

CBSE Test Paper 02
Ch-7 Bill of Exchange

1. What is meant by the dishonour of a bill of exchange?
2. Is the cancellation entry required, when a bill is renewed?
3. A bill of Rs. 12,000 was discounted by X with the banker for Rs. 11,880. At maturity, the bill returned dishonoured, noting charges Rs. 20. How much amount will the bank deduct from X's bank balance at the time of such dishonour?
4. 'A bill of exchange must contain an unconditional promise to pay'. Do you agree with the statement?
5. What are the different options available to a holder for dealing with bill of exchange?
6. On 1st February, 2014 Ravi sold goods to Mohan for Rs. 18,000; Rs. 3,000 were paid by Mohan immediately and for the balance he accepted three months bill drawn upon him by Ravi. On the date of maturity of the bill Mohan requested Ravi to cancel the old bill and draw a new bill upon him for a period of 2 months. He further agreed to pay interest in cash to Ravi @ 12% per annum Ravi agreed to Mohan's request and cancelled the old bill and drew a new bill. The new bill was met on maturity by Mohan.
7. Briefly explain the effects of dishonour and noting of a bill of exchange.
8. On 1st January, 2013 Daya, sold goods for Rs. 90,000 to Abhijeet. 50% of the payment was made immediately by Abhijeet on which Daya allowed a cash discount of 2%. For the balance, Abhijeet drew a promissory note in favour of Daya payable after 20 days. Since, the date of maturity of bill was a public holiday. Daya presented the bill on a day, as per the provisions of Negotiable Instrument Act which was met by Abhijeet. State the date on which the bill was presented by Daya for payment and Journalise the above transactions in the books of Daya and Abhijeet.
9. Somya sold goods to Shalu for Rs. 25,000 on 1st January and drew upon her a 3 months bill for the amount Shalu accepted the bill and returned to Somya. At

maturity, the bill was dishonoured. Pass the necessary journal entries in the books of Somya and Shalu in each of the following alternative cases

- i. When Somya retained the bill till the due date and paid noting charges of Rs. 250.
- ii. When Somya got the bill discounted with his bankers @15% per annum on 4th February and the bank paid the noting charges of Rs. 250.
- iii. When Somya endorsed the bill a month after the acceptance in favour of her creditor. Richa in settlement of her debt for Rs. 25,500 and Richa paid the noting charges of Rs. 250.
- iv. When Somya sent the bill to her bankers for collection and the bank paid the noting charges of Rs. 250.

10. A bill for Rs.1,000 is drawn by A on B and accepted by the latter payable at the New Bank of India. Show what entries should be passed in the books of A under each of the following circumstances

- i. If A retained the bill till the due date and then realised it on maturity.
- ii. If A discounted it with his banker for Rs.950.
- iii. If A endorsed it to his creditor C in full settlement of his debt.
- iv. If A sent it to his banker for collection.

Also give the necessary entries in each of the cases if the bill is dishonoured.

Ch-7 Bill of Exchange

[illegible]

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
2014 Feb 1	Mohan's A/c To Sales A/c (Being goods sold to Mohan)	Dr		18,000	18,000
Feb 1	Cash A/c Bills Receivable A/c To Mohan's A/c (Being Rs. 3,000 received in cash from Ravi and an acceptance for the balance)	Dr Dr		3,000 15,000	18,000
May 1	Mohan's A/c To Bills Receivable A/c To Interest A/c (Being old bill cancelled on renewal, Rs. 300 charged as interest)	Dr		15,300	15,000 300
May 4	Bills Receivable A/c Cash A/c To Mohan's A/c (Being received new acceptance from Mohan)	Dr Dr		15,000 300	15,300
Jul 7	Bank A/c To Bills Receivable A/c (Being Mohan met his new acceptance)	Dr		15,000	15,000
	Total			81,600 =====	81,600 =====

**In the books of Mohan
JOURNAL**

Date	Particulars		L/F	Debit Amount	Credit Amount
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				(Rs)	(Rs)
2014		Dr			
Feb 1	Purchases A/c To Ravi's A/c (Being purchased goods from Ravi)	Dr		18,000	18,000
Feb 1	Ravi's A/c To Cash A/c To Bills Payable A/c (Being cash received from Ravi and also his acceptance)	Dr		18,000	3,000 15,000
May 4	Bills Payable A/c Interest A/c To Ravi's A/c (Being old bill cancelled on renewal, Rs. 300 charged as interest)	Dr Dr		15,000 300	15,300
May 4	Ravi's A/c To Bills Payable A/c To Cash A/c (Being accepted new bill and paid cash from interest)	Dr		15,300	15,000 300
Jul 7	Bill Payable A/c To Bank A/c (Being met acceptance of the new bill on maturity)	Dr		15,000	15,000
	Total			81,600 =====	81,600 =====

