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CLASS: XI ACCOUNTANCY

Bills Of Exchange

ACCOMODATION BILL:

An accommodation Bill is a bill of exchange signed by the party as drawer, drawee, endorser to accommodate another party whose credit is not strong enough to enable him to borrow on his single name. It is drawn for the purpose of arranging temporary finance. Therefore, an Accommodation Bill is a bill of exchange which has been drawn on and accepted by a reputed party for the purpose of giving value to the bill so that it can be discounted.

Ordinary bills are drawn for some consideration known as 'Trade Bills'. But accommodation bills are those which are drawn and accepted without any consideration. Here, the idea is to assist one or both the parties financially. Accommodation bill is also called **Kite Bill**.

What actually happens in the case of an accommodation bill is that one party draws the bill and the other party accepts it. Then, the drawing party gets it discounted from the bank and receives ready cash of which he is need. The money received is either wholly utilized by the drawer, or by both, the drawer and the acceptor. Before the due date approaches, the required sum of money is sent to the acceptor in order to make him able to honour the bill and the bill is honoured by the acceptor on the due date. Thus, although there is no legal liability, there exists a strong moral understanding between the parties concerned.

Distinction between Trade Bill and Accommodation Bill:

Trade Bill	Accommodation Bill
1. These bills are drawn and accepted for some consideration	1. These bills are drawn and accepted without any consideration.
2. These bills are acknowledgement of debts.	2. These bills are not the acknowledgements of debts.
3. These bills may or may not be discounted with the bank.	3. These bills are always discounted with the bank.
4. The loss by way of discounting charges is to be borne by the drawer because the drawee is no way benefited.	4. The loss by way of discounting charges is to be shared by the drawer and the drawee in the same ratio in which they share the proceeds.
5. The drawer can resort to legal action when the bill is dishonoured	5. Legal action cannot be resorted to when the bill is dishonoured.

Fill in the Blanks:

- a. A bill of exchange is an acknowledgement of
- b. A bill of exchange can be drawn on any person including a
- c. The discounting of bill does not affect the position of the
- d. After a bill has been endorsed to a creditor, the amount is payable to him instead of the
- e. When a bill is dishonoured, it becomes
- f. The loss by way of noting charges is to be borne by the
- g. The process of extending the due date of a bill is called of a bill.

1. S. Sen and B. Banerjee have a number of transactions on bill of exchange between them. You are required to show the journal entries in their books in respect of the following transactions:

1.1.2003 Sen draws a bill on Banerjee for Rs. Payable after a month, inclusive of interest at 3% p.m.

3.1.2003 Sen discounts a bill for Rs. 25,000 drawn on 30.12.2002 with his bank, discounting charges being 15% p.a. The bill is payable on 3.2.2003.

4.1.2003 Sen endorses the bill for Rs. 15,450 in favour of R. Ram towards account.

1.2.2003 Banerjee pays the bill for Rs. 15,450.

4.2.2003 The bill for Rs. 25,000 is returned by Sen's bankers as unpaid with their charges Rs. 10.

2. Yashpal owed money to Srinivas and hence accepted two bills each of Rs. 4,850 of three months drawn on him by the latter, on July 1, 2003. Srinivas endorsed one of the bills in favor of Hariram on July 7, 2003. On the same date he discounted the other bills with his bank and received net proceeds of Rs. 4,675. Yashpal failed to meet both the bills on the due date. On 4th October, 2003, the bank debited the account of Srinivas with the value of the second bill plus their charges of Rs. 20. Yashpal is declared insolvent and his estate paid 60 paise in the rupee, on 1st November, 2003. Show the Journal Entries in respect of the above in the books of Yashpal and Srinivas.

3. Journalize the following transactions in the books of Rahim:

(i) Our acceptance in favor of A for Rs. 4,800 dishonoured. A claims Rs. 4,850 which was paid to him.

(ii) Our acceptance for Rs. 15,000 retired two months before the due date at a discount of 10% p.a.

(iii) Sonu's acceptance for Rs. 5,200 due on this day, returned dishonoured and noting charges were Rs. 50

(iv) Mohan's acceptance for Rs. 18,000 renewed for two months, together with interest @ 8% p.a.

4. Journalize the following transaction in the books of Sanjeev Kumar:
- (i) A bills payable accepted in favour of Kamal for Rs. 2,800 returned unpaid. Kamal claims Rs. 2,920 which was paid by cheque.
 - (ii) Kamla's promissory Note for Rs. 8,500 endorsed in favour of Diwan returned dishonoured. Diwan paid Rs. 28 as noting charges. Sanjeev paid Diwan in cash and accepted another bill from Kamla for the amount due plus interest of Rs. 50.
 - (iii) Our acceptance to Piyush for Rs. 2,100 renewed for 2 months on the condition that Rs. 500 will be paid in cash immediately and the remaining balance by a new bill together with interest of @ 15% p.a.
5. On 1st Jan, 2003, Ram drew and Shyam accepted a bill at three months for Rs. 4,000. On 4th Jan, 2003, Ram discounted the bill with his bank at 15% p.a. and remitted half the proceeds to Shyam. On 1st Feb, 2003 Shyam drew and Ram accepted a bill at four months for Rs. 3,000. On 4th Feb, 2003 Shyam discounted the bill at 15% p.a. with his and remitted half the proceeds to Ram. They both agreed to share the discount equally. At maturity, Ram met his acceptance, but Shyam dishonoured his acceptance and Ram had to pay it. Ram drew and Shyam accepted a new bill at 3 months for the original bill plus interest at 18% p.a. On 1st July, 2003, Shyam became insolvent and only 50 paise in the rupee was received from him. Record the above transactions in Ram's Journal.
6. On 1.7.2003 Salil for mutual accommodation of himself and Sunil drew on the other a bill for Rs. 10,000 payable at 3 months date. The bill was discounted with Central Bank of India at 5% and half of the proceeds were remitted to Sunil on 2.7.2003. On 2.7.2003, Sunil drew a bill on Salil for Rs. 4,000 payable at 3 months date. He discounted with the Bank of India at 10% and remitted half of the proceeds to Salil. Sunil became bankrupt on 31.8.2003 and only 25% was received by Salil on 15.9.2003 as the first and final dividend from his estate. Write up the journal entries in the books of Salil.