

BILLS OF EXCHANGE & PROMISSORY NOTES

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"Your life today is the result of your attitude and choices in the past. Your life tomorrow will be the result of your attitudes and choices you make today."

BILL OF EXCHANGE – MEANING AND FEATURES

Meaning:

As per Sec. 5 of the Negotiable Instruments Act, 1881, a **Bill of Exchange (B/E)** 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.

Note: When prepared by the **Maker** (i.e. Seller of Goods), it is called **Draft**. Once it is accepted by the **Acceptor** (i.e. Buyer of Goods), it becomes a valid Bill of Exchange.

Features of Bill of Exchange:

- ✓ It must be in **writing**.
- ✓ It must contain an **order** to pay. Order must be **unconditional**.
- ✓ It must be **dated**.
- ✓ The instrument must be to pay **money only** and the amount of money payable must be **certain**.
- ✓ The party must **sign** the instrument.
- ✓ It should be properly **stamped**.
- ✓ It must be accepted for payment by the party to whom order is made.
- ✓ Payment must be in the legal currency of the country.

Parties involved:

- (a) The person who **makes** the order is known as the **Drawer** (or Maker), i.e. Seller of Goods.
- (b) The person who **accepts** the order is known as the **Acceptor/ Drawee**, i.e. Buyer of Goods.
- (c) The person to whom the amount is payable is known as the **Payee**. [**Note:** The Drawer and Payee may be the same person. Sometimes, the Drawer may order the payment to a third party, i.e. Payee.]

Example: Ram sold goods to Laxman on credit for 50,000 on 1st January, payable after credit period of three months. On the same date, Ram draws a B/E to be paid 3 months after date and sends the draft to Laxman for acceptance. After Laxman's acceptance, this draft becomes a valid B/E (i.e. Bills Receivable for Ram, and Bills Payable for Laxman). Ram needs to make payment to Krishna. In the following B/E, Ram is the **Drawer**, Laxman is the **Acceptor**, and Krishna is the **Payee**.

Format of Bill of Exchange

₹ 50,000 only	Chandigarh, 1 st January 2023	
Three months after date, pay to Sri. Krishna or his order, a sum of ₹ 50,000 only.		
To	Accepted	
Sri. Laxman	Signature of Laxman	Stamp
Signature of Ram		
43, Old Street, Delhi.		

PROMISSORY NOTE – DEFINITION AND FEATURES

Meaning:

As per Sec. 4 of the Negotiable Instruments Act, 1881, a Promissory Note (P/N or Pro-Note) is –

- 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**.

Note: A Promissory Note cannot be made payable to Bearer.

Features of a Promissory Note:

- ✓ P/N must be in **writing**.
- ✓ P/N must contain an **undertaking/promise to pay**. Mere acknowledgement of debt is not sufficient.
- ✓ The undertaking/promise to pay should be **unconditional and definite** (and not vague).
- ✓ P/N should be **signed by the Maker** himself.
- ✓ P/N should specify the Payee in clear terms
- ✓ Sum payable must be **certain**.
- ✓ P/N must be duly **stamped** and dated.
- ✓ It does **not** require any **acceptance**

Format of Promissory Note

₹ 50,000 only	Laxman 43, Old Street, Delhi	
There months after date, I promise to pay Ram/Krishna or his order, a sum of ₹ 50,000 only, for value received.		
To	Stamp	Signature of Laxman
Ram		Date: 1 st January 2023
Chandigarh		

DIFFERENCE BETWEEN BILL OF EXCHANGE AND PROMISSORY NOTE

S.No.	Bill of Exchange	Promissory Note
1	A bill contains an unconditional order to pay	A promissory note contains only a promise to pay certain sum of money
2	There are generally 3 parties (Drawer, Drawee and Payee) in bill of exchange	There are 2 parties (Maker and Payee) in promissory note
3	A bill is paid by Acceptor	A promissory note is paid by maker
4	A bill is drawn by creditor	A promissory note is made by debtor
5	The drawer and payee may be same person in case of bill of exchange	In promissory note maker and payee cannot be same person
6	In a bill of exchange the liability of drawer is secondary and conditional	In a promissory note the liability of a maker is primary and absolute
7	In a bill of exchange, notice of dishonor must be given	Notice of dishonor is not required in case of promissory note
8	In case of dishonor, a bill of exchange must be noted and protested	Noting and protest is not required in case of dishonor of a promissory note.

