



Module-B Unit-13

JAIIB PAPER-2

Principles and Practices of Banking (PPB)



JAIIB PPB Module B Unit 13: Law Relating to Bill finance

Bill Financial

Bill finance is one of the modes of lending by a banker. As compared to other modes of financing, Bill finance offers a banker an easy mode of lending. Bill finance involves discounting or purchase of commercial bills arising out of sale of goods.

Bill finance, as compared to cash credit and overdraft, has the following advantage;

- The underlying transactions are easily identifiable
- There is definite data of repayment
- The bill will carry more than one signature if it on usance basis
- It represents an easily transferable asset and in case of need the same can be rediscounted to improve the liquidity of the bank.

Class Of Bills and Laws Governing Bills

Class of Bill

Bills discounted/ purchased by banks belong to one of the following categories:

- Clean bills
- Documentary bills
- Bills drawn under credit

These depend on the terms of the trade transaction represented by the bill. Clean bills do not have any associated document and simply establish that the drawee is required to pay the stated amount, on the stated date.

Laws Governing Bills

The liabilities and rights of parties to a bill is governed by the NI Act.

- **What is a Bill?** The term 'Bill' is the short form of 'Bill of Exchange'. Sec. 5 of NI Act, 1881 defines it as 'instruments in writing containing an unconditional order signed by maker, directing a certain person to pay certain sum of money only, to or to the order of a certain person or to the bearer of the instrument.'
- **'Drawer', 'Drawee', 'Payee':** Sec. 7 of the Act states a maker of 'Bill of Exchange' is called 'Drawer', the person who is directed to pay is called 'Drawee', and the person entitled to receive payment of amount of 'Bill' is called 'Payee'.
- **Relationship of Parties to a Bill:** 'Drawer' of bill is a creditor/seller and the 'Drawee' of a bill is the debtor/buyer. If the bill is assigned to third parties, then such assignees will become creditors and drawer would be liable for such assignees in case of default by drawee.

Some important provisions of NI Act relating to Bills

A bill is a negotiable instrument. Any person, to whom a bill is transferred in accordance with the provisions of the Act, would become entitled to receive the amount of the bill.

- **'Holder'**: Sec. 8 of NI Act defines a 'Holder' of a bill of exchange - as a person entitled in his own name to possess the bill and recover the amount of bill.
- **'Holder in Due Course'**: As per Sec. 9 'Holder in due course' is any person who for consideration became the possessor of the bill (that is to whom the bill is transferred).
- **'Payment in Due Course'**: 'Payment in due course' as per Sec. 10 is payment in accordance with the apparent tenor of bill of exchange to the holder or holder in due course in good faith and without negligence.
- **'Negotiation'**: Sec. 14 says, when a bill is transferred for considerations to a person so as to entitle him to claim the amount of bill, this is called 'Negotiation'.
- **'Endorsement'**: Sec. 15 says, if the holder signs the bill of exchange for the purpose of transferring it, such signing is called 'Endorsement'.
- **'Liability of Drawer'**: As per Sec. 30, the drawer is bound in the case of dishonour (failure to pay) by the drawee or acceptor, to compensate the holder, provided due notice of dishonour has been given to, or received by, the drawer.
- **'Liability of Acceptor/Drawee of Bill'**: Sec. 32 says, an acceptor is bound to pay the amount at maturity according to apparent tenor of the acceptance.
- **'Liability of Endorser'**: Sec. 35 provides, in the absence of contract to the contrary, whoever endorses and delivers a negotiable instrument is bound thereby to every subsequent holder in the case of dishonour unless his liability is excluded.
- **'Interest rate Specified'**: Sec. 79 stipulates, if interest at a specified rate is expressly made payable on a bill of exchange, then interest shall be calculated at such rate.
- **'Interest when no rate is specified'**: Sec. 80 stipulates, if no rate of interest is specified in the instrument, interest due thereon shall be calculated at the rate of eighteen per cent p.a.

Classification of Bills

- **Inland Bills**: Bills drawn or made in India and made payable in, or drawn upon any person resident in India. It may be made payable in a foreign country.
- **Foreign Bills (Section 12 NI Act)**: Bills drawn outside India and made payable in or drawn upon any person resident in any country outside India / resident in India
- **Demand Bills (Section 19)**: It is an instrument payable on demand and no time for payment is specified therein. Demand Bill is otherwise called sight bill.
- **Usance Bills**: Bill Payable after sight : a bill payable otherwise than on demand. It specifies normally a time for payment of the value it represents.

- **Clean Bills:** is a bill of exchange drawn as per requirements of NI Act and is not supported by documents of title of goods.
 - **Documentary Bills:** A bill of exchange accompanying documents of title of goods. These bills are drawn to claim price of goods supplied.
1. **Bills drawn with an instruction to deliver against payment/D.P. Bills** – In a transaction of supply of goods, a seller draws a bill on the buyer and sends the same to his banker along with document of title of goods like bill of lading etc. The seller instructs the banker to deliver the bill and documents of title of goods only when buyer pays the price of goods.
 2. **Bills drawn with instruction to deliver against acceptance / D.A.Bills** – An usance bill supported by document of title of goods bearing an instruction that the documents can be delivered, if the buyer accept the bill of exchange

Negotiable Instrument Act 1881

Section	Description
5	“Bill of exchange is defined” as “ instrument in writing containing an unconditional order signed by maker directing a certain person to pay certain sum of money only to, or to the order of a certain person or to the bearer thereof
7	Drawer, Drawee and Payee
8	Holder of Bill of exchange means a person entitled in his name to possess the bill and recover the amount presented by Bill.
9	“Holder in Due Course” means any person who for consideration become the possessor of the bill
10	“Payment in Due Course” means payment in accordance with tenor of the bill of exchange to the holder or holder in due course in good faith and without negligence

14	“Negotiation” : When a bill is transferred to any person so as to entitle him to claim the amount represented by bill, then such transfer is called Negotiation
15	“Endorsement” : If the holder of instrument signs the bill of exchange for the purpose of transferring it, such signing is called Endorsement.
19	Demand Bills
30	Liability of Drawer
32	Liability of Acceptor/Drawee of Bill
35	Liability of Endorser
79	Interest rate specified
80	Interest when no rate is specified

Various types of Bill Finance

- **Bill Purchase:** When the bank negotiates bills on demand, whether clean or documentary, the facility is known as bill purchase.
- **Bill Discount:** This facility is extended by banker when the bills of exchange are payable after a particular period that is bills payable otherwise on demand.
- **Advance against Bills for Collection:** When the bank advances against the bills, which are in course of collection, the facility is known as advance against bills for collection.
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