

CBSE Test Paper 01
Ch-7 Bill of Exchange

1. If the acceptor of the bill refuses to pay the bill on maturity, what is it called?
2. Name any two types of commonly used negotiable instruments.
3. What is noting of a bill of exchange?
4. Explain briefly the procedure of calculating the date of maturity of a bill of exchange. Give example.
5. Differentiate between bill of exchange and a promissory note.
6. P draws on Q three bills of exchange for Rs. 15,000, Rs. 12,000 and Rs. 9,000 respectively for goods sold to him on 1st February, 2013. These bills were for a month, 2 months and 3 months, respectively. The first bill was endorsed to his creditor R. The second bill was discounted with his bank on 4th February 2013 @12% per annum discount and the third bill was sent to his bank for collection on 30th April. On the due dates, all the bills were duly met by Q. The bank sent the collection advice for the third bill after deducting Rs. 75 as collection charges. Pass the journal entries in the books of P and Q.
7. B owes A Rs.4,000 on 1st January 2018. B accepts a three month bill for Rs.3,900 being in full settlement of the claim. At its due date the bill is dishonoured. Noting charges Rs.50 are paid by A. Give the Journal Entries in the books of A and B.
8. On 1st January, X sold goods worth Rs. 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 the settlement of his debt for Rs. 1,02,000. The bill is duly honoured at maturity. Pass the necessary journal entries in the books of X, Y and Z.
9. X sells goods for Rs.40,000 to Y on 1st January 2018 and on the same day draws a bill on Y at three months for the amount. Y accepts it and returns it to X, who discounted it on 4th January 2018 his bank at 6% p.a. The acceptance is dishonoured on the due

date and the noting charges were paid by bank being Rs.200.

On 4th April 2018, Y accepts a new bill at three months for the amount then due to X together with interest at 12% p.a.

Make Journal entries to record these transactions in the books of X.

10. On 14th February, 2015, Rashmi sold goods worth Rs. 7,500 to Alka. Alka paid Rs. 500 in cash and for the balance accepted a bill of exchange drawn upon her by Rashmi payable after 2 months. On 10th April, 2015, Alka approached Rashmi to cancel the bill since she was short of funds. She further requested Rashmi to accept Rs. 2,000 in cash and draw a new bill for the balance including interest Rs. 500. Rashmi accepted Alka's request and drew a new bill for the amount due payable after 2 months. The bill was accepted by Alka. The new bill was duly met by Alka on maturity.
Record the necessary journal entries in the books of Rashmi and Alka and prepare Alka's account in the books of Rashmi's and Rashmi's account in the books of Alka.

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Answer

1. In case the acceptor refuses or not in a position to pay the bill then it is considered as the breach of the promise made at the time of the acceptance and is called dishonour of the bill.
2. A Negotiable instrument means a promissory note, bill of exchange or cheque either to order or bearer." Two negotiable instruments are bills of exchange and promissory notes.
3. Noting of a Bill means getting the Bill notified and presented on its dishonour with the Notary Public.
4. Maturity refers to the date on which a bill of exchange or promissory note becomes due for payment. In arriving at the maturity date 3 days, known as days of grace must be added to the date on which the period of credit expires.
However, where the date of maturity is a public holiday e.g. all Sundays, 15 August etc., the instrument will become due on the preceding business day. But when an emergency holiday is declared under the Negotiable Instruments Act, 1881, which happens to be the date of maturity of a bill of exchange, then the date of maturity will be the next working day immediately after the holiday. **Example:** If a bill of Rs 2 lacs is drawn on 1stSept. 2008, payable after three months, then the due date or nominal date is 1stDec. 2008 while the bill is legally due on 4th Dec. 2008.
5. The difference between a bill of exchange and promissory note are as follows:

Basis	Bill of Exchange	Promissory Note
Drawer	Creditor is the Drawer.	Debtor is the Drawer.
Order or Promise and Parties	It contains an order to make payment. There can be three parties to it viz. the drawer, the drawer and the payee.	It contains a promise to make payment. There are only two parties to it viz. the drawer

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

6.