FOREIGN BILL

An instrument which is not an Inland Instrument, is deemed to be a Foreign Instrument. Following are the examples of Foreign Bills:-

- Bill drawn in India on a person resident outside India and made payable outside India.
- Bill drawn outside India on a person resident outside India.
- Bill drawn outside India and made payable in India.
- Bill drawn outside India and made payable outside India.

MATURITY DATE FOR PROMISSORY NOTE AND BILL OF EXCHANGE

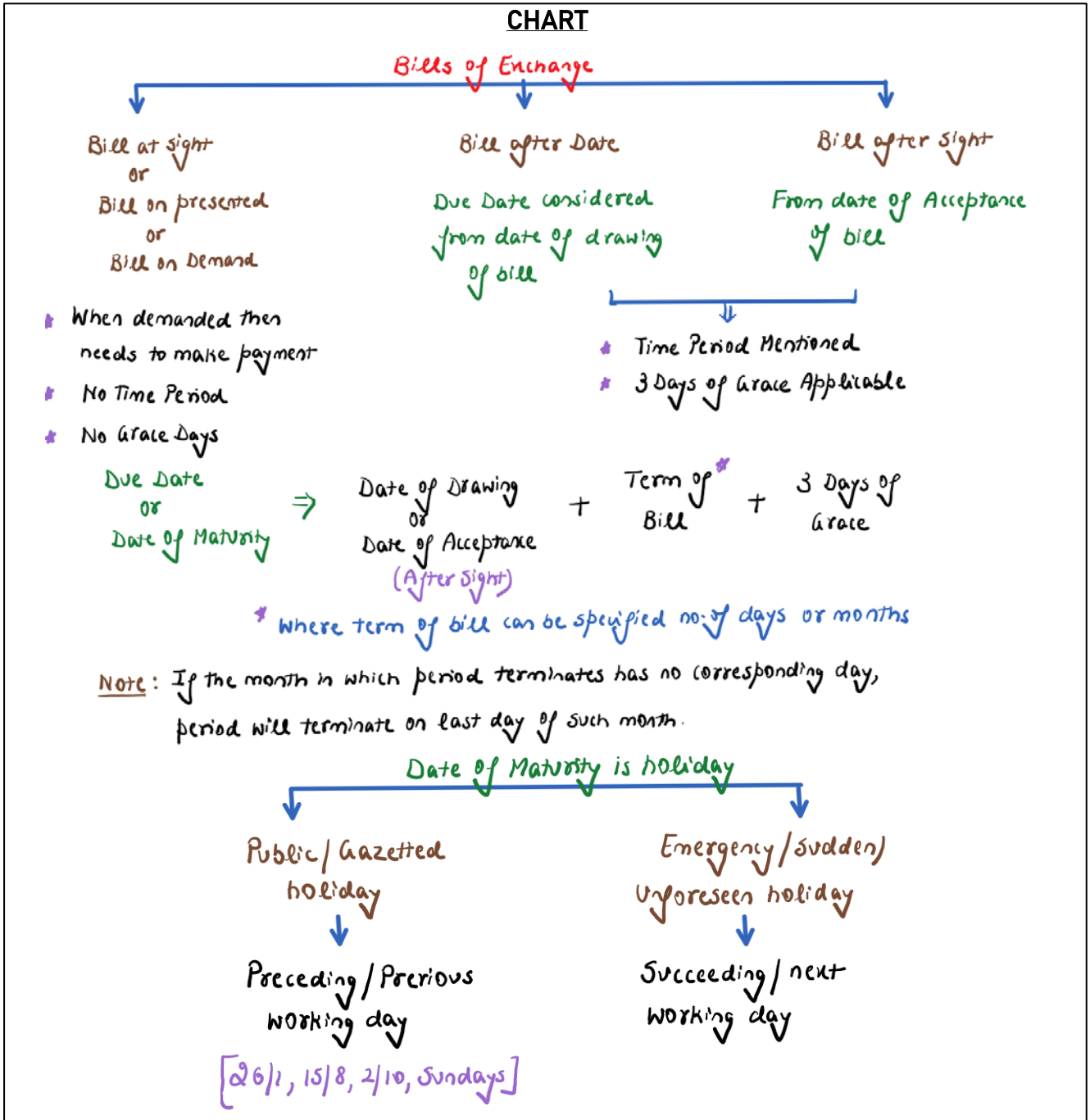
1. **Maturity:** Date on which Promissory Note (P/N) or Bill of Exchange (B/E) falls due
 - a) When a bill is drawn after sight, the term of the bill begins to run from the date of 'sighting', i.e., when the bill is accepted.
 - b) When a bill is drawn after date, the term of the bill begins to run from the date of drawing the bill.
2. **Days of Grace:** In calculating the maturity of a P/N or a B/E which is not payable on demand, at sight or on presentment, **3 days of grace** shall be added to the date on which the instrument is expressed to be payable.
A cheque cannot be a time instrument because the cheque is always payable on demand. Though a cheque can be postdated and which can be presented on or after such date. A cheque has validity of 90 days from its date after that it becomes void, normally termed as 'Stale Cheque' as bank will not honour it.
3. **Instruments entitled to Days of Grace:**
 - (a) A Note or Bill payable on a specified date.
 - (b) A Note or Bill payable after certain period of time / after sight
 - (c) A Note or Bill payable after a certain period or after the happening of a certain event.
 - (d) Where a Note or Bill is payable in installments, days of grace are allowed on each installment.

