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PURCHASE OF TRADE BILLS/DISCOUNTING OF BILLS.

One of the methods of advancing money by banks is thorough discounting/purchase of bills of exchange. According to Sir John Paget, to discount a bill is to buy it, to become the transferee of it, by having endorsed or transferred by delivery by the holder giving him a price settled either by agreement or by the current rate in the money market and based on the time the bill has yet to run.

A time bill is payable on future date and the holder of the bill is to wait for a specific period of time to receive the amount of the bill. But the modern commercial banks are providing the facilities of discounting of bill to the holder to have money earlier. For discounting of bill, the bank purchase the bill from the holder at a reduced rate before maturing of the bill and receives the amount of the bill from acceptor on due date. The reduction in the value of bill at the time of purchase by bank is known as discount.

Discounting of bills as a method of granting credit to the constituents is a popular and profitable business of the banker and in fact discounting of bill is a sort of short term credit given to the holder of the bill by the banker is a very simple & useful method to meet the immediate needs of money for a short period of importers, exporters and other trading concern.