ONE PAGE SUMMARY

Competitive Exams › CA Intermediate › Advanced Accounting

Bills of Exchange

Master Bills of Exchange for Advanced Accounting Success!

DEFINITION

A bill of exchange is a written order from one party to another to pay a specified sum at a future date. It serves as a financial instrument used in trade transactions.

KEY CONCEPTS

Parties Involved

There are three main parties: the drawer (who issues the bill), the drawee (who pays), and the payee (who receives the payment).

Types of Bills

Bills can be classified as sight bills (payable on demand) or time bills (payable after a specified period).

Acceptance

The drawee must accept the bill for it to be valid, indicating they agree to pay the specified amount.

Endorsement

The payee can transfer the bill to another party through endorsement, allowing for flexibility in transactions.

Dishonor

If the drawee fails to pay the bill on the due date, it is considered dishonored, leading to legal consequences.

EXAMPLES

→ A company issues a bill to a supplier for goods worth $5,000, payable in 30 days.

→ A bank accepts a bill from a customer for $10,000 due in 60 days.

→ A merchant endorses a bill to another business for payment.

MEMORY TIPS

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

★ Use 'S-T' for types: Sight (immediate) and Time (future) bills.

★ Think of 'A-E-D' for the process: Acceptance, Endorsement, Dishonor.

COMMON MISTAKES

✗ Confusing the roles of drawer and drawee.

✗ Overlooking the importance of acceptance for validity.

✗ Failing to record the endorsement properly.

QUICK RECAP

Bills of exchange are essential financial instruments in trade, involving a drawer, drawee, and payee. Understanding their types, acceptance, and endorsement is crucial for effective accounting practices.