4. Meaning of "At Sight", "On Presentment" and "After Sight":

- (a) In a P/N or B/E, the expressions "at sight" and "on presentment" mean, "on demand".
 (b) In a P/N, the expression "after sight" means, after presentment for sight.
 (c) In a B/E, the expression "after sight" means, after acceptance

5. Provisions as to calculation of Maturity:

Payable after	Maturity is at -
Stated number of months - <ul style="list-style-type: none"> • After date, or • After sight, or • After a certain event. 	<ul style="list-style-type: none"> • 3 days after corresponding date of month after stated number of months Example: B/E dated 30th August, is made payable 3 months after date. It matures on 3rd December. • If the month in which the period terminates has no corresponding day, period will terminate on the last day of such month. Thereafter 3 days of grace is added. Example: B/E dated 30th January is payable 1 month after date. It falls due on 3rd March.
A certain number of days - <ul style="list-style-type: none"> • After date, or • After sight, or • After a certain event. 	<ul style="list-style-type: none"> • It shall be at maturity on the 3rd day after the specified day. • While calculating the date at which a P/N or B/E made payable a certain number of days after date or after sight or after a certain event is at maturity, day presentment for acceptance or sight, or of protest for non - acceptance, or on which the event happens shall be excluded. Example: B/E dated 1st November is made payable 15 days after date. The period of 15 days will be counted from 2nd November and the B/E will be at maturity on 19th November.
On a day when day of maturity is a Public Holiday.	<ul style="list-style-type: none"> • Public holiday includes Sundays and any other day declared by the Central Government, by notification in the Official Gazette, to be a Public Holiday. • A P/N or B/E which matures on a public holiday shall be deemed to fall due on the preceding business day, e.g. if a B/E falls due on Sunday, it shall be deemed to be due on Saturday. • A B/E which falls due on emergency holiday shall be deemed to be due on the succeeding business day.



Case a) Date of Bill: 10.04.23 Term 3 months

Case b) Date of Bill: 10.04.23 Term 90 days

Case c) Date of Bill: 30.01.23 Term 1 month

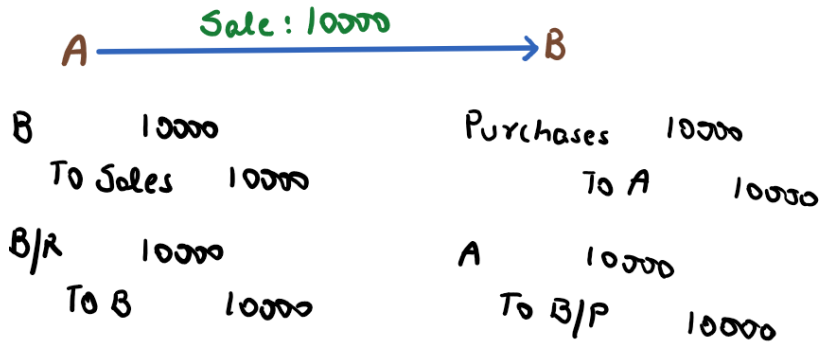
Case d) Date of Bill: 30.01.23 Term 30 days

Case e) Date of Bill: 12.06.23 Term 2 months

Case f) Date of Bill: 25.09.23 Term 2 months
Due date is Emergency holiday.

