ONE PAGE SUMMARY

Competitive Exams › CA Intermediate › Advanced Accounting

Bills of Exchange

Mastering Bills of Exchange for CA Intermediate Success

DEFINITION

A bill of exchange is a written order from one party to another to pay a specified amount on a set date. It is commonly used in trade transactions to facilitate payments.

KEY CONCEPTS

Parties Involved

The main parties are the drawer (who creates the bill), the drawee (who pays), and the payee (who receives the payment).

Types of Bills

Bills can be classified as sight bills, which are payable on demand, or time bills, which are payable at a future date.

Endorsement

Endorsement is the process of signing the bill over to another party, allowing for transferability of the payment.

Dishonor of Bill

A bill is dishonored when the drawee fails to make payment on the due date, leading to potential legal consequences.

Accounting Treatment

Bills of exchange are recorded in the books as assets or liabilities, depending on whether the entity is the drawer or drawee.

EXAMPLES

→ A company issues a bill to a supplier for goods worth $10,000, payable in 30 days.

→ A bank accepts a bill from a customer, promising to pay $5,000 on a specified date.

→ A retailer endorses a bill to another retailer, transferring the right to receive payment.

MEMORY TIPS

★ Remember 'D-D-P' for Drawer, Drawee, Payee to recall the main parties involved.

★ Use 'S-T' to differentiate between Sight and Time bills.

★ Think of 'E-D' for Endorsement and Dishonor to remember key actions related to bills.

COMMON MISTAKES

✗ Confusing the roles of drawer and drawee.

✗ Forgetting to record the bill in the correct accounting period.

✗ Neglecting to understand the implications of dishonor.

QUICK RECAP

Bills of exchange are crucial financial instruments in trade, involving a drawer, drawee, and payee. Understanding their types, endorsement process, and accounting treatment is essential for accurate financial reporting.