

CBSE Test Paper 03
Ch-7 Bill of Exchange

1. Under what circumstances the days of grace are not allowed?
2. How many days of grace are added to the period of a bill of exchange?
3. What is meant by acceptance of a bill of exchange?
4. Briefly explain the purpose and benefits of retiring a bill of exchange to the debtor and the creditor.
5. Explain with the help of an example, the meaning of accommodation bills. What special entries are required to be passed for accommodation bill?
6. Journalise the following transactions in the books of V
 - i. Our acceptance to U for Rs. 7,500 renewed for 3 months on the condition that Rs. 2,500 is paid in cash immediately and the remaining balance to carry interest @ 12% per annum.
 - ii. X's promissory note for Rs. 6,000 endorsed in favour of Q, returned dishonoured. W paid Rs. 150 as noting charges. V pays W by cheque and accepts from X another bill for the amount due along with interest Rs. 400.
 - iii. A bill payable accepted in favour Z for Rs. 20,000 returned unpaid due to lack of instructions to the Bank, Z claims Rs. 20,250 (Rs. 250 as noting charges) which is paid by cheque.
7. On 1st January 2017, A draws a bill on B for Rs.1,000 payable after three months. Immediately after its acceptance, A sends the bill to his bank for collection. On the due date, the bill was dishonoured. Record the transactions in the Journal of A and B.
8. A bill for Rs. 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:
 - i. If they retained the bill till the due date and then realised it on maturity.

- ii. If they discounted it with their bankers, SBI, for Rs. 13,140.
 - iii. If they endorsed it over to their creditors Harshit & Co in settlement of their debt of Rs. 13,560.
 - iv. If they sent the same to their bank for collection.
9. Amit sold goods worth Rs. 10,000 to Babli on 1st January, 2014 and immediately drew a bill on Babli for three month for the same amount. Babli accepted the bill and returned it to Amit. On 4th March, 2014 Babli retired her acceptance under rebate of 6% per annum. Pass necessary journal entries in the books of Amit and Babli.
10. Rama sold goods of Rs.12,000, charged IGST @ 18% to Reshma on 1st January 2018. On the same date, Rama draws a bill on Reshma for Rs.12,000 for a period of 3 months and received the balance amount by cheque. On receipt of the bill on 1st January 2018 duly accepted by Reshma, Rama discounts it with a bank at 6% p.a. On the date of maturity, the bill was dishonoured, the bank having to pay Rs.500 as noting charges. Reshma paid the due amount less Rs.500 in full settlement.
- Show Journal entries arising from the above in the books of both Rama and Reshma.

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Answer

1. When the bill is payable on demand, days of grace are not allowed. Drawee is given three extra days following the due date of the bill for making payment. These 3 days are known as 'Days of Grace'. It is a custom to add the days of grace.
2. Days of Grace are three extra days added to the period of bill.
3. When the drawee puts his signature on the draft received from the drawer is called acceptance of a bill. It is just a draft till its acceptance is made than it becomes a Bill of Exchange.
4. Retiring a Bill under rebate means that the Drawee pays the Bill before its due date to avail some deduction in the bill amount. When the drawee makes the payment of the bill before its due date, it is called retiring the bill. In such a case, the holder of the bill usually allows him discount, called rebate. The benefit of retiring the bill is that the drawer (creditor) will receive the amount earlier, utilise it in the business and earn even more profit than what he has allowed as discount. Secondly, drawee (debtor), he will be allowed a discount i. e., rebate for making early payment.
5. Bill of exchange endorsed by a reputable third party (called an accommodation party or accommodation endorser) acting as a guarantor, as a favor and without compensation. The bill then can be discounted on the financial strength of the guarantor who remains liable until the bill is paid. Also called accommodation note, accommodation paper. It can be a bill, draft, or note made, drawn, accepted, or endorsed by one person for another without consideration to enable that other to raise money or obtain credit thereby.

For example, Suppose X needs finance for 2 months. In that case, he may persuade his friend Y to accept his draft. The bill of exchange may then be taken by X to his bank and get it discounted there. 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. If both X and Y need money, the same

devise can be used.

6.

V's JOURNAL

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
(i)	Bills Payable A/c Interest A/c To U's A/c (Being the original bills payable cancelled and interest charged for renewal of the same)	Dr Dr		7,500 150	7,650
	U's A/c To Cash A/c To Bills Payable A/c (Being U paid off partly in cash and partly through fresh acceptance)	Dr		7,650	2,500 5,150
(ii)	X's A/c To W's A/c (Being the endorsed bills dishonoured)	Dr		6,150	6,150
	W's A/c To Bank A/c (Being W paid off)	Dr		6,150	6,150
	X's A/c To Interest A/c (Being the interest charged from X)	Dr		400	400
	Bills Receivable A/c To X's A/c (Being the fresh acceptance received from X for the net amount due)	Dr		6,550	6,550
	Bills Payable A/c Noting Charges A/c			20,000	

(iii)	To Z's A/c (Being the acceptance given to Z dishonoured, noting charges being paid by him)	Dr Dr		250	20,250
	Z's A/c To Bank A/c (Being the Z paid off by cheque)	Dr		20,250	20,250
	Total			75,050	75,050

7.