ENTRIES IN THE BOOKS OF DRAWER & DRAWEE

Bills of Exchange



Books of DRAWER (A)

	Held Bill Till Maturity	Discounting with Bank	Endorse to Creditor	Sent to Bank for collection
1) Event	-	Bank 9800 Discount 200 To B/R 10000	Creditor/C 10000 To B/R 10000	BSFC 10000 To B/R 10000
2) Maturity				
a) Honour	Bank 10000 To B/R 10000	-	-	Bank 10000 To BSFC 10000
b) Dishonour (Noting charges 100)	B 10100 To B/R 10000 To Bank 100	B 10100 To Bank 10100	B 10100 To C 10100	B 10100 To BSFC 10000 To Bank 100

Books of DRAWEE (B)

In all 4 cases, same entries to be passed :



B/P A/c - Dr 10000
To Bank A/c 10000

B/P A/c - Dr 10000
Noting charges A/c - Dr 100
To A 10100

DISHONOUR OF BILL OF EXCHANGE AND PAYMENT OF NOTING CHARGES

1. **Dishonour:** Non-payment of Bill of Exchange on the due date is called **Dishonour**.
2. **Noting:** In case of dishonour of a B/E on the due date, the fact of dishonour, and the causes of dishonour should be ascertained and recorded on the B/E itself. Otherwise, the Acceptor may prove that B/E was not properly presented to him on the due date and hence can escape from his liability.
3. **Charges:** Noting Charges refers to the fees paid to a Public Official known as "**Notary Public**", who records the fact and causes of dishonour of B/E.
4. **Accounting:** Noting Charges is incurred by the person presenting the B/E on the due date, and is recoverable from the person causing the dishonour, i.e. the Acceptor.

RETIREMENT OF BILL OF EXCHANGE

1. Reason for Retirement	2. Accounting for Retirement
<ul style="list-style-type: none"> • Sometimes, the Acceptor of a B/E is ready to pay the amount, even before the due date. • So, the Acceptor may request the Payee, for settling the payment before due date. • This constitutes Retirement of Bill. 	<ul style="list-style-type: none"> • Acceptor is entitled to receive certain Interest or Discount (called Rebate) for making payment before the due date. • This Rebate on Bills Retired before due date, constitutes Income of Acceptor, and Expense of Payee. • It is a consideration of premature payment.

Example (ICAI Study Material)

On 1st January, 2023, A sells goods for ₹ 10,000 to B and draws a bill at three months for the amount. B accepts it and returns it to A. On 4th March, 2023, B retires his acceptance under rebate/discount of 12% per annum. Record these transactions in the journals of A and B.

RENEWAL OF BILL OF EXCHANGE

1. Reason for Renewal	2. Accounting for Renewal
<ul style="list-style-type: none"> • Sometimes, the Acceptor of a B/E is unable to pay the amount on the due date. • In such case, the Acceptor may request the Drawer for an extension of time period. • This constitutes Renewal of Bill. 	<ul style="list-style-type: none"> • Old B/E will be cancelled. So, the earlier Journal Entry relating to acceptance of Old B/E will be reversed. • New B/E will be made out. Journal Entries are passed for recording the New B/E. • Value of New B/E = Value of Old B/E + Interest, if any.

The amount of the new bill may represent any of the following:

- a) **Where the drawee pays nothing:** Total of amount of original bill as well as the interest for the extended time period.
- b) Where the drawee pays interest amount at the time of renewal: Amount of the Original bill.
- c) Where the drawee makes part payment of the original bill or interest amount or both: That part of total of amount of original bill as well as the interest for the extended time period on unpaid amount.

Example

On 1st January, A sold goods to B amounting 10,000 & B accepted 3 months bill drawn by A. On maturity he was unable to meet the bill.

Case 1: He paid nothing & accepted another bill for 2 months for 10,000 with interest @12% p.a.

Case 2: He paid nothing & accepted another bill for 2 months for 10,000. However, interest @12% p.a is paid at the time of renewal of bill.

Case 3: He paid 4,000 & accepted another bill for 2 months for balance with interest @12% p.a.

Case 4: He paid 4,000 & accepted another bill for 2 months for balance. However, interest @12% p.a is paid at the time of renewal of bill.

DEALING WITH INSOLVENCY OF DRAWEE

1. **Meaning:** Insolvency of the Drawee means that he will be unable to pay his liabilities. This means that bills accepted by him will be dishonoured on the due date.

