



Accountancy Notes PDF

On

Bills of Exchange

(Class - 11 / Chapter - 8)

According to the Negotiable Instruments Act 1881, a bill of exchange is defined as “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”.

Features of Bill of Exchange

- It is important to have a bill of exchange in writing
- It must contain a confirm order to make a payment and not just the request
- The order should not have any condition
- The bill of exchange amount should be definite
- Fixed date for the amount to be paid
- The bill must be signed by both the drawee and the drawer
- The amount stated on the bill should be paid on-demand or on the expiry of a fixed time
- The amount is paid to the beneficiary of the bill, specific person, or against a definite order

Types of Bill of Exchange

- **Documentary Bill-** In this, the bill of exchange is supported by the relevant documents that confirm the genuineness of sale or transaction that took place between the seller and buyer.
- **Demand Bill-** This bill is payable when it is demanded. The bill does not have a fixed date of payment, therefore, the bill has to be cleared whenever presented.
- **Usance Bill-** It is a time-bound bill which means the payment has to be made within the given time period and time.
- **Inland Bill-** An Inland bill is payable only in one country and not in any other foreign country. This bill is opposite to the foreign bill.
- **Clean Bill-** This bill does not have any proof of a document, so the interest is comparatively higher than the other bills.
- **Foreign Bill-** A bill that can be paid outside India is termed as a foreign bill. Two examples of a foreign bill are an export bill and import bill.
- **Accommodation Bill-** A bill that is sponsored, drawn, accepted without any condition is known as an accommodation bill.
- **Trade Bill-** This kind of bill is specially related only to trade.
- **Supply Bill-** The bill that is withdrawn by the supplier or contractor from the government department is known as the supply bill.

Advantages of Bill of Exchange

- **Legal Document-** It is a legal document, and if the drawee fails to make the payment, it will be easier for the drawer to recover the amount legally.
- **Discounting Facility-** In cases where the drawer is in immediate need of money, the bill can be converted into cash by discounting it from a bank by paying some nominal charges.
- **Endorsement Possible-** This bill of exchange can be exchanged from one individual to another for the adjustment of the debt.

Important Terminologies Related to Bill of Exchange

- **Term of Bill:** It refers to the period between the date in which the bill is drawn and the day on which it becomes due.

- **Due Date:** It is the date on which a bill becomes due for payment. In case the bill is 'Bill at Sight,' then the due date is the date on which the bill is presented for payment. In case it is 'Bill After Date,' then the date of drawing will be counted in the term of the bill. In case it is 'Bill After Sight,' then the due date is calculated from the date of acceptance of the bill.
- **Grace Days:** Three days of grace is granted to the drawee for making the payment. It is customary to allow grace days. However, in the case of 'Bill at Sight' or 'Bill on Demand,' grace days are not permitted.
- **Date of Maturity:** This is when the bill matures, i.e., the date after the term of bill + grace days.
- **Discounting the Bill:** When the bill is encashed with the bank before the due date, it is called discounting. The bank deducts discounting charges and recovers the amount on the due date of the bill.
- **Endorsement of a Bill:** In this case, the drawer endorses or transfers the title of the bill in favour of his creditors.
- **Dishonour of a Bill:** When the drawee fails to make the payment on the date of maturity, it is called dishonour of a bill.
- **Retirement of Bill:** When the drawee honours the bill before the bill matures, it is known as the retirement of a bill.
- **Renewal of Bill:** When the drawee requests to cancel the old bill and draw a new bill with an extended due date, it is known as renewing a bill.
- **Noting of Bill:** To obtain evidence of dishonour, the drawee re-sent the bill via a legal authority known as Notary Public. It is called Noting of the Bill.

Parties of Bill of Exchange

A bill of exchange has three parties:

Drawer:

- The drawer is the maker of a bill of exchange.
- The bill is signed by Drawer.
- A creditor who is entitled to receive payment from the debtor can draw a bill of exchange.

Drawee:

- Drawee is the person upon whom the bill of exchange is drawn.
- Drawee is the debtor who has to pay the money to the drawer.
- He is also known as 'Acceptor'.

Payee:

- The payee is the person to whom payment has to be made.
- The payee may be the drawer himself or a third party.

Format of Bill of Exchange

BILL OF EXCHANGE

STAMP	(Drawer's Name)
	(Drawer's Address)
	(Date of bill drawn)
₹ (Amount in figures)	
_____ after date, pay Mr. /Ms. _____	
<i>(Period of bill)</i>	<i>(Name and address of payee)</i>
_____ or his / her order, the sum of Rupees _____	
_____ only for the value received.	
<i>(Amount in words)</i>	Sd. /-
	_____ <i>(Drawer's Name)</i>
(Drawee's Name) _____	(Accepted) _____
(Drawee's Address) _____	(Drawee's Name) _____
	Date of bill accepted

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