7. Dishonour means that the bill is not paid by the Drawee on its due date. It arises when the acceptor refuses or is unable to pay the amount of the bill of exchange. The holder of the bill may present the bill through a notary public and get the dishonour of the bill noted. Noting authenticates the fact of dishonour, for providing this service,

a fee is charged by notary public which is called noting charges. Noting charges will be paid by the holder of the bill at the time of dishonour.

The following facts are generally noted by the notary on the dishonour of a bill:-

- i. Date, fact and reasons of dishonour.
- ii. If the bill is not expressly dishonoured, the reasons why he treats it as dishonoured.
- iii. The amount of noting charges.

8. The date of the bill was 01/01/2013, payable after 20 days. Therefore, the date of maturity was 24th Jan.2013 (1st Jan. + 20 day + 3 grace days). However, 24th Jan.2013 was a public holiday, hence, the maturity date was the next day, that is 25th Jan.2013.

**In the books of Daya
Journal**

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
01/01/2013	Cash A/c Discount A/c Abhijeet's A/c To Sales A/c (Being Goods sold to Abhijeet and half the payment received in cash and 2% discount allowed)	Dr. Dr. Dr.		44,100 900 45,000	90,000
01/01/2013	Bills Receivable A/c To Abhijeet's A/c (Being acceptance received from Abhijeet for 20 days)	Dr.		45,000	45,000

25/01/2013	Cash A/c To Bills Receivable A/c (Being acceptance is honored by Abhijeet)	Dr.		45,000	45,000
	Total			1,80,000 =====	1,80,000 =====

**In the books of Abhijeet
Journal**

Date	Particulars	L/F	Debit Amount (Rs)	Credit Amount (Rs)
01/01/2013	Purchase A/c To Discount A/c To Cash A/c To Daya's A/c (Being Goods purchased, half the payment made in cash and 2% discount received)	Dr	90,000	900 44,100 45,000
01/01/2013	Daya's A/c To Bills Payable A/c (Being acceptance of 20 days given to Daya)	Dr	45,000	45,000
25/01/2013	Bills Payable A/c To Cash A/c (Being cash paid against the acceptance to Daya)	Dr	45,000	45,000
	Total		1,80,000 =====	1,80,000 =====

9. The drawer or **holder** of the bill may endorse (transfer) the bill in favor of his creditor

for the clearance of his own debts. A bill of exchange is a "negotiable instrument" i.e. a document which is transferable by delivery without notice to the party liable (drawee).

Journal Entries in the books of Somya

Date	Particulars	LF	Dr. Amount	Cr. Amount
1st Jan.	Shalu A/c Dr.		25,000	
	To Sales A/c			25,000
	(Being goods sold to Shalu on credit)			
1st Jan.	Bills Receivable A/c Dr.		25,000	
	To Shalu A/c			25,000
	(Being acceptance received from Shalu for 3 months)			

Case 1 (When bill retained and noting charges paid Rs.250) **Noting Charges.** When a Bill of Exchange is dishonoured, in order to prove the fact, the drawer (or holder) may get the bill of exchange noted and protested through a public official known as "Notary Public" **Noting** is the recording of the fact of dishonour by a Notary public which becomes an evidence of dishonour.

Date	Particulars	LF	Dr. Amount	Cr. Amount
4th Apr..	Shalu A/c Dr.		25,250	
	To Bills Receivable A/c			25,000
	To Cash A/c			250
	(Being Shalu's acceptance dishonored and noting charges paid in cash)			

Case 2 - When the bill was discounted with the bank and noting charges paid by the bank

Date	Particulars	LF	Dr. Amount	Cr. Amount
4th Feb.	Bank A/c Dr.		24,375	
	Discount A/c Dr.		625	
	To Bills Receivable A/c			25,000
	(Being Shalu's acceptance discounted with the bank @ 15% p.a.)			
4th Feb.	Shalu's A/c Dr.		25,250	
	To Bank A/c			25,250
	(Being Shalu's acceptance dishonored and the bank paid noting charges)			

Case 3 Bill Endorsed to Richa **Endorsement:** If the holder of the bill puts his signature on the back of the bill with a view to transfer the property contained in it (right to receive money from the acceptor), then he becomes endorser, and the person to whom the bill of exchange is transferred will become endorsee.