Books of the Drawer

(a) For dishonour of B/R	Drawee A/c Dr. To Bills Receivable A/c
(b) For recording final amount, if any, received	Cash A/c Dr. (Amt actually received) Bad Debts A/c Dr. (Balancing Figure) To Drawee Account (Total Amount due)

Books of the Drawee

(a) For dishonour of B/R	Bills Payable A/c Dr. To Drawer A/c
(b) For recording final amount, if any, paid	Drawer A/c Dr. (Total Amount due) To Cash A/c (Amt actually paid) To Deficiency A/c (Balancing Figure)

Example

A draws bill on B on 1st April, 2023 for 1,00,000 for 3 months. At maturity bill returned dishonoured & noting charges 1,000. 30 paise in rupee is recovered from B's estate. Pass entries in books of both the parties.

ACCOMMODATION BILLS

1. Meaning:

- Generally, B/E is drawn in support of a trade transaction, i.e. credit sales. However, B/E can also be utilized for raising finance (i.e. without a trade transaction).
- When B/E is used for financing purposes, it is called as Accommodation Bill. (Note: An Accommodation Bill is referred to as "Kite".)

Example

a)

For the mutual accommodation of 'A' and 'B' on 1st April, 2023, 'A' drew a four months' bill on 'B' for ₹4,000. 'B' returned the bill after acceptance of the same date. 'A' discounts the bill from his bankers @ 6% per annum and remit 50% of the proceeds to 'B'.

On the due date A send his share in total bill to B and B paid the bill amount to the Bank.

Pass Journal entries in the books of 'A' & 'B'.

b)

Consider in Case a) that on due date 'A' is unable to send the amount due and therefore 'B' draws a bill for ₹7,000, which is duly accepted by 'A'. 'B' discounts the bill for ₹6,600 and sends ₹ 1,300 to 'A'. Before the bill is due for payment 'A' becomes insolvent. Later 25 paise in a rupee received from his estate. Pass Journal entries in the books of 'A' & 'B'.

BILLS RECEIVABLE BOOK AND BILLS PAYABLE BOOK

Bills receivable and bills payable books are journals (Day Books) to record in a chronological order the details of bills receivable and bills payable. When large number of bill transactions take place in an organization, it is convenient to maintain these books. Wherein any bill transaction takes place, the same is entered in the Day Books in the first instance. Postings to individual Debtors or Creditors accounts are made from the Day Books. Also totals of bills received or accepted are posted periodically to Bills Receivable Account and Bills Payable Account respectively.

Bills receivable book and bills payable book are very useful for following up the status of outstanding bills. When there are large number of bills and these bills fall due on different dates, some of these bills may not be honoured on maturity due to varied reasons. It is possible from these Day Books to trace the details of the outstanding bills and to identify the reasons for not honouring the bills.

Bills Receivable Book (Folio No . . .)

Date of Receipt	Voucher No.	Party from whom received	Acceptor	Date of Bill	Due Date	Place of Payment	Amount	L.F.	Mode of Disposal

Bills Payable Book (Folio No . . .)

Date of Acceptance	Drawer	Payee	Date of Bill	Due Date	Place of Payment	Amount	L.F.	Mode of Disposal

TRADE BILL VS ACCOMODATION BILL

	Trade Bill	Accommodation Bill
Purpose	It is drawn and accepted for some consideration i.e. for trade purpose.	It is drawn and accepted without any consideration.
Need	It is drawn to settle a business transaction.	It is drawn to meet the financial requirements of the drawer / drawee / both temporarily.
Legal Status	The drawer can take legal action if the bill is dishonoured.	The drawer cannot take any legal action when the bill is dishonoured.
Discounting of bill	It may, or, may not be discounted with the bank.	It is always discounted with the bank.
Discounting charges	Discounting charges are borne by the drawer.	Discounting charges are divided between the drawer and drawee in the ratio of the proceeds.

ASSIGNMENT QUESTIONS

Question 1 _____ Pg no. _____

Record the following transactions in the Journals of Ram and Hari:
 Ram sells goods for ₹ 1,00,000 to Hari on 1st January, 2023 and on the same day draws a bill on Hari at three months for the amount. Hari accepts it and returns it to Ram, who discounts it on 4th January, 2023 with his bank at 12% per annum. The acceptance is dishonored on due date and the bank pays ₹ 250 as noting charges.

