

CHAPTER 01

Accounting for Bills of Exchange

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- Promissory Note
- Accounting Treatment of Bills of Exchange and Promissory Note
- Dishonour of Bill

Meaning of Bills of Exchange

According to Section 5 of the Negotiable Instruments 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 only to or to the order of a certain person or to the bearer of the instrument.” A bill of exchange is generally drawn by the creditor upon his debtor. It has to be accepted by the drawee (debtor) or someone on his behalf.

Features of Bills of Exchange

- It must be in writing.
- It is an order to make payment.
- The order to make payment is unconditional.
- The maker of the bill of exchange must sign it.
- The payment to be made must be certain.
- The date on which payment is to be made must also be certain.
- It must be payable to a certain person.
- The amount mentioned in the bill of exchange is payable either on demand or on the expiry of a fixed period of time.
- It must be stamped as per the requirement of law.

Parties to a Bills of Exchange

There are three parties to a bills of exchange

1. **Drawer** The maker of the bill of exchange is the drawer i.e., the person who draws the bill. He is the person who has granted credit to the person on whom the bill of exchange is drawn.
2. **Drawee** The person upon whom the bill of exchange is drawn for his acceptance is a drawee. Drawee is the person to whom credit has been granted.
3. **Payee** He is the person to whom the payment is to be made i.e., the person in whose favour the bill is made. Payee may be third person or the drawer himself.

Types of Bills of Exchange

There are two types of bills of exchange

1. **Trade Bill** A trade bill is the bills of exchange drawn and accepted for a trade transaction i.e., purchases and sales of goods. In other words, bills which are drawn in the ordinary course of business are known as trade bills. These bills can be further categorised as follows
 - (i) **Bills at Sight or Demand Bill** In bills of exchange, 'at sight' and 'on presentment' means payable on demand. The instruments in which no time for payment is mentioned are known as bills at sight. Such instruments may be presented for payment at anytime.
 - (ii) **Bills after Date** Where a bill is payable at a fixed period after date, the period begins from the date of drawing the bill. 3 days of grace are allowed on such bills. For example, bills of exchange dated 1st January, 2021 is payable 2 months after the date and it is accepted on 15th January, 2021. The due date of the bill will be 4th March, 2021.
 - (iii) **Bills after Sight** In bills of exchange, 'after sight' means accepting. Where a bill is payable at a fixed period after sight, the period begins from the date of acceptance. 3 days of grace are allowed on such bills. For example, Bills of exchange dated 1st January, 2021 is payable 2 months after sight and it is accepted on 15th January, 2021. The due date of the bill will be 18th March, 2021.
2. **Accommodation Bill** These bills are drawn to help the other party i.e., bills drawn for mutual benefit are known as accommodation bills. It is accepted by the drawee to accommodate the drawer. Here, the drawee is called the **accommodating party** and the drawer is called the **accommodated party**.

For example, Suppose X needs finance for 2 months. In that case, he may ask his friend Y to accept his bill. The bills of exchange may then be taken by X to his bank and get it discounted. Thus, X will be able to make use of funds. When the 2 months period expires, X will send the requisite amount to Y and Y will meet the bill. Thus, X is able to raise money for his use with the help of an accommodation bill.

Specimen of Bills of Exchange

₹ 3,00,000/- only	Payee Two months after date pay to M/s Kartik & Sons or order the sum of ₹ three lakh only, for value received.	Meerut 1st January, 2021
To Parth High Rise Apartments, Meerut	Accepted (Parth) Drawee	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Stamp</div> Sd/- (Vishal) Drawer

Promissory Note

According to Section 4 of the Negotiable Instruments Act, 1881, "A promissory note is defined as an instrument in writing (not being a bank note or a currency note), containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument."

A promissory note does not require any acceptance because the maker of the promissory note himself promises to make the payment.

Features of Promissory Note

- It must be in writing.
- The sum payable must be certain.
- It must be payable to a certain person.
- It must contain an unconditional promise to pay.
- It must be signed by the maker.
- It should be properly stamped.

Parties to a Promissory Note

There are two parties to a promissory note

1. **Maker or Drawer** The person who makes or draws the promissory note to pay a certain amount is called a maker. He is the person who has availed the credit. He is also called the promisor.
2. **Payee** The person in whose favour the promissory note is drawn, i.e. the person to whom the payment is to be made is called the payee. He is also called the promisee.

Specimen of a Promissory Note

₹ 2,00,000/- only	Ronak 50, Sector-7, Meerut 10th January, 2021
Two months after date, I promise to pay Ishan or his order the sum of ₹ two lakh only, for value received	
To Ishan C-20, Shastri Nagar Meerut	<div style="border: 1px solid black; width: 50px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">Stamp</div> <div style="text-align: center; margin-top: 5px;">(Ronak)</div>
Payee	Maker

Terms Related to Accounting of Bills of Exchange/Promissory Note

Following are the important terms related to accounting of bills of exchange or promissory note

1. **Term of a Bill/Note** It is referred to as the period between the date on which a bill/note is drawn and the date on which it becomes due.
2. **Days of Grace** Days of grace are three extra days added to the period of bill/note.
3. **Due Date of a Bill/Note** It is the date on which the payment of the bill/note is due, i.e. the date on which the term of a bill/note expires.
4. **Date of Maturity of a Bill/Note** The date which comes after adding three days of grace to the due date of a bill/note, is called the date of maturity.
5. **Holder** Holder of a negotiable instrument (i.e., bill of exchange, promissory note or cheque) is a person entitled in his own name to the possession thereof and to receive or recover the amount due thereon from the parties to it.

Calculation of Due Date of a Bill/Note

The calculation of due date of a bill/note in various cases is calculated as follows

Cases	Due Date
When the bill/note is made payable on a specific date.	The specific date will be the due date.
When the bill/note is made payable at a stated number of month(s) after date.	<p>That date on which the term of the bill/note shall expire will be the due date. Calculation of due date will be in terms of calendar months, ignoring the number of days in a month.</p> <p>For example, A bill dated 1st January, 2021 is payable 3 months after date.</p> <p>The date of maturity will be 4th April, 2021 (3 months from 1st January, 2021 is 1st April, 2021 adding 3 days of grace, the due date will be 4th April, 2021)</p>

Cases	Due Date
When the bill/note is made payable at a stated number of days after date.	That date which comes after adding stated number of days to the date of bill/note, shall be the due date. The date of bill is excluded. For example , A bill dated 1st January, 2020 is payable after 60 days. The date of maturity will be 4th March, 2020 (30 days of January + 29 days of February + 1 day of March + 3 days of grace)
When the due date is a public holiday.	The preceding business day will be the due date. For example , Suppose the date of maturity is 15th August, 2021 (Independence Day) it being a public holiday, then the maturity date will be 14th August, 2021.
When the due date is an emergency/unforeseen holiday.	The next working day will be the due date of maturity.

Accounting Treatment of Bills of Exchange and Promissory Note

For accounting purposes, no distinction is made between bills of exchange and promissory note. The entries passed in both the cases are the same.

Basic accounting treatment of bills of exchange can be studied in respect of the following cases

- When the bill is retained till the date of maturity.
- When the bill is sent to bank for collection.
- When the bill is discounted with bank.
- When the bill is endorsed or negotiated in favour of a creditor.

When the Bill is Retained Till the Date of Maturity

In this case, the drawer retains the bill with him till the date of its maturity. The drawer receives the money from the drawee on the maturity date.

Journal Entries		
Transactions	Books of Creditor/Drawer	Books of Debtor/Acceptor/Drawee
Sales/Purchases of Goods	Debtor's A/c Dr To Sales A/c (Being goods sold on credit)	Purchases A/c Dr To Creditor's A/c (Being goods purchased on credit)
Receiving/Accepting the Bill	Bills Receivable A/c Dr To Debtor's A/c (Being bills receivable drawn)	Creditor's A/c Dr To Bills Payable A/c (Being bills payable accepted)
Collection of the Bill	Cash/Bank A/c Dr To Bills Receivable A/c (Being payment received against bills receivable)	Bills Payable A/c Dr To Cash/Bank A/c (Being payment made against bills payable)

When the Bill is Sent to Bank for Collection

At times, the bill is sent to the bank with instruction that the bank should keep the bill till maturity and collect its amount from the acceptor on that date. This process is known as '**bill sent for collection**'. The bank credits the net proceed to the customer's account, after charging for the service.

Journal Entries

Transactions	Books of Creditor/Drawer	Books of Debtor/Acceptor/Drawee
Sales/Purchases of Goods	Debtor's A/c To Sales A/c (Being goods sold on credit)	Purchases A/c To Creditor's A/c (Being goods purchased on credit)
Receiving/Accepting the Bill	Bills Receivable A/c To Debtor's A/c (Being bills receivable drawn)	Creditor's A/c To Bills Payable A/c (Being bills payable accepted)
Sending the Bill for Collection	Bill Sent for Collection A/c To Bills Receivable A/c (Being bill sent to bank for collection)	—
On Receiving from the Bank, Advice that the Bill has been Collected	Bank A/c To Bill Sent for Collection A/c (Being amount of bill collected by the bank)	Bills Payable A/c To Bank A/c (Being bill met on due date)

When the Bill is Discounted with Bank

In case, a holder of the bill is in need of money, he may discount it through the bank i.e., the holder of the bill takes amount from a bank against the bill before the due date. This process is known as **discounting of the bill**. The bank charges an amount for this purpose and it is termed as '**discounting charges**'.

