

7. Bills of Exchange

A. Select the correct option and rewrite the sentence:-

1) The person on whom a bill is drawn is called a

- a) Drawee
- b) Payee
- c) Drawer**
- d) Acceptor.

2) Before acceptance the bill is called a

- a) Order
- b) Request
- c) Draft**
- d) Instrument.

3) When the due date of bill drawn falls due on a public holiday, the payment must be made on the day.

- a) Same
- b) preceding**
- c) next
- d) any

4) The due date of the bill drawn for 2 months on 23rd Nov. 2019 will be.....

- a) 23rd Jan. 2020
- b) 25th Jan. 2019**
- c) 26th Jan. 2019
- d) 25th Jan. 2020.

5) Nothing charges are borne by

- a) Notary Public
- b) Drawee**
- c) Drawer
- d) Endorsee.

6) There are parties to bill of exchange.

- a) five
- b) four
- c) three**
- d) two

7) When a bill is drawn for 2 months after date on 3rd Jan. 2020, its due date will be.....

- a) 3rd Jan. 2020
- b) 3rd Mar. 2020
- c) 5th Mar. 2020
- d) 6th Mar. 2020.**

8) Notary Public is

- a) Govt. Officer**
- b) Drawer
- c) Payee
- d) Endorsee

9) When Acceptor or Drawee does not pay the amount of bill to the holder on the due date it

..... is known as the bill.

- a) returning
- b) discounting
- c) honouring
- d) dishonouring.**

10) The person who accepts the bill treats the bill as

- a) Bills Payable**
- b) Promissory note
- c) Draft
- d) Bills Receivable.

B. Give one word / phrase / term which can substitute each of the following statements:

1) Three extra days which are allowed over and above the term of bill.

Ans. Grace days

2) Fees charged by Notary Public for getting the fact of dishonour noted.

Ans. Noting charges

3) A person who is entitled to receive the amount of bill of exchange.

Ans. payee

4) A person in whose favour a bill endorsed.

Ans. Endorsee

5) Officer appointed by government for noting of dishonour of bill.

Ans. Notary Public

6) Cancellation of bill on maturity in return of a new bill for extended period of credit.

Ans. Renewal of bill

7) Bill of exchange drawn and accepted without any valuable consideration.

Ans. Accommodation bill

8) Person who is in possession of Bill of Exchange.

Ans. Holder

9) Conversion of Bill of Exchange into its present value.

Ans. Discounting of the bill

10) Amount which is not recoverable from Drawee on account of insolvency.

Ans. Bad debts

(C) State whether the following statements are True or False with reasons :

(1) Inland bill is one which is drawn in one country and payable in another country.

Ans. This statement is False.

Inland bill means, a bill drawn, accepted and made payable within the territory of one and same, country. So, a bill drawn in one country and payable in another country can't be a inland bill.

(2) Retirement of bills means payment of the bill before due date.

Ans. This statement is True.

Payment of the bill, by the acceptor of the bill to the holder of the bill before due date, is known as Retirement of bill. So retirement of bill means payment of the bill before due date.

(3) Drawee can transfer the ownership of bill.

Ans. This statement is False.

Drawee is a debtor. He has to pay the amount of the bill to its holder on due date. Hence he cannot transfer its ownership to other person. Drawer can transfer the ownership of bill as he is the owner of the bill

(4) Acceptance of bill without making any changes in the terms acceptance.

Ans. This statement is False.

of bill is called qualified Acceptance of the bill with some changes as regards the terms, amount, place. etc. of a bill is known as qualified acceptance. Acceptance of the bill without making changes as regards the term is called general acceptance.

(5) Discounting is a device to convert the bill into its present value.

Ans. This statement is True.

When drawer or holder of the bill approaches the bank to discount the bill, bank pays the bill amount after deducting certain amount (which is known as discounting charges). It means conversion of the bill into its present value in cash. So, we convert the bill into its present value. can say that discounting is a device to

(6) A bill of exchange must be presented to the acceptor on the due date.

Ans. This statement is True.

To get the payment of the bill from the acceptor, the holder of the bill is required to present it to the acceptor on its due date. Acceptor either honours the bill or dishonours the bill.

(7) If a bill is discounted by the holder, no entry is passed in his book when bill is honoured on the due date.

Ans. This statement is True.

On discounting the bill the holder gives the possession of the bill to the bank. On maturity date honoured, the transaction takes place between drawee and bank. the bank has to present the bill to the drawee to collect the payment. When discounted bill is

(8) Noting charges are to be borne by the drawer.

