BHARAT SCHOOL OF BANKING

BILL DISCOUNTING

If the **drawer** of the **bill** does not want to wait till the **due date** of the **bill** and is **need** of money, he may **sell** his **bill** to a **bank** at a certain **rate of discount**. The bill will be **endorsed** by the **drawer** with a **signed** and **dated** **order** to **pay** the bank. The **bank** will become the **holder** and the **owner** of the **bill.** After getting the bill, the bank will **pay cash** to the **drawer** equal to the **face value** less **interest** or **discount** at an agreed **rate**for the number of days it has to run. This process is known as **discounting of a bill of exchange.**

For example, a **drawer** has a bill of **Rs. 10,000**. He **discounted** this bill with his **bank 2 months** before its due date, at **15 % p.a. rate of discount**. Discount will be = Rs. 1,000 x 15/100 x 2/12 = Rs. 250. Thus the **drawer** will receive a **cash** worth **Rs. 9,750** and will bear a **loss** of **Rs. 250**.

The **bank** will keep this **bill** in **possession** till the **due date**. On **maturity (due date)** the bank will present the bill to the **acceptor** and will receive **cash** from him (if the bill is honored). In case, the **acceptor** does not make the **payment** to the bank, then the **drawer** or any person who has **discounted** the bill have to take this **liability** and will **pay cash** to the bank.

N.B. Until the **bill** is **honored** on the **due date**, there is always a **chance** the **drawer** will become **liable** on the **bill**. This is called a **Contingent Liability** – a **liability** that will only arise if a certain event occurs – the acceptor does not honor the bill.