Bills of Exchange and Promissory Notes-Part 1/6

CPT Section A Fundamentals of Accountancy Chapter 7 Unit 3

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Learning Objectives

- Meaning of Bills of Exchange & Promissory Notes
- Accounting in the books of Drawer and Drawee
- Accommodation Bills
- Insolvency and Retirement
Bills of Exchange
A Man goes for shopping
3 Options After Shopping

1. Pay By Cash
2. Pay By Card
3. Ask for Credit
Can you extend me credit?

This Document is called BILL OF EXCHANGE

But I am not carrying cash.

Sure, I am ready.

Ok, but I will make a document which you need to accept Your total bill amount is Rs. 10,000. In this document, you shall agree to pay me the amount after 30 days from today.

Option 3 : Ask for Credit – Scenario 1

Sure, I am ready.

In this document, you shall agree to pay me the amount after 30 days from today.

This Document is called BILL OF EXCHANGE
What is Bills of Exchange

1. Instrument
2. In Writing
3. Containing an unconditional order
4. Signed by the MAKER
5. Directing a Certain Person
6. To Pay
7. A Certain sum of money
Points to be noted

A Bill of Exchange must be in writing.

It must be dated.

It must contain an order to pay a certain sum of money.

The money must be payable to a definite person or to his order to the bearer.

The draft must be accepted for payment by the party to whom the order is made.
Parties to Bill of Exchange

**DRAWER**
The party who draws the bill

**DRAWEE**
The party who accepts the order

**PAYEE**: The Party to whom the payment is to be made.
Drawer and Payee may be the same.
This Document is called PROMISSORY NOTE

Ok, then I have no problem. But I am ready to give you a Promissory Note. Your total bill amount is Rs. 10,000. Please find this document, where I promise you to pay Rs. 10,000 after 30 days. But I am not carrying cash. Thanks!
What is Promissory Note

A promissory note is an instrument in writing,
Not being a bank note or 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.
Characteristics of Promissory Notes

- It must be in writing.
- It must contain a clear promise to pay.
- The promise to pay must be unconditional.
- The promiser or maker must sign the promissory note.
Characteristics of Promissory Notes

The maker must be a certain person.
The payee must also be certain.
The sum payable must be certain.
Payment must be in legal currency of the country.
It should not be made payable to the bearer.
It should be properly stamped.
Basic Questions
Bills of Exchange & Promissory Notes
A sold goods to B for Rs. 20,000. A will grant 5% discount to B. B requested A to draw a bill. The amount of the bill will be:

- a) Rs.20,000
- b) Rs. 19,000
- c) Rs. 19,200
- d) Nil

Answer (b)
Question 2

From the following information, find out who can draw the bill if Mr A sold goods to B:

a) A will draw a bill on B
b) B will draw a bill on A
c) Third party will draw a bill on A
d) None of these

Answer (a)
Question 3

Which of the following statement is false:

a) B/R is a negotiable instrument

b) B/R must be accepted by drawee.

c) There can be three parties in respect of bills of exchange – drawer, drawee & payee

d) Oral bill of exchange is also valid.

Answer (d)
Question No 4
Which of the following instrument is not a negotiable instrument:

(a) Bearer cheque
(b) Promissory note
(c) Bill of exchange
(d) Account Payee Crossed Cheque

Answer (d)
Question No 5

The promissory note should be signed by:

(a) Drawer
(b) Drawee
(c) Payee
(d) Promiser

Answer (d)
THANK YOU