Ans. This statement is False,

Noting charges are to be borne by the drawee only as due to his act of non-payment. bill is dishonoured and drawer is not able to get money on its due date.

(9) If a bill is drawn payable 'on demand' no grace days are allowed.

Ans. This statement is True.

"On demand means amount of the bill is to be paid by drawee immediately on presentation of the bill as no time period is mentioned on it In demand bill 3 days grace are not allowed by law.

(10) There are three parties to a promissory note.

Ans. This statement is False.

There are only two parties to a promissory note, is. Drawer or maker of the note and drawee or payee of the note.

(D) Find the odd one:

(1) (a) Retaining (b) Noting (c) Discounting (d) Endorsing

Ans. Noting

(2) (a) Trade bill (b) Accommodation bill (c) After date bill (d) Demand bill

Ans. Demand bill

(3) (a) Notary public (b) Drawer (c) Drawee (d) Payee

Ans. Notary public

(4) (a) Discounting charges (b) Rebate (c) Bank charges (d) Noting charges

Ans. Noting charges

(5) (a) Stamp (b) Acceptance (c) Draft (d) Amount

Ans. Draft

(E) Complete the sentences:

(1) Making payment of bill before the due date of maturity is known as

Ans. Retirement of Bill

(2) Person whose liabilities are more than his assets and is not in position to pay off his liabilities is

Ans. Insolvent person

(3) Amount that cannot be paid by acceptor on account of insolvency is known as

Ans. Deficiency

(4) A bill of exchange payable after certain period is known as

Ans. After date bill

(5) A bill which is drawn and accepted with valuable consideration is known as

Ans. Trade Bill

(6) A person who draws the bill of exchange is known as

Ans. Drawer

(7) A bill whose due date is calculated from the date of acceptance is known as

Ans. After sight bill

(8) Recording the fact of dishonour of bill is known as

Ans. Noting

(9) When drawee accepts the bill payable at a particular place only. It is known as

Ans. qualified acceptance as to place

(10) Fees charged by the bank for collection of bill on behalf of holder is

Ans. bank charges

(F) Answer in one sentence only :

(1) What do you mean by Bill of Exchange ?

Ans. A Bill of Exchange is a written order signed by the drawer, directing to a certain person to pay a certain sum of money on demand or on a certain future date to a certain person or as per his order.

(2) What are Days of Grace ?

Ans. The three extra days allowed to drawee or the acceptor of a bill for making payment on called Days of Grace.

(3) What do you mean by Discounting a Bill of Exchange ?

Ans. Encashment of a bill of exchange with the bank for certain cash which is less than face value of the bill, before its due date by its drawer or holder is called Discounting of a Bill of Exchange.

(4) What is Noting of the Bill ?

Ans. Noting of a Bill of Exchange is the recording the facts of its dishonour by a Notary public.

(5) What are Noting Charges ?

Ans. Noting Charges are the fees charged by the Notary public for noting the facts of dishonour on the face of the bill and in his official register.

(6) What is relationship between drawer and drawee ?

Ans. The relationship between the drawer and the drawee is that of the creditor and debtor.

(7) Who is Payee of the Bill ?

Ans. The Payee of a Bill is the person to whom the bill is made payable or in whose favour the bill is drawn

(8) What do you mean by Rebate ?

Ans. Any concession or discount in monetary terms given by the holder of the bill of exchange to the drawee or acceptor, when a bill is retired is called Rebate.

(9) What is Legal Due Date ?

Ans. Date which is arrived at after adding three days of grace to nominal due date is known as Legal Due Date.

(10) What is Bills Payable on Demand ?

Ans. When amount of bill is payable by a drawee on the presentation of a bill, in which time period is not mentioned and grace days are not allowed is known as Bills Payable on Demand.

(G) Do you agree/disagree with the following statements :

(1) A bill of exchange is a conditional order.

Ans. disagree

(2) The party which is ordered to pay the amount is known as payee.

Ans. disagree

(3) The person in whose favour the bill is endorsed is known as endorsee.

Ans. agree

(4) Rebate or discount given on retiring a bill is an income to the Drawee.

Ans. agree

(5) A bill from the point of view of debtor is called Bills payable.

Ans. agree

(6) In case of bill drawn payable 'on demand' no grace days are allowed.

Ans. agree

(7) A bill is required to be accepted by Drawer.

Ans. disagree

(8) A bill of exchange need not be dated.

Ans. disagree

(9) A bill before acceptance is called Promissory Note.

Ans. disagree

(10) Renewal is request by drawee to extend the credit period of the bill.

Ans. agree