

# ACCOUNTANCY

## Chapter 8: Accounting for Bills of Exchange



## Important Questions

### Multiple Choice Questions-

Q1. On dishonor of a discounted bill whom does the bank look for payment

- (a) Drawer
- (b) Drawee
- (c) Endorser
- (d) Payee

Q2. Noting charges are ultimately borne by –

- (a) Drawee
- (b) Drawer
- (c) Payee
- (d) Maker

Q3. A Promissory note ..... the acceptance

- (a) Does not require
- (b) Requires
- (c) Makes
- (d) Arranges

Q4. B has accepted the bill drawn on him by A. Which of the following statements is correct?

- (a) A can endorse the bill, B cannot endorse the bill
- (b) A can endorse the bill
- (c) B cannot endorse the bill
- (d) B can endorse the bill

Q5. At the time of renewal of a bill, ..... account is debited in the books of the drawee.

- (a) Interest
- (b) Discount
- (c) Rebate
- (d) None of the options

Q6. A bill of Rs. 5,000 is discounted with the banker for RS. 4,750. The bill is dishonored at maturity. The drawee pays 60% of his acceptance. What is the amount of bad debts?

- (a) Rs. 2,000
- (b) Rs. 2100
- (c) Rs. 1900

(d) Rs. 1800

Q7. Refusal by the acceptor to pay the bill on the maturity date is called –

- (a) Dishonor of bill
- (b) Retirement of bill
- (c) Rebate on bill
- (d) Discounting of bill

Q8. Find the due date of a bill of exchange dated 9th December, 2007, payable after 45 days.

- (a) 25th January, 2008
- (b) 24th January, 2008
- (c) 26th January, 2008
- (d) 27th January, 2008

Q9 The party which is ordered to pay the amount is known as –

- (a) Drawee
- (b) Payee
- (c) Drawer
- (d) None of the options

Q10. Three days are added for ascertaining the date of maturity. These are known as days of-

- (a) Grace
- (b) Maturity
- (c) Payment
- (d) None of the options

### Very Short-

1. Is bill of exchange drawn by the debtor?
2. Does promissory note require acceptance?
3. What is the date of maturity of a bill of exchange?
4. What is the date of maturity of a bill of exchange? Calculate the due date of a bill of exchange written on July 13, 2017, for 30 days.
5. What is noting of the bill of exchange?
6. If the acceptor of the bill refuses to pay the bill on maturity, what is it called?
7. What are the two most used negotiable instrument.
8. What is the bill of exchange?

## Short Questions-

1. Explain the characteristics of the bill of exchange?
2. If the acceptor of the bill refuses to pay the bill on maturity, what is it called?
3. Name any two types of commonly used negotiable instruments.
4. What is noting of a bill of exchange?
5. Explain briefly the procedure of calculating the date of maturity of a bill of exchange. Give example.

## Long Questions-

1. Differentiate between bill of exchange and a promissory note.
2. P draws on Q three bills of exchange for Rs. 15,000, Rs. 12,000 and Rs. 9,000 respectively for goods sold to him on 1st February, 2013. These bills were for a month, 2 months and 3 months, respectively. The first bill was endorsed to his creditor R. The second bill was discounted with his bank on 4th February 2013 @12% per annum discount and the third bill was sent to his bank for collection on 30th April. On the due dates, all the bills were duly met by Q. The bank sent the collection advice for the third bill after deducting Rs. 75 as collection charges. Pass the journal entries in the books of P and Q.
3. B owes A Rs.4,000 on 1st January 2018. B accepts a three month bill for Rs.3,900 being in full settlement of the claim. At its due date the bill is dishonoured. Noting charges Rs.50 are paid by A. Give the Journal Entries in the books of A and B.

## Case Study Based Question-

1. Read the following hypothetical text and answer the given questions: -

On 1st January 2018, Sushil drew on Parag, who is a debtor for ₹ 15,000 three bills of exchange: 1st: for ₹ 4,000 at one month, 2nd: for ₹ 5,000 at two months and 3rd: for ₹ 6,000 at three months.

Parag accepted all three bills. On 10th January 2018, Sushil endorsed the first bill to his creditor Anand in full settlement of his account of ₹ 4,120. This bill was duly met on maturity.

On 20th January 2018, the second bill was discounted from the bank for ₹ 4,850. This bill was dishonoured on the due date and the bank paid ₹ 40 as nothing. On Parag's request Sushil drew a fourth bill on Parag for 2 months for the amount due plus ₹ 200 as interest.

Third bill was paid under a rebate of 15% p.a. one month before maturity. The fourth bill was sent to the bank for collection on 4th May 2018 and was duly met on maturity.

### Questions:

1. What is the due date for the Second Bill of Exchange?  
(a) March 1, 2018

(b) March 2, 2018

(c) March 3, 2018

(d) March 4, 2018

2. What will be the journal entry for the bill endorsed by Sushil to Anand in the books of Sushil?

(a) Anand Dr. 4,000

To Bills Receivables (I) A/c 4,000

(Being bill endorsed to Anand for the full settlement of his account)

(b) Anand Dr. 4,120

To Discount Received A/c 120

To Bills Receivable (I) A/c 4,000

(Being bill endorsed to Anand for the full settlement of his account)

(c) Anand Dr. 4,120

To Discount Received A/c 120

To Parag 4,000

(Being bill endorsed to Anand for the full settlement of his account)

(d) No Entry will be done in the books of Sushil.