The charges depend upon the rate of interest and the remaining period of the bill i.e., from the date of discounting till the due date. The bank gets the amount from the drawee on the due date.

Journal Entries

Transactions	Books of Creditor/Drawer	Books of Debtor/Acceptor/Drawee
Sales/Purchases of Goods	Debtor's A/c To Sales A/c (Being goods sold on credit)	Purchases A/c To Creditor's A/c (Being goods purchased on credit)
Receiving/Accepting the Bill	Bills Receivable A/c To Debtor's A/c (Being bills receivable drawn)	Creditor's A/c To Bills Payable A/c (Being bills payable accepted)
Discounting the Bill	Cash/Bank A/c Discount Charges A/c To Bills Receivable A/c (Being bills receivable discounted with the bank)	—
On Maturity of the Bill	—	Bills Payable A/c To Cash/Bank A/c (Being bill met on due date)

When the Bill is Endorsed or Negotiated

Transfer of bills of exchange or promissory note to another person is referred to as **endorsement or negotiation**. The person receiving it becomes entitled to receive the payment. The bill can be initially endorsed by the drawer by putting his signatures at the back of the bill along with the name of the party to whom it is being transferred.

The person who endorses the bill is called the **endorser**. The person to whom the bill is endorsed is called **endorsee**. A bill can be endorsed multiple times before its presentation.

Journal Entries

Transactions	Books of Creditor/ Drawer/ Endorser	Books of Debtor/ Acceptor/ Drawee	Books of Endorsee
Sales/Purchases of Goods	Debtor's A/c Dr To Sales A/c (Being goods sold on credit)	Purchases A/c Dr To Creditor's A/c (Being goods purchased on credit)	—
Receiving/Accepting the Bill	Bills Receivable A/c Dr To Debtor's A/c (Being bills receivable drawn)	Creditor's A/c Dr To Bills Payable A/c (Being bills payable accepted)	—
Endorsing the Bill	Creditor's A/c Dr To Bills Receivable A/c (Being bills receivable endorsed to a creditor)	—	Bills Receivable A/c Dr To Endorser (Being the receipt of a duly endorsed bill)
On Maturity of the Bill	—	Bills Payable A/c Dr To Bank A/c (Being bill met on due date)	Cash/Bank A/c Dr To Bills Receivable A/c (Being bill collected on due date)

Dishonour of Bill

When the drawee or acceptor of the bill fails to make the payment on the date of maturity, a bill is said to have been dishonoured. In case a bill is dishonoured, it is advisable that the holder of the bill present the bill to a **notary public** and get the dishonour of the bill noted. **Noting** authenticates the fact of dishonour and serves as a legal proof in the court of law. For providing this service, a fees is charged by notary public which is called **noting charges**.

The journal entries related to dishonour of a bill and noting charges are given below

Journal Entries on Dishonour of a Bill In the Books of Drawer

S.No.	Case	Entry
(i)	When the Bill is Retained till Maturity	Drawee's A/c Dr To Bills Receivable A/c (with the amount of bill) To Cash or Bank A/c (with noting charges paid) (Being the amount of dishonoured bill and noting charges debited to the drawee)
(ii)	When the Bill is Sent to the Bankers for Collection	Drawee's A/c Dr To Bill Sent for Collection A/c (with the amount of bill) To Cash or Bank A/c (with noting charged paid) (Being the amount of dishonoured bill and noting charges debited to the drawee)
(iii)	When the Bill is Discounted	Drawee's A/c Dr To Cash or Bank A/c (With the amount of bill and noting charges) (Being the amount of dishonoured bill and noting charges debited to the drawee)
(iv)	When the Bill is Endorsed	Drawee's A/c Dr To Endorsee's A/c (with the amount of bill and noting charges) (Being the amount of dishonoured bill and noting charges debited to the drawee)

In the Books of Drawee

Bills Payable A/c	Dr
Noting Charges A/c	Dr
To Drawer's A/c	
(Being the amount of dishonoured bill and noting charges credited to the drawer)	

- Note**
- When the bill is dishonoured, in all the circumstances drawee or acceptor account is debited when entries are passed in the books of drawer and drawer's account is always credited and bills payable account is always debited, when entries are passed in the books of drawee.
 - It may be noticed that whosoever pays the noting charges, ultimately these have to be borne by the drawee. This is because he is responsible for the dishonour of the bill and hence, he has to bear these expenses. For recording the noting charges in his books, the drawee opens noting charges account. He debits the noting charges account and credits the drawer's account.

Solved Examples

Example 1. On 1st January, 2021, S purchased goods from P for ₹ 16,000 and immediately drew a promissory note in favour of P payable after 3 months. On the date of maturity of the promissory note, the Government of India declared holiday under the Negotiable Instrument Act, 1881. Since, P was unaware about the provision of the law regarding the date of maturity of the bill, she handed over the bill to her lawyer, who duly presented the bill and received the payment. The amount of the bill was handed over by the lawyer to P immediately. Record the necessary journal entries in the books of P and S.

Ans.

In the Books of P JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Jan 1	S To Sales A/c (Being goods sold to S on credit)	Dr	16,000	16,000
Jan 1	Bills Receivable A/c To S (Being received S's promissory note)	Dr	16,000	16,000
April 5	Bank A/c To Bills Receivable A/c (Being amount received in respect of promissory note due)	Dr	16,000	16,000

In the Books of S JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Jan 1	Purchases A/c To P (Being goods purchased from P on credit)	Dr	16,000	16,000
Jan 1	P To Bills Payable A/c (Being promissory note sent to P)	Dr	16,000	16,000
Apr 5	Bills Payable A/c To Bank A/c (Being payment made to meet the promissory note due this day)	Dr	16,000	16,000

Note Since the due date of the promissory note i.e., 4th April has been declared as emergency holiday, the due date will be one day later i.e., 5th April.

Example 2. On 1st October, 2021, Y sells goods to Z for ₹ 24,000. On that date, Z accepted a bill drawn upon him by Y at 2 months for ₹ 24,000. Y decides to retain the bill till due date and sends the bill to the banker for collection. In due course, Y receives the information from the bank that the bill has been duly met. Pass journal entries in the books of Y and Z.

Ans.

**In the Books of Y
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Oct 1	Z To Sales A/c (Being goods sold to Z)	Dr	24,000	24,000
Oct 1	Bills Receivable A/c To Z (Being acceptance received)	Dr	24,000	24,000
Dec 4	Bill Sent for Collection A/c To Bills Receivable A/c (Being bill sent to bank for collection)	Dr	24,000	24,000
Dec 4	Bank A/c To Bill Sent for Collection A/c (Being the amount of bill collected by the bank)	Dr	24,000	24,000

**In the Books of Z
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Oct 1	Purchases A/c To Y (Being goods purchased from Y)	Dr	24,000	24,000
Oct 1	X To Bills Payable A/c (Being acceptance given)	Dr	24,000	24,000
Dec 4	Bills Payable A/c To Bank A/c (Being bill met on due date)	Dr	24,000	24,000

Example 3. Vishal sold goods for ₹ 7,000 to Manju on 5th January, 2021 and drew upon her bills of exchange payable after 2 months. Manju accepted Vishal's draft and handed over the same to Vishal after acceptance. Vishal immediately discounted the bill with his bank @ 12% per annum. On the due date, Manju met her acceptance. Journalise the above transactions in the books of Vishal and Manju. (NCERT)

Ans.

**In the Books of Vishal
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Jan 5	Manju To Sales A/c (Being goods sold to Manju)	Dr	7,000	7,000
Jan 5	Bills Receivable A/c To Manju (Being acceptance received)	Dr	7,000	7,000

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
Jan 5	Bank A/c Dr Discounting Charges A/c (WN) Dr To Bills Receivable A/c (Being bill discounted with the bank @ 12% per annum)		6,860 140	7,000

Working Note

$$\text{Calculation of Discount} = 7,000 \times \frac{12}{100} \times \frac{2}{12} = ₹ 140$$

**In the Books of Manju
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Jan 5	Purchases A/c Dr To Vishal (Being goods purchased from Vishal)		7,000	7,000
Jan 5	Vishal Dr To Bills Payable A/c (Being acceptance given)		7,000	7,000
Mar 8	Bills Payable A/c Dr To Bank A/c (Being bills payable paid on maturity)		7,000	7,000

Example 4. On 1st January, X sold goods worth ₹ 1,00,000 to Y and drew a bill on Y at 3 months for the amount. Y accepted the bill and returned it to X who endorsed the bill a month after the acceptance, in favour of a creditor Z in full settlement of his debt for ₹ 1,02,000. The bill is duly honoured at maturity. Pass the necessary journal entries in the books of X, Y and Z.

