To Interest A/c (WN 1)				215		To Bills Payable A/c				10,965
	(Interest charged @ 12% p.a. on the remaining balance i.e. Rs 10,750 for 2 months)						(Acceptances for new bill given)				
Sept.04	Bills Receivable A/c (10,750 + 215)	Dr.		10,965		Sept.28	Bills Payable A/c	Dr.		10,965	
	To Sushant				10,965		To Manas				10,965
	(Acceptances of new bill was received)						(Bill dishonoured due to insolvency)				
Sept.04	Bank A/c	Dr.		10,715		Sept.28	Manas	Dr.		10,965	
	Discounting Charges A/c	Dr.		250			To Bank A/c				4,386
	To Bills Receivable A/c				10,965		To Deficiency A/c				6,579

	(Bill dishonoured due to insolvency of Rohit)						(40% of the amount due was paid and remaining transferred to Deficiency Account)			
Sept.28	Sushant	Dr.		10,965						
	To Bank A/c				10,965					
	(Bill dishonoured due to insolvency of Sushant)									
Sept.28	Bank A/c (40% ×10,965)	Dr.		4,386						
	Bad Debts A/c	Dr.		6,579						
	To Sushant				10,965					
	(40% of the amount due was received on the bill from Sushant estates)									

Working Note:

(1) Calculation of Interest:

Interest=10,750×12100×212=215Interest=10,750×12100×212=215

Example 5 On August 01, 2013 Aditya sold goods to Prabhjeet for Rs 25,000 and drew a 3 month bill on him with the due amount. Prabhjeet accepted the bill. On the same date, Aditya purchased goods of Rs 28,000 from Karan. Aditya endorsed Prabhjeet acceptances to Karan in full settlement. On October 01, 2013, Karan purchased goods of Rs 32,200 from Prabhjeet. Karan endorsed bill received from Aditya to Prabhjeet and paid Rs 2,500 in full settlement of amount due to Prabhjeet. On November 01, 2013, Prabhjeet purchased goods of Rs 40,000 from Aditya and he pays amount due to Aditya through a cheque. Pass Journal Entries in the books of Aditya, Prabhjeet and Karan.

Solution

Books of Aditya Journal				Books of Prabhjeet Journal				Books of Karan Journal			
Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	Debit Amount (Rs)	Credit Amount (Rs)
2013				2013				2013			
Aug.01	Prabhjeet	Dr. 25,000		Aug.01	Purchases A/c	Dr. 25,000		Aug.01	Aditya	Dr. 28,000	

	To Sales A/c		25,000			To Aditya		25,000			To Sales A/c		28,000
	(Goods were sold on credit)					(Goods were purchased)					(Goods were sold)		
Aug.01	Bills Receivable A/c	Dr.	25,000		Aug.01	Aditya	Dr.	25,000		Aug.01	Bills Receivable A/c	Dr.	25,000
	To Prabhjeet		25,000			To Bills Payable A/c		25,000			Discount Allowed A/c	Dr.	3,000
	(Acceptances were received from Prabhjeet)					(Acceptances were given)					To Aditya		28,000
											(Bill received from Aditya in full settlement of amount due)		
Aug.01	Purchases A/c	Dr.	28,000		Oct.01	Karan	Dr.	32,200		Oct.01	Purchases A/c	Dr.	32,200
	To Karan		28,000			To Sales A/c		32,200			To Prabhjeet		32,200
	(Goods were purchased)					(Goods were sold)					(Goods were purchased on credit)		
Aug.01	Karan	Dr.	28,000		Oct.01	Cash A/c	Dr.	2,500		Oct.01	Prabhjeet	Dr.	32,200
	To Bills Receivable A/c		25,000			Bills Receivable A/c	Dr.	25,000			To Cash A/c		2,500
	To Discount Received A/c		3,000			Discount Allowed A/c	Dr.	4,700			To Bills Receivable A/c		25,000
	(Bill endorsed in favour of Karan in full settlement of his claim)					To Karan		32,200			To Discount Received A/c		4,700
						(Cash of Rs 2,500 and Bill of Rs 25,000 was received in full settlement of his claim of Rs 32,200)					(Cash of Rs 2,500 and Bill of Rs 25,000 was paid in full settlement of his claim of Rs 32,200)		
Nov.01	Prabhjeet	Dr.	40,000		Oct.01	Bills	Dr.	25,000					

[illegible]

Example 6 Ajay sold goods worth Rs 20,000 to Birju. He further drew a 2 month bill on Birju of Rs 20,000 and this bill was duly accepted by Birju. Ajay endorsed the bill to Chandan. Chandan endorsed it to Deepak. Deepak discounted the bill with bank @ 6% p.a. On the due date, Bill was dishonoured and noting charges of Rs 500 were paid by the bank. Pass the Journal entries in the books of Ajay, Birju, Chandan and Deepak.