2. Read the following hypothetical text and answer the given questions: -

On 1st January 2017, Pravin sold goods to Navin for ₹ 1,00,000 received ₹ 25,000 in cash and drew two bills, first for ₹ 45,000 and second for ₹ 30,000 for two months each. Both the bills are duly accepted by Navin. First bill was endorsed to Shobha in settlement of her account of ₹ 45,500 and second bill was discounted from the Bank @ 12% p.a. On the due date of these bills, both bills were dishonoured. Shobha has paid ₹ 100 and Bank has paid ₹ 80 as Noting charges. Navin paid ₹ 20,000 and Noting charges in Cash and accepted a new bill for the balance at three months. The interest on balance @ 18% p.a. was paid in cash. The new bill is immediately endorsed to Jayesh. On the due date of the new bill, Navin became insolvent and nothing was recovered from the estate.

Questions:

1. What will be the journal entry in the books of Pravin for the first bill endorsed to Shobha dishonoured?

(a) Navin Dr. 45,100

Discount Received A/c 500

To Shobha 45,600

(Being first bill dishonoured and noting charges payable and the discount received account written of)

(b) Navin Dr. 45,100

To Sobha 45,100

(Being first bill dishonoured and noting charges payable written of)

(c) Navin Dr. 45,600

To Discount Received A/c 500

To Sobha 45,100

(Being first bill dishonoured and noting charges payable and the discount received account written of)

D. No Entry will be done in the books of Sushil.

2. What will be the journal entry for the bill accepted for the payment to be made to Praveen in the books of Navin?

(a) Bills Receivable A/c (I) Dr. 45,000

Bills Receivables A/c (II) Dr. 30,000

To Pravin 75,000

(Being acceptance given to Pravin for the two bills)

(b) Navin Dr. 75,000

To Bills Receivable (I) A/c 45,000

To Bills Receivable (II) A/c 30,000

(Being acceptance given to Pravin for the two bills)

(c) Navin Dr. 75,000

To Bills Payable (I) A/c 45,000

To Bills Payable (II) A/c 30,000

(Being acceptance given to Pravin for the two bills)

D. No Entry will be done in the books of Sushil.

### Answer key

#### MCQ Answers-

1. Answer: (a) Drawer
2. Answer: Drawee
3. Answer: (a) Does not require
4. Answer: A can endorse the bill, B cannot endorse the bill
5. Answer: (a) Interest
6. Answer: (a) Rs. 2,000
7. Answer: (a) Dishonor of bill

8. Answer: (a) 25th January, 2008
9. Answer: (a) Drawee
10. Answer: (a) Grace

### Very Short Answers-

1. Ans. No the bill of exchange is not drawn by a debtor.
2. Ans. No, the promissory note does not require acceptance.
3. Ans. The date of maturity of a bill of exchange is the date on which the bill becomes due for payment.
4. Ans. The date of maturity will be August 14, 2017.
5. Ans. Noting is referred to the recording of the fact of dishonour by a notary public.
6. Ans. In situations where the acceptor refuses or is not in a position to pay, such a condition causes breach of promise and leads to dishonour of bill.
7. The two most used negotiable instrument is.
  - Bill of exchange
  - Promissory Note
8. Bil of exchange is a written document signed by the head of the department or the makers guiding them to pay a certain amount for the order of a certain individual or the bearer of the device.

### Short Answers-

1. The characteristics of the bill of exchange are.
  - A bill of exchange should be in writing
  - The order must be unconditional
  - The date of payment must be a fixed date
  - It should be signed by the drawee of the bill
  - It should be signed by the drawer of the bill
2. Ans. In case the acceptor refuses or not in a position to pay the bill then it is considered as the breach of the promise made at the time of the acceptance and is called dishonour of the bill.
3. Ans. A Negotiable instrument means a promissory note, bill of exchange or cheque either to order or bearer." Two negotiable instruments are bills of exchange and promissory notes.
4. Noting of a Bill means getting the Bill notified and presented on its dishonour with the Notary Public.
5. Ans. Maturity refers to the date on which a bill of exchange or promissory note

becomes due for payment. In arriving at the maturity date 3 days, known as days of grace must be added to the date on which the period of credit expires.

However, where the date of maturity is a public holiday e.g. all Sundays, 15 August etc., the instrument will become due on the preceding business day. But when an emergency holiday is declared under the Negotiable Instruments Act, 1881, which happens to be the date of maturity of a bill of exchange, then the date of maturity will be the next working day immediately after the holiday. Example: If a bill of Rs 2 lacs is drawn on 1stSept. 2008, payable after three months, then the due date or nominal date is 1stDec. 2008 while the bill is legally due on 4th Dec. 2008.