Ans.

**In the Books of X
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
Jan 1	Y Dr To Sales A/c (Being the goods sold to Y on credit)		1,00,000	1,00,000
Jan 1	Bills Receivable A/c Dr To Y (Being the acceptance of the bill received from Y)		1,00,000	1,00,000
Feb 1	Z Dr To Bills Receivable A/c To Discount Received A/c (Being a bill of ₹ 1,00,000 endorsed to Z in full settlement of ₹ 1,02,000)		1,02,000	1,00,000 2,000

**In the Books of Y
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
Jan 1	Purchases A/c To X (Being goods purchased on credit from X)	Dr	1,00,000	1,00,000
Jan 1	X To Bills Payable A/c (Being the acceptance of the bill given to X)	Dr	1,00,000	1,00,000
Apr 4	Bills Payable A/c To Bank A/c (Being the bill discharged)	Dr	1,00,000	1,00,000

**In the Books of Z
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
Feb 1	Bills Receivable A/c Discount Allowed A/c To X (Being the receipt of a duly endorsed bill)	Dr Dr	1,00,000 2,000	1,02,000
Apr 4	Bank A/c To Bills Receivable A/c (Being the bill collected on due date)	Dr	1,00,000	1,00,000

Example 5. P draws on Q three bills of exchange for ₹ 15,000, ₹ 12,000 and ₹ 9,000 respectively for goods sold to him on 1st February, 2021. These bills were for 1 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, 2021 @ 12% per annum 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 ₹ 75 as collection charges. Pass the journal entries in the books of P and Q.

Ans.

**In the Books of P
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Feb 1	Q 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 (Being the acceptances received)	Dr Dr Dr	15,000 12,000 9,000	36,000
Feb 1	R To Bills Receivable (No. 1) A/c (Being the bill endorsed in favour of creditor, R)	Dr	15,000	15,000

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
Feb 4	Bank A/c Dr Discounting Charges A/c (WN) Dr To Bills Receivable (No. 2) A/c (Being the bill discounted with the bank)		11,760 240	12,000
Apr 30	Bill Sent for Collection A/c Dr To Bills Receivable (No. 3) A/c (Being the bill sent to the bank for collection)		9,000	9,000
May 4	Bank A/c Dr Bank Charges A/c Dr To Bill Sent for Collection A/c (Being the bill collected by the bank and collection charges deducted)		8,925 75	9,000

Working Note

$$\text{Calculation of Discount} = 12,000 \times \frac{12}{100} \times \frac{2}{12} = ₹ 240$$

In the Books of Q JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Feb 1	Purchases A/c Dr To P (Being the goods purchased on credit)		36,000	36,000
Feb 1	P Dr 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)		36,000	15,000 12,000 9,000
Mar 4	Bills Payable (No. 1) A/c Dr To Cash A/c (Being the bill met on maturity)		15,000	15,000
Apr 4	Bills Payable (No. 2) A/c Dr To Cash A/c (Being the bill met on maturity)		12,000	12,000
May 4	Bills Payable (No. 3) A/c Dr To Cash A/c (Being the bill met on maturity)		9,000	9,000

Example 6. On 1st January, 2021, X sold goods to Y for ₹ 20,000 less 2% cash discount. Y paid 50% price immediately and X drew a bill on Y for two months for the balance. This bill is duly accepted by Y. The bill was dishonoured on the due date and X paid ₹ 100 as noting charges. Y paid the amount due to X by cheque after ten days. Pass entries in the books of both the parties.

Ans.

**In the Books of X
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Jan 1	Y To Sales A/c (Being goods sold to Y)	Dr	20,000	20,000
Jan 1	Cash A/c Discount Allowed A/c ($10,000 \times 2\%$) To Y ($20,000 \times 50\%$) (Being cash received from Y and discount allowed at 2%)	Dr Dr	9,800 200	10,000
Jan 1	Bills Receivable A/c To Y (Being acceptance received for 2 months)	Dr	10,000	10,000
Mar 4	Y To Bills Receivable A/c To Cash A/c (Being bill dishonoured and noting charges paid)	Dr	10,100	10,000 100
Mar 14	Bank A/c To Y (Being amount received)	Dr	10,100	10,100

**In the Books of Y
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Jan 1	Purchases A/c To X (Being goods purchased from X)	Dr	20,000	20,000
Jan 1	X To Cash A/c To Discount Received A/c (Being cash paid to X and discount received @ 2%)	Dr	10,000	9,800 200
Jan 1	X To Bills Payable A/c (Being acceptance given for 2 months)	Dr	10,000	10,000
Mar 4	Bills Payable A/c Noting Charges A/c To X (Being bill dishonoured and noting charges paid by X)	Dr Dr	10,000 100	10,100
Mar 14	X To Bank A/c (Being amount paid)	Dr	10,100	10,100

Example 7. On 1st January, 2021, Shieba sold goods to Vishal for ₹ 10,000 and drew upon him bills of exchange of 2 months. Vishal accepted the bill and returned it to Shieba. On the date of maturity the bill was dishonoured by Vishal. Record the necessary entries in all the cases listed below in the books of Shieba.

- (i) When the bill is kept by Shieba till its maturity.
- (ii) When the bill is discounted by Shieba for ₹ 200.
- (iii) When the bill is endorsed to Lal Chand by Shieba.
- (iv) When the bill is sent to bank for collection.

Noting charges were ₹ 100.

Ans.

**In the Books of Shieba
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021	Entry in All the Cases			
Jan 1	Vishal Dr To Sales A/c (Being goods sold to Vishal)		10,000	10,000
Jan 1	Bills Receivable A/c Dr To Vishal (Being Vishal's acceptance received)		10,000	10,000
Mar 4	Additional Entry in Case (i) Vishal Dr To Bills Receivable A/c To Cash A/c (Being Vishal dishonoured his acceptance)		10,100	10,000 100
Jan 1	Additional Entry in Case (ii) Bank A/c Dr Discount A/c Dr To Bills Receivable A/c (Being bill receivable discounted with bank)		9,800 200	10,000
Mar 4	Vishal Dr To Bank A/c (Being discounted bill dishonoured by Vishal)		10,100	10,100
Jan 1	Additional Entry in Case (iii) Lal Chand Dr To Bills Receivable A/c (Being Vishal's acceptance endorsed in favour of Lal Chand)		10,000	10,000
Mar 4	Vishal Dr To Lal Chand (Being endorsed bill dishonoured by Vishal)		10,100	10,100
Jan 1	Additional Entry in Case (iv) Bank for Collection A/c Dr To Bills Receivable A/c (Being bills receivable sent to bank for collection)		10,000	10,000
Mar 4	Vishal Dr To Bank A/c To Bank for Collection A/c (Being bills receivable dishonoured and noting charges paid by bank)		10,100	100 10,000

Chapter Practice

PART 1

Objective Questions

• Multiple Choice Questions

1. A bill of exchange is drawn by a

- (a) shareholder (b) debtor (c) creditor (d) foreigner

Ans. (c) A bill is drawn by creditor on his debtor. He is known as maker or drawer of the bill.

2. The party who is ordered to pay the amount is known as

- (a) Payee (b) Drawee (c) Drawer (d) All of these

Ans. (b) Drawee or acceptor is the purchaser on whom the bill is drawn and is liable to pay the amount mentioned in the bill.

3. Which of the following is a type of bill of exchange?

- (a) Trade bill (b) Accommodation bill (c) Promissory note (d) Both (a) and (b)

Ans. (d) Both (a) and (b)

4. Which of the following Act defines the bills of exchange?

- (a) Indian Partnership Act, 1932 (b) Indian Companies Act, 2013
(c) Indian Negotiable Instrument Act, 1881 (d) None of these

Ans. (c) Indian Negotiable Instrument Act, 1881

5. "Sometimes the purchaser of the goods himself writes a note, signs it and gives it to the seller of the goods." This type of instrument is known as

- (a) Credit note (b) Promissory note (c) Debit note (d) All of these

Ans. (b) Promissory note

6. On 12th July, 2021, A draws a bill on B for ₹ 50,000 for 1 month and 15th August is a public holiday. What will be the maturity date of the bill?

- (a) 13th August, 2021 (b) 16th August, 2021 (c) 14th August, 2021 (d) 15th August, 2021

Ans. (c) The date of maturity is 15th August, 2021, it being a public holiday, so the preceding day will be considered as the maturity date, i.e. 14th August, 2021.