Solution

Books of Ajay				Books of Birju				Books of Chandan				Books of Deepak			
Journal				Journal				Journal				Journal			
Particulars		Debit Amount (Rs)	Credit Amount (Rs)	Particulars		Debit Amount (Rs)	Credit Amount (Rs)	Particulars		Debit Amount (Rs)	Credit Amount (Rs)	Particulars		Debit Amount (Rs)	Credit Amount (Rs)
Birju	Dr.	20,000		Purchases A/c	Dr.	20,000		Bills Receivable A/c	Dr.	20,000		Bills Receivable A/c	Dr.	20,000	
To Sales A/c			20,000	To Ajay			20,000	To Ajay			20,000	To Chandan			20,000

(Goods were sold on credit)						(Goods were purchased)						(Bill received from Ajay)						(Bill received from Chandan)					
Bills Receivable A/c	Dr.	20,000				Ajay	Dr.	20,000				Deepak	Dr.	20,000				Bank A/c	Dr.	19,800			
To Birju			20,000			To Bills Payable A/c			20,000			To Bills Receivable A/c			20,000			Discounting Charges A/c (WN1)	Dr.	200			
(Acceptances were received from Birju)						(Acceptances were given)						(Bill endorsed in favour of Deepak)						To Bills Receivable A/c					20,000
																		(Bill discounted with Bank)					
Chandan	Dr.	20,000				Bills Payable A/c	Dr.	20,000				Ajay	Dr.	20,500				Chandan	Dr.	20,500			
To Bills Receivable A/c			20,000			Noting Charges A/c	Dr.	500				To Deepak			20,500			To Bank A/c					20,500
(Bill endorsed in favour of Chandan)						To Ajay					20,500	(Bill dishonoured and noting charges receivable from Ajay and payable to Deepak)						(Bill dishonoured and noting charges were paid by the Bank)					
						(Bill dishonoured and noting charges were payable to Ajay)																	
Birju	Dr.	20,500																					
To Chandan					20,500																		
(Bill endorsed in favour of Chandan was dishonoured and noting charges receivable from Birju and payable to Chandan)																							

Books of Mukesh						Books of Mahesh					
Journal						Journal					
Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013						2013					
June 01	Mahesh	Dr.		32,000		June 01	Purchases A/c	Dr.		32,000	
	To Sales A/c				32,000		To Mukesh				32,000
	(Goods were sold)						(Goods were purchased)				
June 01	Bills Receivable A/c	Dr.		32,000		June 01	Mukesh	Dr.		32,000	
	To Mahesh				32,000		To Bills Payable A/c				32,000
	(Acceptances received from Mahesh)						(Acceptances given)				
July 01	Bank A/c	Dr.		31,360		Sept.04	Bills Payable A/c	Dr.		32,000	
	Discounting Charges A/c (WN 1)	Dr.		640			Noting Charges A/c	Dr.		350	
	To Bills Receivable A/c				32,000		To Mukesh				32,350
	(Bill discounted with bank @12%)						(Bill dishonoured on its due date and noting charges were payable to Mukesh)				

Sept.04	Mahesh	Dr.		32,350		Sept.04	Mukesh	Dr.		32,350	
	To Bank A/c				32,350		To Cash A/c				4,500
	(Bill dishonoured on the maturity date and Noting Charges were paid on behalf of Mahesh)						To Bills Payable (No 1) A/c				17,800
							To Bills Payable (No 2) A/c				10,050
							(Cash of Rs 4,500 were paid and two promissory notes issued)				
Sept.04	Cash A/c	Dr.		4,500		Oct.07	Bills Payable (No 1) A/c	Dr.		17,800	
	Bills Receivable (No 1) A/c	Dr.		17,800			To Cash A/c				17,800
	Bills Receivable (No 2) A/c	Dr.		10,050			(Amount paid on the maturity of bill (no 1))				
	To Mahesh				32,350						
	(Cash of Rs 4,500 and two promissory notes were received)										
Oct.07	Cash A/c	Dr.		17,800		Nov.07	Bills Payable (No 2) A/c	Dr.		10,050	
	To Bills Receivable (No 1) A/c				17,800		To Mukesh				10,050
	(Bill (no. 1) honoured on its maturity date)						(Bill (no. 2) dishonoured due to insolvency)				
Nov.07	Mahesh	Dr.		10,050		Nov.07	Mukesh	Dr.		10,050	
	To Bills Receivable (No 2) A/c				10,050		To Bank A/c				2,010
	(Bill (no. 2) dishonoured on its maturity date)						To Deficiency A/c				8,040
							(20% of the amount due were paid to Mukesh and balance transferred to Deficiency Account)				
Nov.07	Bank A/c (20% × 10,050)	Dr.		2,010							
	Bad Debts A/c (10,050 – 2,010)	Dr.		8,040							