Date	Particulars	LF	Dr. Amount	Cr. Amount
1st Feb	Richa A/c Dr.		25,000	
	To Bills Receivable A/c			25,000
	(Being Shalu's acceptance endorsed to Richa)			
1st Jan.	Shalu's A/c Dr.		25,250	
	To Richa A/c			25,250

	(Being Shalu's acceptance dishonored and Richa paid noting charges)			
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Case Bill sent for collection to bank. The bill is sent for safety and collection purposes. The bank keeps the bill in its custody till the due date and on the due date, the bank will present the bill to acceptor. After collecting the amount, the bank transfers the amount to the account of its customer (by giving credit to his account).

Date	Particulars	LF	Dr. Amount	Cr. Amount
4th Apr.	Bill sent to bank for collection A/c Dr.		25,000	
	To Bills Receivable A/c			25,000
	(Being Shalu's acceptance endorsed to Richa)			
4th Apr.	Shalu's A/c Dr.		25,250	
	To Bill sent to Bank for collection A/c			25,250
	(Being Shalu's acceptance dishonored and Richa paid noting charges)			

Journal Entries in the books of Shalu

Date	Particulars	LF	Dr. Amount	Cr. Amount
1st Jan.	Purchase A/c Dr.		25,000	
	To Somya A/c			25,000
	(Being goods purchased for Somya on credit)			
1st Jan.	Somya A/c Dr.		25,000	
	To Bills Payable A/c			25,000

	(Being acceptance accepted for 3 months)			
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Case 1 (When bill retained and noting charges paid Rs.250)

Date	Particulars	LF	Dr. Amount	Cr. Amount
4th Apr..	Bills Payable A/c Dr.		25,000	
	Noting Charges A/c Dr.			250
	To Somya A/c			25,250
	(Being acceptance to Somya dishonored and noting charges charged by her)			

Case 2 (When bill discounted by Somya)

Date	Particulars	LF	Dr. Amount	Cr. Amount
4th Apr..	Bills Payable A/c Dr.		25,000	
	Noting Charges A/c Dr.			250
	To Somya A/c			25,250
	(Being acceptance to Somya dishonored and noting charges charged by her)			

Case 3 When bill endorsed by Somya

Date	Particulars	LF	Dr. Amount	Cr. Amount
4th Apr..	Bills Payable A/c Dr.		25,000	
	Noting Charges A/c Dr.			250
	To Somya A/c			25,250
	(Being acceptance to Somya dishonored and noting charges charged by her)			

Case 4 When bill sent to bank for collection by Somya

Date	Particulars	LF	Dr. Amount	Cr. Amount
4th Apr..	Bills Payable A/c Dr.		25,000	
	Noting Charges A/c Dr.			250
	To Somya A/c			25,250
	(Being acceptance to Somya dishonored and noting charges charged by her)			

10.

BOOKS OF A**JOURNAL ENTRIES**

Date	Particulars		L/F	(Rs.)	(Rs.)
(i)	B/R A/c	Dr.		1,000	
	To B (Being a Bills Receivable drawn)				1,000
(ii)	Cash A/c	Dr.		1,000	
	To B/R A/c (Being the Bills Receivable met on its maturity)				1,000
(iii)	Bank A/c	Dr.		950	
	Discounting charges A/c	Dr.		50	
	To B/R A/c (Being the Bills Receivable discounted from bank)				1,000
(iv)	C	Dr.		1,000	
	To B/R A/c (Being Bills Receivable endorsed to C)				1,000

(v)	Bill sent for collection A/c	Dr.		1,000	
	To B/R A/c (Being Bills Receivable sent to bank for collection)				1,000
(vi)	Bank A/c	Dr.		1,000	
	To Bill sent for collection (Being amount collected on due date)				1,000
	<u>Dishonour Entries</u>			1,000	
(i)	B	Dr.			1,000
	To B/R A/c (Being Bills Receivable dishonoured)			1,000	
(ii)	B	Dr.			1,000
	To C (Being Bills Receivable dishonoured)				
(i)	B	Dr.		1,000	
	To Bill sent for collection A/c (Being Bills Receivable dishonoured)				1,000