7. Which among the following will be the journal entry in the books of drawer for sending the bill for collection?

- (a) Bill Sent for Collection A/c Dr
 To Drawee
(b) Bill Sent for Collection A/c Dr
 To Bills Receivable A/c
(c) Drawee A/c Dr
 To Bill Sent for Collection A/c
(d) None of the above

Ans. (b) Bill Sent for Collection A/c Dr
 To Bills Receivable A/c

8. A draws a bill on X for ₹ 1,20,000 for 3 months. A got the bill discounted at a rate of 12%. The amount of discount will be

(a) ₹ 3,600 (b) ₹ 2,400 (c) ₹ 1,200 (d) ₹ 2,600

Ans. (a) $\text{Discount} = 1,20,000 \times \frac{3}{12} \times \frac{12}{100} = ₹ 3,600$

9. A bill of ₹ 12,000 was discounted by A with the banker for ₹ 11,880. At maturity, the bill returned dishonoured, with noting charges ₹ 20. How much amount will the bank deduct from A's bank balance at the time of such dishonour?

(a) ₹ 12,000 (b) ₹ 11,880 (c) ₹ 12,020 (d) ₹ 11,900

Ans. (c) $\text{Bill Amount} + \text{Noting Charges} = 12,000 + 20 = ₹ 12,020$

10. X draws a bill on Y for ₹ 10,000. The bill is duly accepted by Y. On due date, bill was dishonoured and X paid ₹ 200 as noting charges. Which of the undermentioned journal entries reflect correct entry at the time of dishonour in books of X?

(a) Y
To Bills Receivable A/c Dr 10,200 10,200

(b) Y
To Cash A/c Dr 10,200 10,200

(c) Y
To Bills Receivable A/c 10,000
To Cash A/c 200

(d) Bills Receivable A/c Dr 10,200
To Y 10,200

Ans. (c) Y Dr 10,200
To Bills Receivable A/c 10,000
To Cash A/c 200

11. Match the items given in column I with their respective treatment at the time of dishonour of bill in the books of drawer.

Column I	Column II
A. When bill is discounted	(i) Drawee's A/c Dr To Endorsee's A/c
B. When the bill is retained till maturity	(ii) Drawee's A/c Dr To Bill Sent for Collection A/c To Cash or Bank A/c
C. When the bill is endorsed	(iii) Drawee's A/c Dr To Bills Receivable A/c To Cash or Bank A/c
D. When the bill is sent to the bank for collection	(iv) Drawee's A/c Dr To Cash or Bank A/c

Codes

A	B	C	D	A	B	C	D
(a) (i)	(ii)	(iv)	(iii)	(b) (iv)	(i)	(ii)	(iii)
(c) (iv)	(iii)	(i)	(ii)	(d) (iii)	(iv)	(i)	(ii)

Ans. (c) (iv) (iii) (i) (ii)

12. A draws a bill on B for ₹ 1,50,000. A endorsed it to C in full settlement of ₹ 1,51,500. Noting charges of ₹ 600, as the bill returned dishonoured. A wants to pay the amount to C at 2% discount. The amount to be paid by A to C will be

(a) ₹ 1,37,000 (b) ₹ 1,38,470 (c) ₹ 1,49,058 (d) ₹ 1,51,500

Ans. (c) Amount to be paid by A to C

$$\text{Discount @ 2\% to C} = (1,51,500 + 600) \times \frac{2}{100} = ₹ 3,042$$

$$\text{Final Amount paid by A to C} = 1,52,100 - 3,042 = ₹ 1,49,058$$

13. Which of the following statements are correct?

- (i) Three days added for ascertaining the date of maturity of bills of exchange are called grace days.
- (ii) The person in whose favour an endorsement of bills of exchange is made is called endorsee.
- (iii) The fee charged for getting the bill noted is called noting charges.

Alternatives

- (a) (ii) and (iii) are correct
- (b) (i) and (ii) are correct
- (c) (i) and (iii) are correct
- (d) All are correct

Ans. (d) All are correct

14. When a bill is drawn to settle a trade debt, it is known as

- (a) Proper bill
- (b) Exchange bill
- (c) Trade bill
- (d) Accommodation bill

Ans. (c) Trade bill

15. “I owe you ₹ 50,000,” it is a

- (a) promissory note
- (b) bill of exchange
- (c) acknowledgement of debt
- (d) None of these

Ans. (c) It is neither a promissory note nor a bill of exchange. It is merely an acknowledgement of debt without any promise to pay.

• Assertion-Reasoning MCQs

Direction (Q. Nos. 1 to 3) *There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.*

- (a) Assertion (A) is correct, but Reason (R) is wrong
- (b) Both Assertion (A) and Reason (R) are correct
- (c) Assertion (A) is wrong, but Reason (R) is correct
- (d) Both Assertion (A) and Reason (R) are wrong

1. Assertion (A) Promissory note does not require any acceptance.

Reason (R) Drawer of the promissory note himself promises to make the payment.

Ans. (b) A promissory note does not require acceptance because it is already a valuable instrument.

2. Assertion (A) A bill given to a creditor is said to be bills payable.

Reason (R) In case of a bills of exchange, the drawer and the payee can be the same person.

Ans. (b) Both Assertion (A) and Reason (R) are correct.

3. Assertion (A) When the bill has been discounted with bank and it is dishonoured, then noting charges will be debited in books of drawer.

Reason (R) Noting charges is an expense for drawer.

Ans. (d) Noting charges will always be debited in books of drawee as it is an expense for him.

• Case Based MCQs

1. Direction *Read the following case study and answer the question no. (i) to (iv) on the basis of the same.*

Rakesh runs a boutique in Karol bagh, Delhi. 80% of his transactions are on credit. Therefore, to avoid any default on part of buyers, he always use bills of exchange.

On 1st February, 2021, Ritika purchased goods worth ₹ 40,000 on credit. Ritika requested him to draw three bills of exchange instead of one. Therefore, he drew on her, three bills of exchange for ₹ 15,000, ₹ 13,000 and ₹ 12,000 respectively. These bills were for 1 month, 2 months and 3 months respectively. The first bill was endorsed to his creditor, Anuj.

The second bill was discounted with his bank on 4th February, 2021 @ 12% p.a. and the third bill was sent to bank for collection on 30th April, 2021. On the due dates, all bills were duly met by Ritika. Bank sent the collection advice for the third bill after deducting ₹ 75 as collection charges.

- (i) Which of the aforementioned journal entry will be passed in books of Rakesh for discounting 2nd bill with the bank?

(a)	Bank A/c	Dr	12,740	
	To Bills Receivable (No.2)			12,740
(b)	Bank A/c	Dr	12,740	
	Discounting Charges A/c	Dr	260	
	To Bills Receivable (No.2)			13,000
(c)	Bank A/c	Dr	13,000	
	To Bills Receivable A/c (No.2)			13,000
(d)	Bank A/c	Dr	11,440	
	Discounting Charges A/c	Dr	1,560	
	To Bills Receivable (No.2) A/c			13,000

Ans. (b) Calculation of Discount = $13,000 \times \frac{12}{100} \times \frac{2}{12} = ₹ 260$

- (ii) Which of the following journal entry shows the correct treatment for third bill on its due date?

(a)	Bank A/c	Dr	11,925	
	To Bill Sent for Collection A/c			11,925
(b)	Bank A/c	Dr	11,925	
	Bank Charges A/c	Dr	75	
	To Bill Sent for Collection A/c			12,000
(c)	Bank A/c	Dr	12,000	
	To Bill Sent for Collection A/c			12,000
(d)	Bank A/c	Dr	11,925	
	Bank Charges A/c	Dr	75	
	To Bills Receivable (No.3) A/c			12,000

Ans. (b) Bank A/c Dr 11,925
Bank Charges A/c Dr 75
To Bill Sent for Collection A/c 12,000

- (iii) Which of the undermentioned journal entry will be passed in the books of Ritika if Rakesh send third bill to bank for collection?

(a)	Bill Sent for Collection A/c	Dr	12,000	
	To Bills Receivable (No.3) A/c			12,000
(b)	Bills Payable A/c (No.3)	Dr	12,000	
	To Bill Sent for Collection A/c			12,000
(c)	Bill Sent for Collection A/c	Dr	12,000	
	To Rakesh A/c			12,000
(d)	Nil			

Ans. (d) Journal entry will not be passed in the books of Ritika.

- (iv) The person to whom bill is endorsed is called

(a) Endorser	(b) Endorsee
(c) Acceptor	(d) Acceptee

Ans. (b) Endorsee

2. Direction Read the following case study and answer the question no. (i) to (iv) on the basis of the same.

Shri Ram Jewellers in Chandni chowk deals in crafting timeless pieces of handmade gold jewellery since 1950. CEO Mohit Gupta has decided to sell goods on credit to their old customers as a gesture for their customer loyalty over years. But to avoid any default on part of their customers, they decided to draw bill of exchange.

On 1st April, 2021, Rohan Kapoor purchased gold ring for ₹ 60,000. On the same date, Mohit drew a bill of the same amount for 3 months. The bill was accepted by Rohan. Mohit discounted the bill with his bank on 4th April, 2021 @ 18% p.a. On the due date, the bill was dishonoured and noting charges ₹ 850 were paid by the bank. Rohan agreed to pay ₹ 60,500 in full settlement after 10 days of dishonour of the bill.

