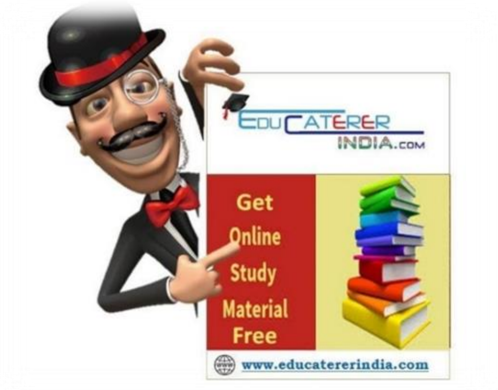
Difference Between Bill of Exchange and Promissory Note



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Introduction

- Bill of exchange and promissory note are types of negotiable instrument act. A bill of exchange or a promissory note is payables either to the order or bearer deemed as the instruments under the negotiable instrument act, 1881.
- A bill of exchange is a type of negotiable instrument raised from the trade transactions. A promissory note is undertaken from the borrower to pay a certain sum of amount to the lender.

Bill of Exchange

- Bill of exchange comes under section 5 of negotiable instrument act, 1881 "A bill of exchange is an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money to the order a certain person or to the bearer of the instrument"
- It is an agreement between two party customer and seller used mainly in global trade.
- Bill of exchange is a documentation that a buyer party has accepted to pay a selling party a sum of money at a proposed time for delivered goods and services.
- Both the parties generally engage with the bank to issue a bill of exchange due to a risk associated with trading.

- The acceptor of a bill of exchange is liable to settle his liability as a principal debtor under the act.

Types of Bill of Exchange

1) Trade bill
2) Accommodation bill

Characteristics of Bill of Exchange

- In a bill of exchange, there must be a proper dated and amount must be specific.
- It must carry an order it means the drawer of the bill of exchange directs the drawee to pay a certain sum to the payee.
- The drawee must accept the bill.

Promissory Note

- The promissory note comes under the section 5 of negotiable instrument act, 1881 " A promissory note is an instrument in writing, contains an unconditional undertaking, signed by the maker to pay a certain sum of a company only to the order of the certain person to the bearer of the instrument.
- The promissory note is in written and signed by the maker, who is a promisor, is a negotiable instrument.
- It is an undertaking from the buyer to pay a certain sum of money to the lender.
- The person to whom payment is guaranteed is called a payee or owner.
- A promissory note can be either payable on demand or at a specific time.

Characteristics of Promissory Note

- The promissory note is a written promise with specific due to pay money to the lender
- There must be a signature of the drawer.
- Both the promisor and promise must be certain.

Difference Between Bill of Exchange and Promissory Note

Parties Involved:

In a bill of exchange, there are three parties i.e. the drawer and the drawee an payee. While in a promissory note there are only two parties i.e. the maker and the payee.

Type of Payment

In a bill of exchange, the nature of payment is unconditional order to pay while in a promissory note, it is unconditional promise to pay.

Acceptance

A bill of exchange requires an acceptance of the drawee before it is presented for payment. In a promissory note, there is no need to accept as it is signed by the person who is responsible to pay.

Accountability

The liability of a drawer in a bill of exchange is secondary and conditional. In a promissory note, the liability of maker is primary and absolute.

Notice of Dishonor

In a bill of exchange, if the payment fails in that case notice must be given to all persons are responsible to pay. In a promissory note, the notice of dishonour to the maker is not necessary.

Protest

In a bill of exchange, there must be a protection in case of dishonour while in a promissory note there is no protest at all.

Position of Maker

In a promissory note, the make has an immediate relationship with the payee while in bill of exchange drawer is in an immediate relationship with the acceptor and not with the payee.

Copies

A promissory note cannot be drawn in sets while a bill of exchange can be drawn in sets

Payable to bearer.

A promissory note cannot be made payable to a bearer, while a bill of exchange can be so drawn provided it is not payable to bearer on demand.

Payable to Maker

In a promissory note, the maker cannot pay to himself. In the case of a bill of exchange, the drawer and the payee can be one person.