Question 2 *(ICAI Study Material)* _____ Pg no. _____

Vijay sold goods to Pritam on 1st September, 2023 for ₹1,06,000. Pritam immediately accepted a three months bill. On due date Pritam requested that the bill be renewed for a fresh period of two months. Vijay agrees provided interest at 9% was paid immediately in cash. To this Pritam was agreeable. The second bill was met on due date. Give Journal entries in the books of Vijay and Pritam.

Question 3 *(ICAI Study Material) / (RTP May 2022) (Similar)* _____ Pg no. _____

David draws two bills of exchange on 1.1.2023 for ₹ 6,000 and ₹10,000. The bills of exchange for ₹6,000 is for two months while the bill of exchange for ₹10,000 is for three months. These bills are accepted by Mr. Thomas. On 4.3.2023, Mr. Thomas requests Mr. David to renew the first bill with interest at 18% p.a. for a period of two months. Mr. David agrees to this proposal. On 20.3.2023, Mr. Thomas retires the acceptance for ₹10,000, the interest rebate i.e. discount being ₹100. Before the due date of the renewed bill, Mr. Thomas becomes insolvent and only 50 paise in a rupee could be recovered from his estate.
 You are to give the journal entries in the books of Mr. David.

Question 4 *(ICAI Study Material)* _____ Pg no. _____

A draws upon B three Bills of Exchange of ₹ 3,000, ₹ 2,000 and ₹ 1,000 respectively. A week later his first bill was mutually cancelled, B agreeing to pay 50% of the amount in cash immediately and for the balance plus interest ₹100, he accepted a fresh Bill drawn by A. This new bill was endorsed to C who discounted the same with his bankers for ₹1,500. The second bill was discounted by A at 5%. This bill on maturity was returned dishonoured (noting charge being ₹30). The third bill was retained till maturity when it was duly met.
 Give the necessary journal entries recording the above transactions in the books of A.

Question 5 *(RTP May 2023)* _____ Pg no. _____

Priya owed ₹5,00,000 to Pratika. On 1st October, 2022, Priya accepted a bill drawn by Pratika for the amount at 3 months. Pratika got the bill discounted with his bank for ₹4,95,000 on 3rd October, 2022. Being unable to pay the amount on due date, Priya approached Pratika for renewal of the bill. Pratika agreed on the conditions that ₹2,50,000 be paid immediately together with interest on the remaining amount at 10% per annum for 3 months and for the balance, Priya should accept a new bill at three months. These arrangements were carried out. But afterwards, Priya became insolvent and 60% of the amount could be recovered from his estate. Pass journal entries (with narration) in the books of Pratika.

Question 6 *(ICAI Study Material) / (RTP Nov 2018) / (May 2021) / (Nov 2021) (Similar)* _____ Pg no. _____

Prepare Journal entries for the following transactions in K. Katrak's books.
 (i) Katrak's acceptance to Basu for ₹ 2,500 discharged by a cash payment of ₹ 1,000 and a new bill for the balance plus ₹ 50 for interest.

- (ii) G. Gupta's acceptance for ₹ 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid ₹ 20 noting charges. Bill withdrawn against cheque.
- (iii) D. Dalal retires a bill for ₹ 2,000 drawn on him by Katrak for ₹ 10 discount.
- (iv) Katrak's acceptance to Patel for ₹ 5,000 was discharged by endorsing Mody's acceptance to Katrak for a similar amount

Question 7 **(ICAI Study Material)** _____ Pg no. _____

Journalize the following in the books of Don:

- (i) Bob informs Don that Ray's acceptance for ₹ 3,000 has been dishonoured and noting charges are ₹ 40. Bob accepts ₹ 1,000 cash and the balance as bill at 3 months at interest of 10%. Don accepts from Ray his acceptance at 2 months plus interest @ 12% p.a.
- (ii) James owes Don ₹ 3,200; he sends Don's own acceptance in favour of Ralph for ₹ 3,160; in full settlement.
- (iii) Don meets his acceptance in favour of Singh for ₹ 4,500 by endorsing John's acceptance for ₹ 4,450 in full settlement.
- (iv) Ray's acceptance in favour of Don retired one month before due date, interest is taken at the rate of 6% p.a.