(i) Which of the following journal entry will be passed in the books of Mohit Gupta upon dishonour of bill?

(a) Rohan	Dr	60,850	
To Bank A/c			60,850
(b) Rohan	Dr	58,150	
To Bank A/c			58,150
(c) Rohan	Dr	60,850	
To Bills Receivable A/c			60,000
To Bank A/c			850
(d) Bills Receivable A/c	Dr	60,850	
To Rohan			60,000
To Bank			850

Ans. (a) Amount due from Rohan = 850 + 60,000 = ₹ 60,850.

(ii) Consider the following statements about bills of exchange.

(i) Bills of exchange is a legal document under Negotiable Instrument Act, 1881.

(ii) Bills of exchange must contain an unconditional promise to pay.

Which of the following is incorrect?

- (a) Only (i) (b) Only (ii)
(c) Both (i) and (ii) (d) None of these

Ans. (b) Bills of exchange contains an unconditional order to pay.

(iii) Which of the aforementioned journal entry will be passed in books of Mohit upon receiving the payment?

(a) Bills Receivable A/c	Dr	60,000	
To Rohan			60,000
(b) Rohan	Dr	60,000	
To Bills Payable A/c			60,000
(c) Bank A/c	Dr	60,500	
To Rohan			60,500
(d) No Entry Required			

Ans. (c) Bank A/c Dr 60,500
 To Rohan 60,500

(iv) "Mohit drew a bill of the same amount for 3 months". In this case, Mohit is

- (a) drawer (b) drawee (c) Either (a) or (b) (d) None of these

Ans. (a) drawer

PART 2

Subjective Questions

• Short Answer (SA) Type Questions

1. Define bills of exchange and briefly explain parties to a bills of exchange.

Ans. According to Indian Negotiable Instrument Act, 1881, “A bills of exchange is an instrument in writing, an unconditional order signed by the maker directing to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument”. Parties to bills of exchange are as follows

- (i) **Drawer** He is a person who sold goods on credit to someone. He writes or draws the bill.
- (ii) **Drawee** He is the debtor who purchases the goods on credit and accepts bill. He is liable to pay the amount mentioned in the bill.
- (iii) **Payee** The person to whom the payment is to be made is called payee. The drawee himself or any other person may be the payee of the bill.

2. State any four essential features of bills of exchange.

(NCERT)

Ans. The essential features of bills of exchange are (any four)

- (i) It must be in writing.
- (ii) It is an order to make payment.
- (iii) The order to make payment is unconditional.
- (iv) The maker of the bills of exchange must sign it.
- (v) The payment to be made must be certain.
- (vi) The date on which payment is to be made must also be certain.
- (vii) It must be payable to a certain person.
- (viii) It must be stamped as per the requirement of law.

3. Bills of exchange must contain ‘an unconditional promise to pay’. Do you agree with the statement? (NCERT)

Ans. No, I do not agree with this statement. According to Section 5 of the Negotiable Instrument Act, 1881, “Bills 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 only to or to the order of a certain person or to the bearer of the instrument”. Therefore, bills of exchange is an order by the drawer (creditor) to the drawee (debtor) without any condition. Hence, the bills of exchange does not contain an unconditional promise to pay rather it contains an unconditional order to pay.

4. On 1st January, 2021, P sold goods to Q for ₹ 1,00,000. On the same date P draws a bill on Q for ₹ 1,00,000 due after three months. Q accepted the bill and returned it to P. P retained the bill till the due date and Q meets the bill on due date. Pass journal entries in the books of both the parties.

Ans.

In the Books of P (Drawer) JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Jan 1	Q To Sales A/c (Being goods sold to Q on credit)	Dr	1,00,000	1,00,000
Jan 1	Bill Receivable A/c To Q (Being bill Receivable form Q)	Dr	1,00,000	1,00,000
Apr 4	Bank A/c To bills Receivable A/c (Being the amount of the the bill received on due date)	Dr	1,00,000	1,00,000

In the Books of Q (Acceptor)
JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Jan 1	Purchases A/c To P (Being goods purchased from P on credit)	Dr	1,00,000	1,00,000
Jan 1	P To Bills Payable A/c (Being acceptance given to P)	Dr	1,00,000	1,00,000
Apr 4	Bills Payable A/c To Bank A/c (Being the amount of the bill paid on due date)	Dr	1,00,000	1,00,000

5. On 1st January, 2020, Rao sold goods worth ₹ 20,000 to Reddy. Half of the payment was made immediately and for the remaining half, Rao drew a bill of exchange upon Reddy payable after 30 days. Reddy accepted the bill and returned it to Rao. On the due date, Rao presented the bill to Reddy and received the payment. Journalise the above transactions in the books of Rao and prepare Rao's account in the books of Reddy.

Ans.

In the Books of Rao
JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Jan 1	Reddy To Sales A/c (Being goods sold to Reddy on credit)	Dr	20,000	20,000
Jan 1	Cash A/c Bills Receivable A/c To Reddy (Being half of the amount received and acceptance for remaining half amount received)	Dr Dr	10,000 10,000	20,000
Feb 2	Cash A/c To Bills Receivable A/c (Being cash received on due date)	Dr	10,000	10,000

In the Books of Reddy
Rao's Account

Dr				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)
2020 Jan 1	To Cash A/c		10,000	2020 Jan 1	By Purchases A/c		20,000
Jan 1	To Bills Payable A/c		10,000				
			20,000				20,000

6. Kapil purchased goods for ₹ 21,000 from Gaurav on 1st February, 2021 and accepted the bills of exchange drawn by Gaurav for the same amount. The bill was payable after a month. On 25th February, 2021, Gaurav sent the bill to his bank for collection. The bill was duly presented by the bank. Kapil dishonoured the bill and the bank paid ₹ 100 as noting charges. Record the necessary journal entries for the above transactions in the books of Gaurav. (NCERT, Modified)

Ans.

**In the Books of Gaurav
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Feb 1	Kapil To Sales A/c (Being goods sold to Kapil)	Dr	21,000	21,000
Feb 1	Bills Receivable A/c To Kapil (Being acceptance received from Kapil)	Dr	21,000	21,000
Feb 25	Bill Sent for Collection A/c To Bills Receivable A/c (Being bills sent to the bank for collection)	Dr	21,000	21,000
Mar 4	Kapil To Bill Sent for Collection A/c To Bank A/c (Being bills dishonoured on due date and noting charges paid)	Dr	21,100	21,000 100

7. Lipakshi sold goods worth ₹ 19,000 to Ipshita on 2nd March, 2021. ₹ 4,000 were paid by Ipshita immediately and for the balance, she accepted a bills of exchange drawn upon her by Lipakshi payable after 3 months. Lipakshi discounted the bill immediately with her bank @10% p.a. On the due date, Ipshita dishonoured the bill and the bank paid ₹ 30 as noting charges.

Record the necessary journal entries in the books of Lipakshi.

Ans.

**In the Books of Lipakshi
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Mar 2	Ipshita To Sales A/c (Being goods sold to Ipshita)	Dr	19,000	19,000
Mar 2	Cash A/c Bills Receivable A/c To Ipshita (Being ₹ 4,000 cash and acceptance for ₹ 15,000 received)	Dr Dr	4,000 15,000	19,000
Mar 2	Bank A/c Discounting Charges A/c To Bills Receivable A/c (Being bill discounted by bank)	Dr Dr	14,625 375	15,000
Jun 5	Ipshita To Bank A/c (Being bill dishonoured on due date and noting charges paid)	Dr	15,030	15,030

Note Computation of discount = $15,000 \times 10\% \times 3/12 = ₹ 375$

8. On 1st January, 2021, Khushi drew a bill on Sarthak for ₹ 1,00,000 payable after 3 months. Sarthak accepted the bill and returned it to Khushi. After 10 days, Khushi endorsed the bill to her creditor, Smita. On the due date, the bill was dishonoured and Smita paid ₹ 2,000 as noting charges.

Record the transactions in the journal of Sarthak and Smita.

Ans.

In the Books of Sarthak (Drawee)
JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Jan 1	Khushi To Bills Payable A/c (Being acceptance given)	Dr	1,00,000	1,00,000
Apr 4	Bills Payable A/c Noting Charges A/c To Khushi (Being bill dishonoured)	Dr Dr	1,00,000 2,000	1,02,000

In the Books of Smita
JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Jan 11	Bills Receivable A/c To Khushi (Being bill received from Khushi)	Dr	1,00,000	1,00,000
Apr 4	Khushi To Bills Receivable A/c To Cash A/c (Being bill dishonoured and noting charges paid ₹ 2,000)	Dr	1,02,000	1,00,000 2,000

• **Long Answer (LA) Type Questions**

1 Explain briefly the procedure of calculating the date of maturity of bills of exchange. Give example. (NCERT)

Ans. In arriving at the maturity date (i.e. the date on which bills of exchange or promissory note becomes due for payment) 3 days, known as days of grace must be added to the date on which the period of credit expires. However, when the date of maturity is a public holiday, the maturity date will be the preceding business day. Also when an emergency holiday is declared under the Negotiable Instruments Act, 1881, which happens to be the date of maturity of bills of exchange, then the date of maturity will be the next working day immediately after the holiday.

