

JAIIB



Accounting & Financial Management for Bankers

Module A : Chapter 8 Instruments of Credit



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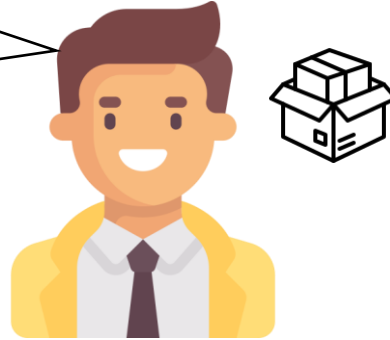
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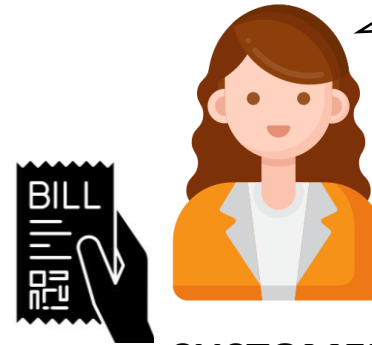
INSTRUMENT OF CREDIT

I will sell the goods but want a proof of the credit given.



SUPPLIER

Give me goods worth ₹1000 on credit!



CUSTOMER

- Credit is generally provided by obtaining a written document called 'Instrument of Credit'.

Bills of Exchange

Promissory Notes

Bills of Exchange

An instrument in writing

Signed by the maker

Containing an unconditional order

To pay a certain sum of money

To a person named in the instrument or to the bearer of the bill.

On a fixed future date or on demand.

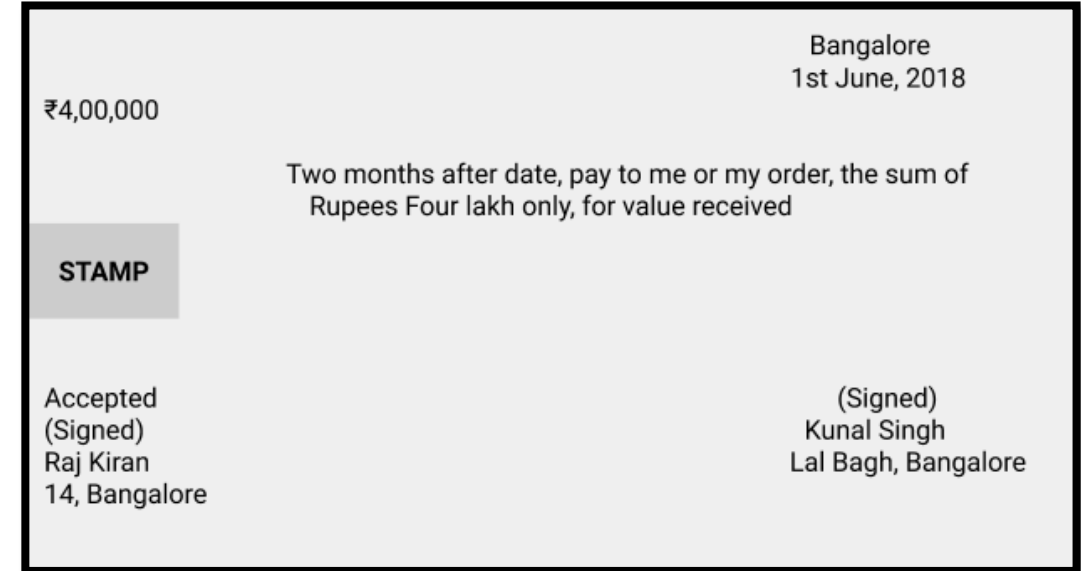
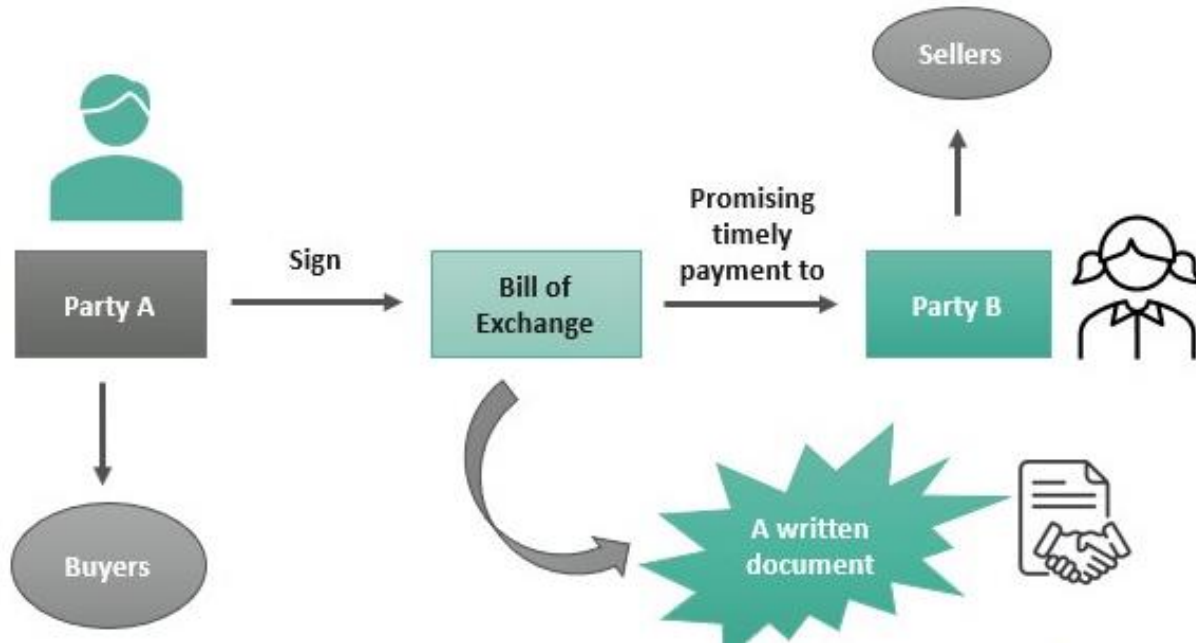
Drawer
(Creditor)