Question 8 _____ Pg no. _____

Sunil draws a bill for ₹9,000 on Vijay on 5th April, 2023 for 3 months, which Vijay returns it to Sunil after accepting the same. Sunil gets it discounted with the bank for ₹ 8,820 on 8th April, 2023 and remits one-third amount to Vijay. On the due date Sunil fails to remit the amount due to Vijay, but he accepts a bill for ₹12,600 for three months, which Vijay discounts it for ₹ 12,330 and remits ₹ 2,220 to Sunil. Before the maturity of the renewed bill Sunil becomes insolvent and only 50% was realized from his estate on 15th October, 2023.

Pass necessary Journal entries for the above transactions in the books of Sunil & Vijay

Question 9 **(ICAI Study Material)** _____ Pg no. _____

On 1st July, 2023 Gorge drew a bill for ₹1,80,000 for 3 months on Harry for mutual accommodation. Harry accepted the bill of exchange. Gorge had purchased goods worth ₹1,81,000 from Jack on the same date. Gorge endorsed Harry's acceptance to Jack in full settlement. On 1st September, 2023, Jack purchased goods worth ₹1,90,000 from Harry. Jack endorsed the bill of exchange received from Gorge to Harry and paid ₹ 9,000 in full settlement of the amount due to Harry. On 1st October, 2023, Harry purchased goods worth ₹2,00,000 from Gorge. Harry paid the amount due to Gorge by cheque. Give the necessary Journal Entries in the books of Harry, Gorge and Jack.

Question 10 **(CA Foundation Nov 2020) (10 Marks)** _____ Pg no. _____

Suresh draws a bill for ₹15,000 on Anup on 15th April, 2023 for 3 months, which is returned by Anup to Suresh after accepting the same. Suresh gets it discounted with the bank for ₹ 14,700 on 18th April, 2023 and remits one-third amount to Anup. On the due date Suresh fails to remit the amount due to Anup, but he accepts bill of ₹ 17,500 for 3 months, which Anup discounts for ₹ 17,100 and remits ₹ 2,825 to Suresh. Before the maturity of the renewed bill Suresh becomes insolvent and only 50% was realized from his estate on 31st October, 2023. Pass necessary Journal entries for the above transactions in the books of Suresh.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

1. On 1.1.2023, A draws a bill on B for ₹1,20,000 for 3 months' maturity date of the bill will be:
(a) 1.4.2023
(b) 3.4.2023
(c) 4.4.2023
2. On 16.6.2023 P draws a bill on Q for ₹1,25,000 for 30 days. 19th July is a public holiday, maturity date of the bill will be:
(a) 19th July
(b) 18th July
(c) 17th July
3. PQ draws a bill on XY for ₹130,000 on 1.1.2023. XY accepts the same on 4.1.2023 for period of 3 months after date. What will be the maturity date of the bill:
(a) 4.4.2023
(b) 3.4.2023
(c) 7.4.2023
4. A draws a bill on B. A endorsed the bill to C. The payee of the bill will be
(a) A
(b) B
(c) C
5. A bill of ₹ 120,000 was discounted by Saras with the banker for ₹1,18,800. At maturity, the bill returned dishonoured, noting charges ₹ 200. How much amount will the bank deduct from Saras's bank balance at the time of such dishonour?
(a) ₹1,20,000
(b) ₹1,18,800
(c) ₹1,20,200
6. X draws a bill on Y for ₹300,000 on 1.1.2023 for 3 months after sight, date of acceptance is 6.1.2023. Maturity date of the bill will be:
(a) 8.4.2023
(b) 9.4.2023
(c) 10.4.2023
7. X sold goods to Y for ₹ 5,00,000. Y paid cash ₹4,30,000. X will grant 2% discount on balance, and Y request X to draw a bill for balance, the amount of bill will be:
(a) ₹ 98,000
(b) ₹ 68,000
(c) ₹ 68,600
8. On 1.1.2023, X draws a bill on Y for ₹ 5,00,000 for 3 months. X got the bill discounted 4.1.2023 at 12% rate. The amount of discount on bill will be:
(a) ₹ 15,000
(b) ₹ 16,000
(c) ₹ 18,000

