

LESSON-11 BILLS OF EXCHANGE

SUMMARY

When goods are sold on credit a huge amount of capital is blocked. Then there is no certainty when the amount will be paid. A solution of the problem is giving this fact in writing in proper form so that the buyer or debtor has to pay a definite sum to the seller/creditor on demand or after the expiry of a certain period. Such a formal document duly signed by both the parties is called a Bill of Exchange.

BILLS OF EXCHANGE – MEANING

Features of Bill of Exchange

1. It is an instrument drawn by the creditor upon his debtor.
2. It contains an unconditional order to pay a specified amount.
3. The specified amount is payable to the person named in the bill or to his order or to the bearer.
4. The bill must be signed/accepted by the maker.
5. The bill specifies the date by which the amount should be paid.
6. It can be payable to the bearer.

Parties to a Bill of Exchange

1. **Drawer** : Drawer is a person who writes/makes the Bill of Exchange. He is

generally the creditor who had sold goods on credit.

2. **Drawee** : Drawee is a person upon whom the bill is drawn. He is generally the debtor to whom goods have been sold on credit. Bill is generally signed and accepted by the Drawee.

3. **Acceptor** : He is the person who accepts the bill of exchange. Generally debtor/drawee is the acceptor but sometimes a bill of exchange may be accepted by some one also on behalf of the debtor/drawee. Normally the drawee and acceptor are the same parties.

4. **Payee** : Payee is the person named in the Bill of exchange. The amount in the bill is paid to the payee. In most cases Drawer and the payee will be the same.

PROMISSORY NOTE

Promissory Note is an unconditional undertaking in writing by the maker to pay the specified amount to the specified person or to the bearer of the promissory note.

Features of a Promissory Note

1. It is an unconditional written undertaking to pay the specified amount.

2. It is drawn and signed by the maker/promisor.
3. It specifies the name of the payee.
4. The specific amount is payable to the specified person or to his order or to the bearer.
5. Proper stamp duty is paid on Promissory Note.
6. It is not payable to the bearer.

Parties of a Promissory Note

1. **Drawer** : He is the person who makes the promise to pay the amount. He is the debtor.
2. **Drawee** : He is the person in whose favour the promissory note is drawn. Generally he is the creditor. In a promissory note the drawee and payee are the same parties.
3. **The Payee** : The payee is a person to whom payment is to be made. He is the creditor.

RECORDING OF BILL TRANSACTIONS

A bill transaction can be recorded in the books of all the parties related to a bill of exchange if that transaction affects the concerned party in any way.

DISHONOUR OF A BILL

If the acceptor fails to pay the amount of the bill on the due date, the bill is said to have been dishonored.

RENEWAL OF BILL

If the acceptor finds it difficult to honour the bill on the due date, he can request the drawer or the holder of the bill to substitute the old bill with a new one *i.e.*, to extend the period of the bill. When the drawer agrees to extend the period of the bill, the old bill is cancelled and a new bill is drawn.

INSOLVENCY OF THE ACCEPTOR

If the acceptor is unable to meet his liabilities, the court declares him as insolvent. In case the acceptor becomes bankrupt, his bills payable are considered as dishonoured. Any amount received from the insolvent person's property, will be debited in the cash account and credited in the Acceptor's Account.

RETIRING A BILL UNDER REBATE

Sometimes the acceptor pays the amount of his bills payable before the due date. The payment of bill amount by the acceptor to the holder before the due date, is known as 'retiring the bill'. In such cases, the holder of the bill would grant some concession to the acceptor. This concession is called as rebate.