BOOKS OF A

JOURNAL ENTRIES

Date	Particulars		L.F.	(Rs.)	(Rs.)
1.1.17	B/R A/c	Dr.		1,000	
	To B (Being a bill drawn.)				1,000
1.1.17	Bill sent for collection A/c	Dr.		1,000	
	To B/R A/c (Being the bill sent to bank.)				1,000
4.4.17	B	Dr.		1,000	
	To Bill sent for collection A/c (Being bill dishonoured.)				1,000

BOOKS OF B

JOURNAL ENTRIES

Date	Particulars		L/F	(Rs.)	(Rs.)
1.1.17	A	Dr.		1,000	
	To B/P A/c (Being a bill accepted.)				1,000

4.4.17	B/P A/c	Dr.		1,000	
	To A (Being the bill dishonoured.)				1,000

8.

Vishal's JOURNAL

Date	Particular		L.F.	Amount (Dr)	Amount (Cr)
	Entry in All Cases				
	Bills Receivable A/c	Dr		13,500	
	To Rakesh				13,500
	(Being the bill drawn and accepted by Rakesh)				
	Case (i) When Bill retain till maturity:				
	Cash or Bank A/c	Dr		13,500	
	To Bills Receivable A/c				13,500
	(Being the bill realised on due date)				
	Case (ii) When Bill discounted with SBI				
	Bank A/c	Dr		13,140	
	Discounting Charges A/c	Dr		360	
	To Bills Receivable A/c				13,500
	(Being the bill discounted with SBI for Rs.13,140)				
	Case (iii) When Bill Endores to Harshit				
	Harshit	Dr		13,560	
	To Bills Receivable A/c				13,500
	To Discount Received A/c				60
	(Being the bill endorsed in favour of creditors)				

	Harshit in settlement of their debt)				
	Case (iv) When Bill Sent to bank for collection				
	(a) When the Bill is Sent for Collection				
	Bills Sent for Collection A/c	Dr		13,500	
	To Bills Receivable A/c				13,500
	(Being the bill sent for collection)				
	(b) When Bill is Collected				
	Bank A/c	Dr		13,500	
	To Bills Sent for Collection A/c				13,500
	(Being the bill collected at maturity)				

In the books of Rakesh

JOURNAL

Date	Particular		L.F.	Amount (Dr)	Amount (Cr)
	Vishal	Dr		13,500	
	To Bills Payable A/c				13,500
	(Being the bill accepted)				
	Bills Payable A/c	Dr		13,500	
	To Cash or Bank A/c				13,500
	(Being the bill duly met on maturity)				

The holder of the Bill of Exchange has the following options to deal with the Bill:

1. Retain the Bill till the date of maturity.
2. Send the bill to the bank for collection.
3. Discount the Bill with bank.

4. Endorse the bill in favour of a creditor.

9.

**In the Books of Amit
JOURNAL**

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
2014					
Jan 1	Babli's A/c To Sales A/c (Being goods sold to Babli on credit)	Dr		10,000	10,000
Jan 1	Bills Receivable A/c To Babli's A/c (Being Babli's acceptance received for three months)	Dr		10,000	10,000
Mar 4	Bank A/c Rebate on Bills A/c To Bills Receivable A/c (Being Babli retired her acceptance and rebate allowed to her)	Dr Dr		9,950 50	10,000
	Total			30,000 =====	30,000 =====

**In the Books of Babli
JOURNAL**

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
2014					
	Purchases A/c			10,000	

Jan 1	To Amit's A/c (Being goods purchased from Amit on credit)	Dr		10,000
Jan 1	Amit's A/c To Bills Payable A/c (Being accepted Amit's draft, payable after three months)	Dr	10,000	10,000
Mar 4	Bills Payable A/c To Cash A/c To Rebate on Bills A/c (Being acceptance in favour of Amit retired and rebate received)	Dr	10,000	9,950 50
	Total		30,000 =====	30,000 =====

Note: Rebate is a discount allowed by the drawer to the drawee when he accepts the payment of the bill before its due date.

Working Note: Calculation of Rebate amount- Rs. 10,000 X 6/100 X 1/12 = Rs. 50 (In this case remaining time was 1 month because the due date is 4 April)

10.

books of Rama

JOURNAL ENTRIES

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
Jan.1	Reshma	Dr.		14,160	
	To Sales A/c				12,000
	To Output IGST A/c (18%) (Being goods sold to Reshma and GST collected)				2,160
Jan.1	Bank A/c	Dr.		2,160	

	Bill Receivable A/c	Dr.		12,000	
	To Reshma (Being Bill Receivable drawn.)				14,160
Jan.1	Bank A/c	Dr.		11,820	
	Discount A/c (6% p.a.)	Dr.		180	
	To Bill Receivable A/c (Being Bill Receivable discounted.)				12,000
Apr. 4	Reshma	Dr.		12,500	
	To Bank A/c (Being Bill Receivable dishonoured)				12,500
Apr. 4	Cash A/c	Dr.		12,000	
	Discount Allowed A/c	Dr.		500.00	
	To Reshma (Being final payment receive)				12,500.00

books of Reshma

JOURNAL ENTRIES

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
Jan. 1	Purchase A/c	Dr.		12,000	
	Input IGST A/c (18%)	Dr.		2,160	
	To Rama (Being goods purchase from Rama and GST paid.)				14,160
Jan. 1	Rama	Dr.		14,160	
	To Bank A/c				2,160
	To Bill Payable A/c				

	(Being amount of purchase settled.)				12,000
Apr. 4	Bill Payable A/c	Dr.		12,000	
	Nothing Charges A/c	Dr.		500	
	To Rama (Being Bill Payable dishonoured.)				12,500
	Rama	Dr.		12,500	
	To Cash A/c				12,000
	To Discount Received A/c (Being final payment made to Rama)				500