### Long Answers-

1. Answer: The difference between a bill of exchange and promissory note are as follows:

Basis	Bill of Exchange	Promissory Note
Drawer	Creditor is the Drawer.	Debtor is the Drawer.
Order or Promise and Parties	It contains an order to make payment. There can be three parties to it viz. the drawer, the drawee and the payee.	It contains a promise to make payment. There are only two parties to it viz. the drawer and the payee.
Acceptance	It requires acceptance by the drawee or someone else on his behalf.	It does not require any acceptance.
Payee	Drawer and payee can be the same party.	Drawer cannot be the payee of it.
Copies	In case of foreign bill, three copies are made, otherwise only one copy is prepared.	Only one copy is prepared whether, it is foreign or local.
Liability	The liability of the drawer arises only if the acceptor does not pay.	The promisor has the primary liability to pay.
Stamps	Stamps are not required to be fixed, on the bills payable on demand. However, on the other bills, stamps are required to be fixed.	Stamps have to be fixed in any case.
Noting	In case of Dishonour, it is better to get it noted for non-payment.	In the case of promissory note noting is necessary.



## 2. Answer: P's JOURNAL

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
2015					
Feb 1	Q's A/c To Sales A/c (Being goods sold on credit)	Dr		36,000	36,000
Feb 1	Bills Receivable (No. 1) A/c Bills Receivable (No. 2) A/c Bills Receivable (No. 3) A/c To Q's A/c (Being the acceptances received)	Dr Dr Dr		15,000 12,000 9,000	36,000
Feb 1	R's A/c To Bills Receivable (No. 1) A/c (Being the bill endorsed in favour of creditor, R)	Dr		15,000	15,000
Feb 4	Bank A/c Discounting Charges A/c To Bills Receivable (No. 2) A/c (Being the bill discounted with the bank)	Dr Dr		11,760 240	12,000
Apr 30	Bills Sent for Collection A/c To Bill Receivable (No. 3) A/c (Being the bill sent to the bank for collection)	Dr		9,000	9,000
May 4	Bank A/c Bank Charges A/c To Bills Sent for Collection A/c (Being the bill collected by the bank and	Dr Dr		8,925 75	9,000

	collection charges deducted)				
	Total			1,17,000 =====	1,17,000 =====

**Working Note Calculation of Discount** =  $12,000 \times \frac{12}{100} \times \frac{2}{12} = 240$

### Q's JOURNAL

Date	Particulars	L/F	Debit Amount (Rs)	Credit Amount (Rs)
2015				
Feb 1	Purchases A/c To P's A/c (Being the goods purchased on credit)	Dr	36,000	36,000
Feb 1	P's A/c To Bills Payable (No. 1) A/c To Bills Payable (No. 2) A/c To Bills Payable (No. 3) A/c (Being the acceptances given)	Dr	36,000	15,000 12,000 9,000
Mar 4	Bills Payable (No. 1) A/c To Cash A/c (Being the bill met on maturity)	Dr	15,000	15,000
Apr 4	Bills Payable (No 2) A/c To Cash A/c (Being the bill met on maturity)	Dr	12,000	12,000

May 4	Bills Payable (No. 3) A/c To Cash A/c (Being the bill met on maturity)	Dr		9,000	9,000
	Total			1,08,000 =====	1,08,000 =====

**3. Answer**  
**BOOKS OF A**  
**JOURNAL ENTRIES**

Date	Particulars		L/F	(Rs.)	(Rs.)
1.1.18	B/R A/c	Dr.		3,900	
	Discount Allowed A/c	Dr.		100	
	To B (Being a bill drawn.)				4,000
4.4.18	B	Dr.		4,050	
	To B/R A/c				3,900
	To Discount Allowed A/c				100
	To Cash A/c (Being bill dishonour & nothing charges paid)				50

**BOOKS OF B**  
**JOURNAL ENTRIES**

Date	Particulars		L/F	(Rs.)	(Rs.)
1.1.18	A	Dr.		4,000	
	To B/P A/c				3,900

	To Discount Received A/c (Being bill accepted.)				100
4.4.18	B/P A/c	Dr.		3,900	
	Nothing Charges A/c	Dr.		50	
	Discount Received A/c	Dr.		100	
	To A (Being bill dishonoured.)				4,050

### Case Study Answer-

1. Answer:

1.

**Solution:** Due Date of Bill = Date of Bill Drawn + Period + Grace Days.

2. (b)

**Solution:** Journal entry for the bill endorsed by Sushil to Anand in the books of Sushil is

Anand Dr. 4,120

To Discount Received A/c 120

To Bills Receivable (I) A/c 4,000

(Being bill endorsed to Anand for the full settlement of his account)

2. Answer:

1. (a)

**Solution:** Journal entry in the books of Pravin for the first bill endorsed to Shobha dishonoured is

Navin Dr. 45,100

Discount Received A/c 500

To Shobha 45,600

(Being first bill dishonoured and noting charges payable and the discount received account written of)

2. (c)

**Solution:** Journal entry for the bill accepted for the payment to be made to Praveen in the books of Navin is

Navin Dr. 75,000

To Bills Payable (I) A/c 45,000

To Bills Payable (II) A/c 30,000

(Being acceptance given to Pravin for the two bills)



*Swotters*