

Bill of Exchange

Bill of exchange.

A “bill of exchange “ is an instrument in writing containing unconditional order, signed by the maker, directing a certain person pay a certain sum of money only to, or the order of a certain person or to the bearer of the instrument.

A bill of exchange is a written by the creditor and accepted by debtor, usually there are three parties to a bill of exchange viz, the drawer, the drawee and the payee.

Essential elements of a Bill of Exchange.

The essential characteristics of a bill exchange may be summarized as follows:

1. It must be in writing
2. It must contain an order to pay money only.
3. The order must be unconditional.
4. It must be signed by the drawer.
5. The drawer, drawee and payee must be certain
6. The sum payable must also be certain.
7. It should be properly stamped.
8. It may be made payable on demand or after a certain period of time.

Parties to a Bill of exchange

There are following parties to a bill of exchange:

1. Drawer:

The person who makes the bill of exchange is called drawer. He is the creditor or seller and orders the borrower to pay the borrowed money. In the above example, Mr. Aslam is the drawer.

2. Drawee:

It is the party to whom the bill of exchange is made. He is the buyer or debtor. In the above example, Mr. Ali is the payee.

3. Payee:

The person who has to receive the amount of the bill of exchange is called payee. The drawer or maker may receive the amount himself or order the drawee to give the money to someone else.

4. Acceptor:

The person who accepts the bill to pay is called acceptor. It is generally the debtor or drawee or an agent of drawee or a banker.

5. Holder:

The person who physically possesses the bill is called holder. He may be a drawer , creditor, bearer or payee.

6. Holder in due course:

It is the party who rightly possesses the bill . He it in good faith, takes it as complete, regular and without the knowledge of its previous dishonour.