P's JOURNAL

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
2015					
Feb 1	Q's A/c To Sales A/c (Being goods sold on credit)	Dr		36,000	36,000
Feb 1	Bills Receivable (No. 1) A/c Bills Receivable (No. 2) A/c Bills Receivable (No. 3) A/c To Q's A/c (Being the acceptances received)	Dr Dr Dr		15,000 12,000 9,000	36,000

Feb 1	R's A/c To Bills Receivable (No. 1) A/c (Being the bill endorsed in favour of creditor, R)	Dr		15,000	15,000
Feb 4	Bank A/c Discounting Charges A/c To Bills Receivable (No. 2) A/c (Being the bill discounted with the bank)	Dr Dr		11,760 240	12,000
Apr 30	Bills Sent for Collection A/c To Bill Receivable (No. 3) A/c (Being the bill sent to the bank for collection)	Dr		9,000	9,000
May 4	Bank A/c Bank Charges A/c To Bills Sent for Collection A/c (Being the bill collected by the bank and collection charges deducted)	Dr Dr		8,925 75	9,000
	Total			1,17,000 =====	1,17,000 =====

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

Q's JOURNAL

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
2015					
Feb 1	Purchases A/c To P's A/c (Being the goods purchased on credit)	Dr		36,000	36,000
	P's A/c To Bills Payable (No. 1) A/c				15,000

Feb 1	To Bills Payable (No. 2) A/c To Bills Payable (No. 3) A/c (Being the acceptances given)	Dr		36,000	12,000 9,000
Mar 4	Bills Payable (No. 1) A/c To Cash A/c (Being the bill met on maturity)	Dr		15,000	15,000
Apr 4	Bills Payable (No 2) A/c To Cash A/c (Being the bill met on maturity)	Dr		12,000	12,000
May 4	Bills Payable (No. 3) A/c To Cash A/c (Being the bill met on maturity)	Dr		9,000	9,000
	Total			1,08,000 =====	1,08,000 =====

7.

BOOKS OF A

JOURNAL ENTRIES

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

BOOKS OF B

JOURNAL ENTRIES

Date	Particulars		L/F	(Rs.)	(Rs.)
1.1.18	A	Dr.		4,000	
	To B/P A/c				3,900
	To Discount Received A/c (Being bill accepted.)				100
4.4.18	B/P A/c	Dr.		3,900	
	Nothing Charges A/c	Dr.		50	
	Discount Received A/c	Dr.		100	
	To A (Being bill dishonoured.)				4,050

8.

In the Books of X

JOURNAL

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
Jan 1	Y's A/c To Sales A/c (Being the goods sold to Y on credit)	Dr		1,00,000	1,00,000
Jan 1	Bills Receivable A/c To Y's A/c (Being the acceptance of the bill received from Y)	Dr		1,00,000	1,00,000
	Z's A/c To Bills Receivable A/c				

Feb 1	To Discount Received A/c (Being a bill of Rs. 1,00,000 endorsed to Z in settlement of Rs. 1,02,000)	Dr		1,02,000	1,00,000 2,000
	Total			3,02,000 =====	3,02,000 =====

In the Books of Y

JOURNAL

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
Jan 1	Purchases A/c To X's A/c (Being goods purchased on credit from X)	Dr		1,00,000	1,00,000
Jan 1	X's A/c To Bills Payable A/c (Being the acceptance of the bill given to X)	Dr		1,00,000	1,00,000
Feb 4	Bill Payable A/c To Bank A/c (Being the bill discharged)	Dr		1,00,000	1,00,000
	Total			3,00,000 =====	3,00,000 =====

In the Books of Z

JOURNAL

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)

Feb 1	Bills Receivable A/c Discount Allowed A/c To X's A/c (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
	Total			2,02,000 =====	2,02,000 =====

9.

JOURNAL ENTRIES IN THE BOOKS OF X

Date	Particulars		L/F	(Rs.)	(Rs.)
Jan. 1	Y	Dr.		40,000	
	To Sales A/c				40,000
	(Being goods sold.)				
Jan. 1	Bill Receivable A/c	Dr.		40,000	
	To Y				40,000
	(Being Bill Receivable drawn.)				
Jan. 4	Bank A/c	Dr.		39,400	
	Discount A/c [40,000 × 6% × (3/12)]	Dr.		600	
	To Bill Receivable A/c				40,000
	(Being Bill Receivable discounted with bank)				
April 4	Y	Dr.		40,200	
	To Bank A/c				40,200

	(Being Bill Receivable dishonoured on due date)				
April 4	Y $[40,000 \times (12\%) \times (3/12)]$	Dr.		1,200	
	To Interest A/c				1,200
	(Being interest charged at 12% p.a.)				
April 4	Bill Receivable A/c $[40,200 + 1,200]$	Dr.		41,400	
	To Y				41,400
	(Being new Bill Receivable with interest drawn)				

10.