For example,

Date of the Bill	Period
(i) 1st January, 2021	2 months
(ii) 23rd November, 2021	2 months
(iii) 23rd May, 2021	60 days

Emergency Holiday - 25th July, 2021

(i) The due date will be — 1st March, 2021 + 3 days of grace = 4th March, 2021

(ii) The due date will be — 23rd January + 3 days of grace = 26th January.

Since, due date is falling on 26th January, 2021 which is a public holiday, the due date will be the preceding day, i.e. 25th January, 2021.

(iii) The due date will be — 8 days of May + 30 days of June + 22 days of July + 3 days of grace = 25th July

Since, due date is falling on 25th July which is declared as an emergency holiday, the due date will be 26th July, 2021.

2. Distinguish between bills of exchange and a promissory note.

Ans. The differences between bills of exchange and promissory note are as follows

Basis	Bills of Exchange	Promissory Note
Drawer	It is drawn by the creditor.	It is drawn by the debtor.
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.
Notice	In case of its dishonour, due notice of dishonour is to be given by the holder to the drawer.	No notice needs to be given in case of its dishonour.
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 require to be fixed.	Stamps have to be fixed in any case.

3. On 1st January, 2020, A sold goods for ₹ 60,000 to S. 50% of the payment was made immediately by S on which A allowed a cash discount of 2%. For the balance, S drew a promissory note in favour of A payable after 22 days. Since, the date of maturity of bill was a public holiday, A presented the bill on a day, as per the provisions of Negotiable Instrument Act which was met by S. State the date on which the bill was presented by A for payment and journalise the above transactions in the books of A and S.

Ans.

**In the Books of A
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Jan 1	S To Sales A/c (Being goods sold to S on credit)	Dr	60,000	60,000
Jan 1	Bank A/c Discount Allowed A/c (30,000 × 2%) To S (60,000 × 50%) (Being 50% of ₹ 60,000 received from S after allowing a cash discount of 2%)	Dr Dr	29,400 600	30,000
Jan 1	Bills Receivable A/c To S (Being received a promissory note from S for the balance)	Dr	30,000	30,000
Jan 25	Bank A/c To Bills Receivable A/c (Being amount received in respect of promissory note due this day)	Dr	30,000	30,000

**In the Books of S
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Jan 1	Purchases A/c Dr To A (Being goods purchased from A on credit)		60,000	60,000
Jan 1	A Dr To Bank A/c To Discount Received A/c (Being 50% of ₹ 60,000 paid to A and received a cash discount of 2%)		30,000	29,400 600
Jan 1	A Dr To Bills Payable A/c (Being a promissory note sent to A)		30,000	30,000
Jan 25	Bills Payable A/c Dr To Bank A/c (Being payment made to meet the promissory note due this day)		30,000	30,000

Note Since the due date of the promissory note i.e., 26th January, falls on a public holiday, due date will be one day earlier i.e., 25th January.

4. Anil drew a 3 months bill for ₹ 10,000 upon Sunil. The bill was endorsed in favour of Vimal who endorsed it in favour of Kamal who in turn endorsed it in favour of Anil to discharge his own acceptance. Prepare journal in the books of Anil, Sunil, Vimal and Kamal.

Ans.

**In the Books of Anil
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bills Receivable A/c Dr To Sunil (Being the acceptance of the bill received from Sunil)		10,000	10,000
	Vimal Dr To Bills Receivable A/c (Being the bill endorsed in favour of Vimal)		10,000	10,000
	Bills Receivable A/c (New) Dr To Bills Receivable A/c (Old) (Being the receipt of a duly endorsed bill towards the payment of an old bill)		10,000	10,000

**In the Books of Sunil
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Anil Dr To Bills Payable A/c (Being the acceptance of the bill given to Anil)		10,000	10,000

**In the Books of Vimal
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bills Receivable A/c Dr To Anil (Being the receipt of a duly endorsed bill)		10,000	10,000
	Kamal Dr To Bills Receivable A/c (Being the endorsed bill endorsed in favour of Kamal)		10,000	10,000

**In the Books of Kamal
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bills Receivable A/c Dr To Vimal (Being the receipt of a duly endorsed bill)		10,000	10,000
	Bills Payable A/c (Old) Dr To Bills Receivable A/c (New) (Being own acceptance discharged by endorsing an endorsed bill)		10,000	10,000

Note Since the question is silent with regard to payment of bill on maturity, therefore no journal entries are passed to that effect.

5. From the following information, complete the following journal entries.

**In the Books of Nonu
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Feb 1	..... Dr To A/c (Being goods worth ₹ 72,000 sold to Monu on credit)		72,000	72,000
Feb 1	..... Dr Bills Receivable (No. 2) A/c Dr Dr To Monu (Being the acceptances received from monu for 3 bills for 1 month, 2 months and 3 months respectively)		30,000 24,000...	...
Feb 1	Sonu Dr To Bills Receivable (No. 1) A/c (Being the 1st bill endorsed in favour of creditor Sonu)		...	...
Feb 4	..... Dr Dr To Bills Receivable (No. 2) A/c (Being the 2nd bill discounted with the bank @ 12% pa on 4th February)		... ...	24,000
Apr 30	..... Dr To Bills Receivable (No. 3) A/c (Being the 3rd bill sent to the bank for collection on 30th April)		18,000	18,000
May 4	..... Dr Dr To Bills Sent for Collection A/c (Being the bill collected by the bank and 150 collection charges deducted)		... ...	18,000

**In the books of Monu
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Feb 1	..... A/c Dr (Being the goods purchased from Nonu on credit)		72,000	72,000
Feb 1	Nonu Dr 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 for 3 bills)		72,000	30,000 24,000 18,000
Mar 4	..... Dr To Cash A/c (Being the 1st bill met on maturity)		30,000	30,000
Apr 4	..... Dr To Cash A/c (Being the 2nd bill met on maturity)		24,000	24,000
May 4	..... Dr To Cash A/c (Being the 3rd bill met on maturity)		18,000	18,000

Ans.

**In the Books of Nonu
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Feb 1	Monu Dr To Sales A/c (Being goods worth ₹ 72,000 sold to Monu on credit)		72,000	72,000
Feb 1	Bills Receivable (No. 1) A/c Dr Bills Receivable (No. 2) A/c Dr Bills Receivable (No. 3) A/c Dr To Monu (Being the acceptances received from Monu for 3 bills for 1 month, 2 months and 3 months respectively)		30,000 24,000 18,000	72,000
Feb 1	Sonu Dr To Bills Receivable (No. 1) A/c (Being the 1st bill endorsed in favour of creditor Sonu)		30,000	30,000
Feb 4	Bank A/c Dr Discounting Charges A/c Dr To Bills Receivable (No. 2) A/c (Being the 2nd bill discounted with the bank @ 12% p.a. on 4th Feb)		23,520 480	24,000
Apr 30	Bills Sent for Collection A/c Dr To Bills Receivable (No. 3) A/c (Being the 3rd bill sent to the bank for collection on 30th April)		18,000	18,000
May 4	Bank A/c Dr Bank Charges A/c Dr To Bills Sent for Collection A/c (Being the bill collected by the bank and 150 collection charges deducted)		17,850 150	18,000

**In the Books of Monu
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 Feb 1	Purchases A/c Dr To Nonu (Being the goods purchased from Nonu on credit)		72,000	72,000
Feb 1	Nonu Dr 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 for 3 bills)		72,000	30,000 24,000 18,000
Mar 4	Bills Payable (No. 1) A/c Dr To Cash A/c (Being the 1st bill met on maturity)		30,000	30,000
Apr 4	Bills Payable (No. 2) A/c Dr To Cash A/c (Being the 2nd bill met on maturity)		24,000	24,000
May 4	Bills Payable (No. 3) A/c Dr To Cash A/c (Being the 2nd bill met on maturity)		18,000	18,000

Working Note

$$\text{Calculation of discount} = 24,000 \times \frac{12}{100} \times \frac{2}{12} = ₹ 480$$

6. On 1st February, 2020, John purchased goods for ₹ 25,000 from Jimmi. He immediately made a payment of ₹ 5,000 by cheque and for the balance accepted the bill of exchange drawn upon him by Jimmi. The bill of exchange was payable after 40 days.

Five days before the maturity of the bill, Jimmi sent the same to his bank for collection. The bank duly presented the bill to John on the due date who met the bill. The bank informed the same to Jimmi.

Pass necessary journal entries in the books of John and Jimmi and prepare John's account in the books of Jimmi and Jimmi's account in the books of John.

Ans.