Drawee
(Debtor)

Payee



Bills of Exchange



Promissory Notes

An instrument in writing

Containing an unconditional undertaking

Signed by the maker to pay a certain sum of money

To a person named in the instrument or to the bearer of the instrument.

On a fixed future date or on demand.

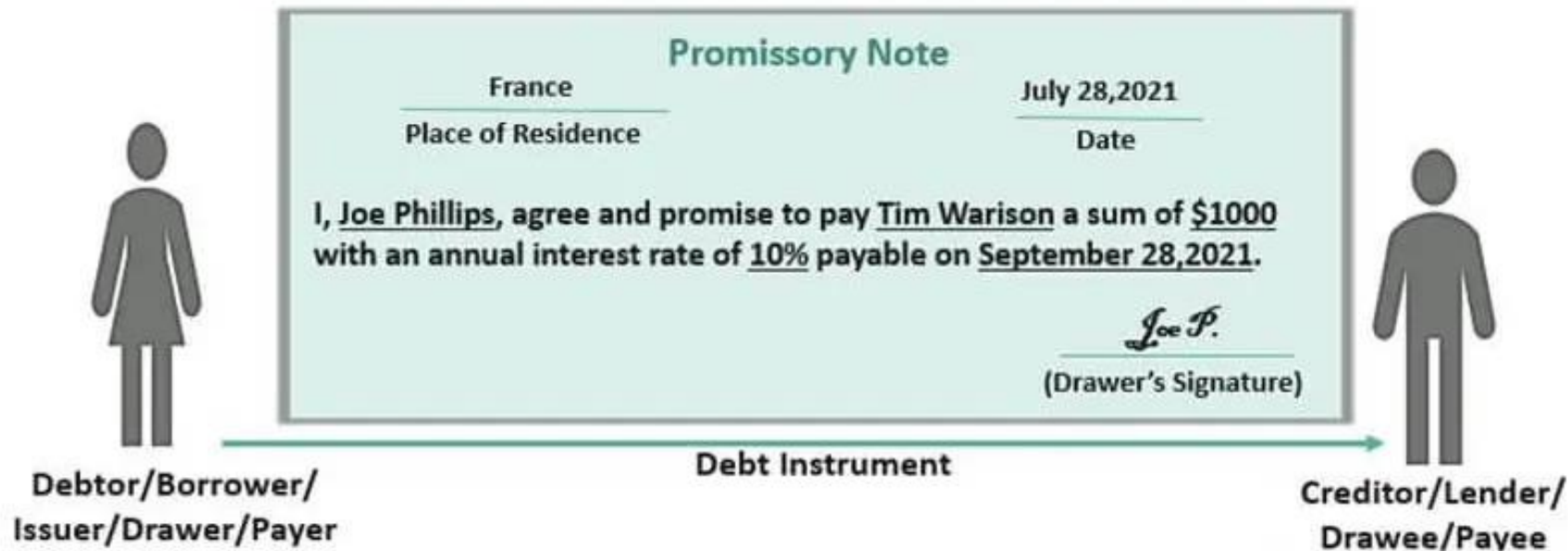
Drawer
(Debtor and
Payer)

Payee
(Creditor)



Promissory Notes

“A promissory note is a document signifying a written promise by the issuer to pay a specified sum to a party at a particular date.”



BoE vs Promissory Note

	BILLS OF EXCHANGE	PROMISSORY NOTES
1	It is an unconditional order to pay	It is an unconditional promise to pay
2	It is made by the creditor	It is made by the debtor
3	Acceptance by debtor is necessary	No acceptance is required
4	Three parties	Two parties
5	On dishonour of bill, it is noted by the notary public	Noting is not necessary.

- For accounting purposes, no distinction is made between bills of exchange and promissory notes.



Terms & Due Date

- Any instrument of credit which is not payable on demand or on presentment matures on the date it falls due.
- This period of a bill is called "**Term**" or "**Tenor**" of the bill.
- The date of maturity in such cases is calculated after **adding three days of grace** to the actual period of the bill.
 - Let us suppose, a bill is **drawn on 1st March** for a period of **one month**, then, its due date will be 1st April plus three days of grace, i.e. **4th April**.
 - If the **due date falls on a public holiday** say 26th January, then it becomes due on the **previous working day**, i.e. 25th January.



CHEQUES

According to Section 6 of the Negotiable Instruments Act, a cheque is a bill of exchange drawn upon a specified banker and payable on demand.

Cheque must fulfil all essential elements of BoE

It must be payable to bearer on demand

Banker named therein pays it when it is presented

Signature must tally with the specimen signature of drawer kept in bank.

Cheque must be dated

Cheque drawn on future date is valid but is payable on or after such period.



BoE vs Cheques

	BILLS OF EXCHANGE	CHEQUE
1	It can be drawn upon any person including a bank	It can be drawn only upon a bank
2	Acceptance by debtor is necessary	No acceptance is required
3	Acceptor is allowed 3 days of grace after maturity date	Payable on demand
4	Must be stamped	Does not require stamp
5	Notice of dishonour is necessary	Notice of dishonour is not necessary

- For accounting purposes, no distinction is made between bills of exchange and promissory notes.



LET'S SOLVE!

On 01.01.2022, X draws a bill on Y for ₹40,000 for 3 months. The maturity date of the bill will be

- a) 04.04.2022
- b) 03.04.2022
- c) 01.04.2022
- d) 04.05.2022



Thank You

For More Info Contact us:



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