In the Books of Rashmi

JOURNAL

Date	Particulars		L.F.	Amount (Dr)	Amount (Cr)
2015					
Feb 14	Alka	Dr		7,500	
	To Sales A/c				7,500
	(Being goods sold to Alka)				
Feb 14	Cash A/c	Dr		500	
	Bills Receivable A/c	Dr		7,000	
	To Alka				7,500
	(Being acceptance received along with Rs. 500 cash)				

Apr 10	Alka	Dr	7,000	
	To Bills Receivable A/c			7,000
	(Being bill cancelled before the due date)			
Apr 10	Cash A/c	Dr	2,000	
	To Alka			2,000
	(Being Rs. 2,000 received)			
Apr 10	Alka	Dr	500	
	To Interest A/c			500
	(Being interest of Rs. 500 due)			
Apr 10	Bills Receivable A/c	Dr	5,500	
	To Alka			5,500
	(Being new bill acceptance received from Alka along with interest)			
June 13	Cash A/c	Dr	5,500	
	To Bills Receivable A/c			5,500
	(Being Bills payment received on maturity)			

In the book of Rashmi
Alka's Account

Date	Particulars	L.F.	Amount (Rs.)	Date	Particulars	L.F.	Amount (Rs.)
2015				2015			

Feb 14	To Sales A/c		7,500	Feb 14	By Cash A/c		500
Apr 10	To Bills Receivable A/c		7,000	Feb 14	By Bills Receivable		7,000
Apr 10	To Interest A/c		500	Apr 10	By Cash A/c		2,000
				Apr 12	By Bills Receivable A/c		5,500
			<u>15,000</u>				<u>15,000</u>

In the Books of Alka

JOURNAL

Date	Particulars		L.F.	Amount (Dr)	Amount (Cr)
2015					
Feb 14	Purchases A/c	Dr		7,500	
	To Rashmi				7,500
	(Being goods purchased from Rashmi)				
Feb 14	Rashmi	Dr		7,500	
	To Cash A/c				500
	To Bills Payable A/c				7,000
	(Being cash Rs. 500 and acceptance for Rs. 7,000 given)				
Apr 10	Bills Payable A/c	Dr		7,000	

	To Rashmi				7,000
	(Being bill cancelled before the due date)				
Apr 10	Rashmi	Dr		2,000	
	To Cash A/c				2,000
	(Being Rs. 2,000 cash paid to her)				
Apr 10	Interest A/c	Dr		500	
	To Rashmi				500
	(Being Rs. 500 interest due for extension of time)				
Apr 10	Rashmi	Dr		5,500	
	To Bills Payable A/c				5,500
	(Being new acceptance given along with interest)				
June 13	Bills Payable A/c	Dr		5,500	
	To Cash A/c				5,500
	(Being bills payable paid on due date)				

In the book of Alka
Rashmi's Account

Date	Particulars	L.F.	Amount (Rs.)	Date	Particulars	L.F.	Amount (Rs.)
2015				2015			
Feb 14	To Cash A/c		500	Feb 14	By Purchase A/c		7,500

Feb 14	To Bills Payable A/c		7,000	Apr 10	By Bills Payable A/c		7,000
Apr 10	To Cash A/c		2,000	Apr 10	By Interest A/c		500
Apr 10	To Bill Payable A/c		5,500				
			<u>15,000</u>				<u>15,000</u>

Note: Renewal of a bill of exchange means substituting the old bill with a new bill. The purpose of this process is to get extension of time. In such cases, there is no need for getting the bill noted from Notary since the Drawee himself makes a request for cancellation of the bill. Drawer will charge interest for the extension of the time. The amount of interest may be paid in cash or included in the amount of the new bill. It is also possible that the new bill is not for the full amount since the Drawer may be partly paid at the time of renewal.