**In the Books of Jimmi (Drawer)
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Feb 1	John Dr To Sales A/c (Being goods sold to John on credit)		25,000	25,000
Feb 1	Bank A/c Dr Bills Receivable A/c Dr To John (Being cheque and acceptance received from John)		5,000 20,000	25,000

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
Mar 10	Bills Sent for Collection A/c To Bills Receivable A/c (Being bill sent to bank for collection)	Dr	20,000	20,000
Mar 15	Bank A/c To Bills Sent for Collection A/c (Being bill was met on maturity)	Dr	20,000	20,000

Dr **John's Account** Cr

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2020 Feb 1	To Sales A/c	25,000	2020 Feb 1	By Bank A/c	5,000
			Feb 1	By Bills Receivable A/c	20,000
		25,000			25,000

In the Books of John (Drawee)
JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Feb 1	Purchases A/c To Jimmi (Being goods purchased from Jimmi on credit)	Dr	25,000	25,000
Feb 1	Jimmi To Bank A/c To Bills Payable A/c (Being bills payable and cheque paid to Jimmi)	Dr	25,000	5,000 20,000
Mar 15	Bills Payable A/c To Cash A/c (Being cash paid on maturity)	Dr	25,000	25,000

Dr **Jimmi's Account** Cr

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2020 Feb 1	To Bank A/c	5,000	2020 Feb 1	By Purchases A/c	25,000
Feb 1	To Bills Payable A/c	20,000			
		25,000			25,000

- 7.** A bill for ₹ 13,500 is drawn by Vishal on Rakesh and accepted by the latter payable at Union Bank of India. Show what journal entries would be recorded in the books of both the parties under each of the following circumstances, if the bill is met on maturity
- The bill is retained till the due date.
 - The bill is discounted with SBI, for ₹ 13,140.
 - The bill is endorsed by Vishal in favour of his creditors Harshit & Co in full settlement of their debt of ₹ 13,560.
 - The bill is sent to bank for collection.

Ans.

**In the Books of Vishal
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Entry in All Cases			
	Bills Receivable A/c Dr To Rakesh (Being the bill drawn and accepted by Rakesh)		13,500	13,500
	Additional Entry in Case (i)			
	Cash or Bank A/c Dr To Bills Receivable A/c (Being the bill realised on due date)		13,500	13,500
	Additional Entry in Case (ii)			
	Bank A/c Dr Discounting Charges A/c Dr To Bills Receivable A/c (Being the bill discounted with SBI for ₹ 13,140)		13,140 360	13,500
	Additional Entry in Case (iii)			
	Harshit & Co. Dr To Bills Receivable A/c To Discount Received A/c (Being the bill endorsed in favour of creditors Harshit & Co. in settlement of their debt)		13,560	13,500 60
	Additional Entries in Case (iv)			
	(a) When the Bill is Sent for Collection			
	Bill Sent for Collection A/c Dr To Bills Receivable A/c (Being the bill sent for collection)		13,500	13,500
	(b) When Bill is Collected			
	Bank A/c Dr To Bill Sent for Collection A/c (Being the bill collected at maturity)		13,500	13,500

**In the Books of Rakesh
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Vishal Dr To Bills Payable A/c (Being the bill accepted)		13,500	13,500
	Bills Payable A/c Dr To Bank A/c (Being the bill duly met on maturity)		13,500	13,500

8. On 1st January, 2020, A sold goods to B for ₹ 40,000 less 2% cash discount. B paid 50% price immediately and A drew a bill on B for two months for the balance. This bill is duly accepted by B.

The bill was dishonoured on the due date and A paid ₹ 200 as noting charges. B paid the amount due to A by cheque after ten days. Pass entries in the books of both the parties.

Ans.

**In the Books of A
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Jan 1	B To Sales A/c (Being goods sold to B)	Dr	40,000	40,000
Jan 1	Cash A/c Discount Allowed A/c To B (Being cash received from B and discount allowed at 2%)	Dr Dr	19,600 400	20,000
Jan 1	Bills Receivable A/c To B (Being acceptance received for 2 months)	Dr	20,000	20,000
Mar 4	B To Bill Receivable A/c To Cash A/c (Being bill dishonoured and noting charges paid)	Dr	20,200	20,000 200
Mar 14	Bank A/c To B (Being amount received)	Dr	20,200	20,200

**In the Books of B
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Jan 1	Purchases A/c To A (Being goods purchased from A)	Dr	40,000	40,000
Jan 1	A To Cash A/c To Discount Received A/c (Being cash paid to A and discount received at 2%)	Dr	20,000	19,600 400
Jan 1	A To Bills Payable A/c (Being acceptance given for 2 months)	Dr	20,000	20,000
Mar 4	Bills Payable A/c Noting Charges A/c To A (Being bill dishonoured and noting charges paid by A)	Dr Dr	20,000 200	20,200
Mar 14	A To Bank A/c (Being amount paid)	Dr	20,200	20,200

9. On 1st January, 2020, A drew a bill on B for ₹ 30,000 payable after 3 months. B accepted the bill and returned it to A. After 10 days, A endorsed the bill to his creditor C. On the due date, the bill was dishonoured and C paid ₹ 600 as noting charges. Record the transactions in the books of A, B and C.

Ans.

**In the Books of A
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Jan 1	Bills Receivable A/c To B (Being acceptance received)	Dr	30,000	30,000
Jan 11	C To Bills Receivable A/c (Being bill endorsed to C)	Dr	30,000	30,000
Apr 4	B To C (Being bill dishonoured and noting charges paid by C)	Dr	30,600	30,600

**In the Books of B
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Jan 1	A To Bills Payable A/c (Being acceptance given)	Dr	30,000	30,000
Apr 4	Bills Payable A/c Noting Charges A/c To A (Being bill dishonoured)	Dr Dr	30,000 600	30,600

**In the Books of C
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Jan 11	Bills Receivable A/c To A (Being bill received from A)	Dr	30,000	30,000
Apr 4	A To Bills Receivable To Cash A/c (Being bill dishonoured and noting charges paid)	Dr	30,600	30,000 600

10. On 2nd February, 2020, A purchased from B goods for ₹ 17,500. A paid ₹ 2,500 immediately and for the balance gave a promissory note to B, payable after 60 days. B endorsed the promissory note in favour of his creditor C for the full settlement of a debt of ₹ 15,400. On the due date of the bill, C presented the bill to A, which the latter dishonoured and C paid ₹ 50 as noting charges. On the same date, C informed B about the dishonour of the bill and B immediately settled his debt to C by cheque for ₹ 15,050 which includes noting charges. A settled B's claim by cheque for the same amount. Record the necessary journal entries in the books of B, C and A for the above transactions and prepare A's and C's accounts, in the books of B, B's account in the books of A and also B's account in the books of C.

Ans.

**In the Books of B
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Feb 2	A To Sales A/c (Being goods sold to Verma)	Dr	17,500	17,500
Feb 2	Bank A/c Bills Receivable A/c To A (Being received ₹ 2,500 in cash and a promissory note for the balance)	Dr Dr	2,500 15,000	17,500
Feb 2	C To Bills Receivable A/c To Discount Received A/c (Being promissory note endorsed to Gupta in full settlement of ₹ 15,400)	Dr	15,400	15,000 400
Apr 6	A To C (15,000 + 50) (Being promissory note dishonoured by A and noting charges paid by C being ₹ 50)	Dr	15,050	15,050
Apr 6	C To Bank A/c (Being amount paid to C)	Dr	15,050	15,050
Apr 6	Bank A/c To A (Being amount received from A)	Dr	15,050	15,050

Note Discount of ₹ 400 has not been debited in the entry for dishonour because full payment has been made to C on the date of dishonour itself.

Dr				A's Account				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)
2020 Feb 2 Apr 6	To Sales A/c To C		17,500 15,050	2020 Feb 2 Feb 2 Apr 6	By Bank A/c By Bills Receivable A/c By Bank A/c		2,500 15,000 15,050				
			32,550				32,550				
Dr				C's Account				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)
2020 Feb 2 Feb 2 Apr 6	To Bills Receivable A/c To Discount Received A/c To Bank A/c		15,000 400 15,050	2020 Feb 2 Apr 6	By Balance b/d By A		15,400 15,050				
			30,450				30,450				

**In the Books of A
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Feb 2	Purchases A/c Dr To B (Being goods purchased from B)		17,500	17,500
Feb 2	B Dr To Bank A/c To Bills Payable A/c (Being paid ₹ 2,500 in cash and a promissory note for the balance)		17,500	2,500 15,000
Apr 6	Bills Payable A/c Dr Noting Charges A/c Dr To B (Being promissory note dishonoured and noting charges due)		15,000 50	15,050
Apr 6	B Dr To Bank A/c (Being payment made to B)		15,050	15,050

Dr

B's Account

Cr

Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)
2020 Feb 2	To Bank A/c		2,500	2020 Feb 2	By Purchases A/c		17,500
Feb 2	To Bills Payable A/c		15,000	Apr 6	By Bills Payable A/c		15,000
Apr 6	To Bank A/c		15,050	Apr 6	By Noting Charges A/c		50
			32,550				32,550

**In the Books of C
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Feb 2	Bills Receivable A/c Dr Discount Allowed A/c Dr To B (Being promissory note received from B in full settlement of ₹ 15,400)		15,000 400	15,400
Apr 6	B Dr To Bills Receivable A/c To Cash A/c (Being promissory note dishonoured and noting charges paid)		15,050	15,000 50
Apr 6	Bank A/c Dr To B (Being amount received from B)		15,050	15,050

Dr				B's Account				Cr	
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)		
2020				2020					
Feb 2	To Balance b/d		15,400	Feb 2	By Bills Receivable A/c		15,000		
Apr 6	To Bills Receivable A/c		15,000	Feb 2	By Discount Allowed A/c		400		
Apr 6	To Cash A/c		50	Apr 6	By Bank A/c		15,050		
			30,450				30,450		

11. Arun sold goods to Bala for ₹ 16,000 and drew a bill on Bala for three months who duly accepted the same. Arun endorsed the bill to Charan. Charan endorsed it to his creditor Dharam. Dharam discounted the bill at 15% per annum. On the date of maturity, the bill was dishonoured and bank paid noting charges amounting ₹ 100.