	To Mahesh			10,050								
	(20% of the amount due were received from Mahesh estates)											

Working Note:

(1) Calculation of Discounting Charges:

Discounting Charges = $32,000 \times 12100 \times 212 = 640$ Discounting Charges = $32,000 \times 12100 \times 212 = 640$

Example 8 Amir accepted 3 bills on 15th April 2013 for Rs 3,000; No.1 for Rs 1,500 for one month; No.2 Rs 1,000 for two months ; and No.3 for Rs 500 for 3 months drawn by Raj. On 20th April, 2013 Bill No. 1 was endorsed by Raj to his creditor Rahul to clear his account of Rs 1,650, Bill no. 2 was discounted on 22nd April for Rs Rs 900 and retained the third bill till maturity .Bill No. 1 was met on maturity . Bill No.2 was dishonoured on due date. Rs 100 being paid for noting charges. Raj charged Amir Rs 150 for interest and drew on him a fourth bill of Rs 1,250 for three months and Amir accepted it and returned. Bill No.3 and 4 were met on due date.

Journalise entries in the books of Raj and Amir

Solution

Books of Raj Journal					Books of Amir Journal				
Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013					2013				
Apr. 15	Bills Receivable No.1 A/c	Dr.	1,500		Apr. 15	Raj	Dr.	3,000	
	Bills Receivable No.2 A/c	Dr.	1,000			To Bills Payable No.1 A/c			1,500
	Bills Receivable No.3 A/c	Dr.	500			To Bills Payable No.2 A/c			1,000
	To Amir			3,000		To Bills Payable No.3 A/c			500
	(Acceptances were received from Amir)					(Acceptance given to Raj)			
Apr. 20	Rahul	Dr.	1,650		May 18	Bills Payable No.1 A/c	Dr.	1,500	
	To Bills Receivable No.1 A/c			1,500		To Cash A/c			1,500
	To Discount Received A/c			150		(Bills payable No.1 paid)			

	(First bill endorsed in full settlement of Rs 1,650)									
Apr. 22	Cash A/c	Dr.		900		June 18	Raj	Dr.		1,000
	Discounting Charges A/c	Dr.		100			Noting Charges A/c	Dr.		100
	To Bill Receivable No.2 A/c				1,000		To Bills Payable No.2			1,000
	(Second bill discounted)						(Second bill dishonoured)			
June 18	Amir	Dr.		1,100		June 18	Interest A/c	Dr.		150
	To Bank A/c				1,100		To Raj			150
	(2 nd acceptance dishonoured and noting charges paid)						(Interest charged on outstanding balance)			
June 18	Amir	Dr.		150		June 18	Raj	Dr.		1,250
	To Interest A/c				150		To Bills Payable No.4 A/c			1,250
	(Interest due on Amir)						(Acceptance given)			
June 18	Bills Receivable No.4 A/c	Dr.		1,250		July 18	Bills Payable No.3 A/c	Dr.		500
	To Amir				1,250		To Cash A/c			500
	(Being acceptance of 4 th bill including noting charges and interest received)						(Being bill No. 3 paid)			
July 18	Cash A/c	Dr.		500		Sept.21	Bills Payable No.4 A/c	Dr.		1,250
	To Bills Receivable No. 3 A/c				500		To Cash A/c			1,250
	(The third bill met on maturity)						(Bill No.4 paid)			
Sept.21	Cash A/c	Dr.		1,250						

[illegible]

Example 10 X draws a bill on Y for Rs 5,000 payable after two months against on 30 November, 2013. X endorses the bill to Z to whom he owes Rs 6000 and subsequently the bill was dishonored. Noting charges paid Rs 100. Journalize the following transactions in the books of X, Y and Z.

Books of X					Books of Y					Books of Z							
Journal					Journal					Journal							
Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)	Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013						2013						2013					
Nov 30	Bills Receivable A/c	Dr.		5,000		Nov 30	X	Dr.		5,000		Nov 30	Bills Receivable A/c	Dr.		5000	
	To Y				5,000		To Bills Payable A/c				5,000		Discount A/c		Dr.		1000
	(Acceptances received from Y)						(Acceptances given to X)						To X				6000
													(Bill received from X in full settlement)				
						2014						2014					
Nov 30	Z	Dr.		6,000		Feb 02	Bills Payable A/c	Dr.		5,000		Feb 02	X	Dr.		6,100	
	To Bills Receivable A/c				5,000		Noting Charges A/c		Dr.	100			To Bill Receivable A/c				5,000
	To Discount Received A/c				1,000		To Bank A/c				5,100		To Discount Allowed A/c				1,000
	(Bill endorsed)						(Bill dishonoured)						To Cash A/c				100

2014												(Bill dishonoured)			
Feb 02	Y	Dr.	5,100												
	Discount Received A/c	Dr.	1,000												
	To Z			6,100											
	(Bill dishonoured and discount received written off)														