Show the necessary journal entries in the books of all the parties.

Ans.

**In the Books of Arun
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bala Dr To Sales A/c (Being goods sold to Bala)		16,000	16,000
	Bills Receivable A/c Dr To Bala (Being the acceptance received)		16,000	16,000
	Charan Dr To Bills Receivable A/c (Being the bill endorsed to Charan)		16,000	16,000
	Bala (16,000 + 100) Dr To Charan (Being the bill dishonoured and noting charges receivable from Bala and payable to Charan)		16,100	16,100

**In the Books of Bala
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Purchases A/c Dr To Arun (Being the goods purchased from Arun)		16,000	16,000
	Arun Dr To Bills Payable A/c (Being the acceptance given)		16,000	16,000
	Bills Payable A/c Dr Noting Charges A/c Dr To Arun (Being the bills payable dishonoured and noting charges payable to Arun)		16,000 100	16,100

**In the Books of Charan
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bills Receivable A/c To Arun (Being bill received from Arun)	Dr	16,000	16,000
	Dharam To Bills Receivable A/c (Being the bill endorsed to Dharam)	Dr	16,000	16,000
	Arun To Dharam (Being bill dishonoured and noting charges receivable from Arun and payable to Dharam)	Dr	16,100	16,100

**In the Books of Dharam
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bills Receivable A/c To Charan (Being the bill received from Charan)	Dr	16,000	16,000
	Bank A/c Discounting Charges A/c (WN) To Bills Receivable A/c (Being the bill discounted from bank)	Dr Dr	15,400 600	16,000
	Charan To Bank A/c (Being the bill dishonoured and noting charges paid by the bank)	Dr	16,100	16,100

Working Note

$$\text{Discount amount} = 16,000 \times \frac{15}{100} \times \frac{3}{12} = ₹ 600$$

- 12.** On 1st July, 2021, Ashu draws on Vishu who owed him ₹ 25,000, two bills, one for ₹ 15,000 for three months and another for ₹ 10,000 for two months. Vishu accepts these bills. Ashu endorses on 3rd July the first bill to his creditor Krish in full settlement of his account of ₹ 15,500 and discounts the second bill on 4th July with his banker @ 12% per annum. The first bill is duly paid at maturity but the second bill is dishonoured and ₹ 150 are paid as noting charges. On 15th September, Vishu paid due amount to Ashu.

Give journal entries to record these transactions in the books of Ashu and Vishu.

Ans.

**In the Books of Ashu
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 July 1	Bills Receivable A/c (No. I) Bills Receivable A/c (No. II) To Vishu (Being two acceptances received from Vishu)	Dr Dr	15,000 10,000	25,000
July 3	Krish To Bills Receivable A/c (No. I) To Discount Received A/c (Being first bill endorsed to Krish in full settlement of his account of ₹ 15,500)	Dr	15,500	15,000 500

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
July 4	Bank A/c Dr Discounting Charges A/c $\left[10,000 \times \frac{12}{100} \times \frac{2}{12} \right]$ Dr To Bills Receivable A/c (No. II) (Being second bill discounted at 12% per annum)		9,800 200	10,000
Sep 4	Vishu Dr To Bank (10,000 + 150) (Being second bill dishonoured and noting charges paid by the bank)		10,150	10,150
Sep 15	Bank A/c Dr To Vishu (Being the amount received)		10,150	10,150

**In the Books of Vishu
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2021 July 1	Ashu Dr To Bills Payable A/c (No. I) To Bills Payable A/c (No. II) (Being the two acceptance given to Ashu)		25,000	15,000 10,000
Sep 4	Bills Payable A/c (No. II) Dr Noting Charges A/c Dr To Ashu (Being the second bill dishonoured and noting charges payable)		10,000 150	10,150
Sep 15	Ashu Dr To Bank A/c (Being amount paid)		10,150	10,150
Oct 4	Bills Payable A/c (No. I) Dr To Bank A/c (Being the amount of first bill paid on due date)		15,000	15,000

Chapter Test

Multiple Choice Questions

- Which of the following is a disadvantage of bills of exchange?
 (a) No reminder to debtor (b) Valid evidence of debt (c) Certainty as to payment (d) Time consuming process
- In which of the following circumstances, days of grace are not allowed?
 (a) Bills at sight (b) Bills after date (c) Bills after sight (d) Bills at date
- Due date of a promissory note, dated 31st March, 2021 payable 90 days after date, is
 (a) 27th June, 2021 (b) 28th June, 2021 (c) 29th June, 2021 (d) 2nd July, 2021
- When the bills are sent for collection, the sender of the bills opens a new account, i.e.,
 (a) bill sent for collection account (b) bank account
 (c) discounting account (d) None of these
- Give journal entry for dishonour of a bill on maturity in the books of drawee, if noting charges are also payable on this bill and this bill was previously discounted from bank by the drawer.

(a) Bills Payable A/c Dr Noting Charges A/c Dr To Drawer (c) Bills Receivable A/c Dr Noting Charges A/c Dr To Drawer	(b) Bills Payable A/c Dr To Drawer To Noting Charges A/c (d) Drawer Dr To Bills Payable A/c To Noting Charges A/c
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Short Answer (SA) Type Questions

- Define promissory note and mention about parties to a promissory note.
- Differentiate between trade bills and accommodation bills on any four basis.
- Suresh owed ₹ 78,000 to Naresh. On 5th June, 2020, he accepted a bill for ₹ 75,000 for one month drawn by Naresh in full settlement of his debt. Naresh allowed ₹ 3,000 as discount. Naresh endorsed the bill to his creditor Mahesh immediately. The bill was duly met on the due date. Pass journal entries in the books of all the three parties.
- A bill for ₹ 27,000 is drawn by Amit on Vineet and accepted by a latter payable at Canara Bank. Show what journal entries would be recorded in the books of Amit under each of the following circumstances, if the bill is met on maturity
 (i) The bill is endorsed by Amit in favour of his creditors Rakshit & Co in full settlement of their debt of ₹ 27,120.
 (ii) The bill is sent to bank for collection.

Long Answer (LA) Type Questions

- On 1st January, 2021, X drew a bill on Y for ₹ 15,000 payable after 3 months. Y accepted the bill and returned it to X. After 10 days, X endorsed the bill to his creditor Z. On the due date, the bill was dishonoured and Z paid ₹ 300 as noting charges. Record the transactions in the books of X, Y and Z.
- Asha sold goods worth ₹ 19,000 to Nisha on 2nd March, 2021. ₹ 4,000 were paid by Nisha immediately and for the balance, she accepted the bills of exchange drawn upon her by Asha payable after 3 months. Asha discounted the bill immediately with her bank. On the due date, Nisha dishonoured the bill and the bank paid ₹ 30 as noting charges. Record the necessary journal entries in the books of Asha and Nisha.
- Paul purchased goods for ₹ 42,000 from Kevin on 1st February, 2020 and accepted the bills of exchange drawn by Kevin for the same amount. The bill was payable after a month. On 25th February, 2020, Kevin sent the bill to his bank for collection. The bill was duly presented by the bank. Paul dishonoured the bill and the bank paid ₹ 200 as noting charges. Record the necessary journal entries for the above transactions in the books of Paul and Kevin.
- Vikram sold goods for ₹ 15,000 to Anjali on 5th July, 2020 and drew upon her bills of exchange payable after 2 months. Anjali accepted Vikram's draft and handed over the same to Vikram after acceptance. Vikram immediately discounted the bill with his bank @ 10% per annum. On the due date, Anjali met her acceptance. Journalise the above transactions in the books of Vikram and Anjali.

Answers

Multiple Choice Questions

1. (d) 2. (a) 3. (d) 4. (a) 5. (a)