9. Mr. Jay draws a bill on Mr. John for ₹ 3,00,000 on 1.1.2023 for 3 months. On 4.2.2023, John got the bill discounted at 12% rate. The amount of discount will be:
- (a) ₹ 9,000
 - (b) ₹ 6,000
 - (c) ₹ 3,000
10. XZ draws a bill on YZ for ₹ 2,00,000 for 3 months on 1.1.2023. The bill is discounted with banker at a charge of ₹1,000. At maturity the bill return dishonoured. In the books of XZ, for dishonour, the bank account will be credited by:
- (a) ₹199,000
 - (b) ₹ 200,000
 - (c) ₹ 201,000
11. On 1.1.2023, XA draws a bill on YB for ₹ 1,00,000. At maturity YB request XA to renew the bill for 2 month at 12% p.a. interest. Amount of interest will be:
- (a) ₹ 2,000
 - (b) ₹ 1,500
 - (c) ₹ 1,800
12. A bill of exchange is drawn by a
- (a) Creditor
 - (b) Debtor
 - (c) Debenture holder
13. At the time of drawing a bill, the drawer credits
- (a) Bills Receivables A/c
 - (b) Bills Payable A/c
 - (c) Debtor's A/c
14. A promissory note is made by a
- (a) Seller
 - (b) Purchaser
 - (c) Endorsee
15. A bill of exchange contains
- (a) An unconditional order
 - (b) A promise
 - (c) A request to deliver the goods
16. A promissory note contains
- (a) An unconditional order
 - (b) A promise
 - (c) A request to deliver the goods
17. The rebate on the bill shows that
- (a) It has been endorsed
 - (b) It has been paid after the date of maturity
 - (c) It has been paid before the date of maturity

18. Notary Public may charge his fee from the
- Holder of bill of exchange
 - Drawer
 - None

ANSWERS MCQs

- | | | | | | | |
|--------|--------|--------|--------|--------|--------|--------|
| 1 (c) | 2 (b) | 3 (a) | 4 (c) | 5 (c) | 6 (b) | 7 (c) |
| 8 (a) | 9 (b) | 10 (b) | 11 (a) | 12 (a) | 13 (c) | 14 (b) |
| 15 (a) | 16 (b) | 17 (c) | 18 (a) | | | |

TRUE / FALSE

State with reasons whether the following statement is true or false:

- Bills payable account is a nominal account.
- Promise to pay is included in a bill of exchange.
- Days of rebate are added to the due date to arrive at the maturity date.
- Discount at the time of retirement of a Bill is a gain for the drawee.
- Foreign bill is drawn in the country and payable outside the country.
- Promissory note is different from that of a bill of exchange where the amount is paid by the maker in case of former and by the acceptor in the later. *(June 2024)*
- A has drawn a bill on B. B accepts the same and endorses the bill to C
- A bill given to a creditor is called bill payable
- A Promissory note can be made payable to bearer *(Sep 2024)*
- No cancellation entry is required when a bill is renewed.
- A promissory note cannot be made payable to bearer.
- Cancelling old bill and drawing new bill is called renewal of Bill or A cancellation entry is required, when a bill is renewed.
- A bill given to a creditor is called Bills Receivable.
- Discount at the time of retirement of a Bill is a gain for the drawer.
- Refusal by acceptor to make payment of the bill on the maturity date is called Retirement of the bill.
- A bill of exchange is a conditional order in writing given by a Debtor to a Creditor.
- A Promissory Note requires acceptance.
- At the time of the Renewal of a bill, Interest account is debited in the books of a drawee.
- In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person. *(Nov 2019)*
- There are always 2 parties to the bills of exchange.
- In case of a public holiday, the due date of the bill falls on the next working day.

Solution

- False:** The bills payable account is a personal account that represents a liability.
- False:** Bill of exchange contains an order to pay the required amount and not a mere promise to pay.
- False:** 3 Days of grace are added to the due date to arrive at the maturity date.
- True:** - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.
- True:** When a bill is drawn in the country and is payable outside the country it is termed as a foreign bill.

- 6) **True:** In case of the promissory note, it is generally the maker who makes the payment, but in case of the bill of exchange, the person accepting the bill shall be liable to make the payment to the holder of the bill.
- 7) **False:** - A is drawer and B is the drawee. So B cannot endorse the bill to C, only A can do so.
- 8) **True:** - On giving a bill, the debtor has committed for a payment, therefore, bill given to a creditor is called Bills Payable.
- 9) **False:** - A promissory note cannot be made payable to a bearer as it is payable on the order of the person who is mentioned in it.
- 10) **False:** - On renewal of bill, entries are passed for cancellation of the old bill & recording of a new bill.
- 11) **True:** - A promissory note cannot be made payable to a bearer as it is payable on the order of the person who is mentioned in it. The payee must be to a certain person.
- 12) **True:** - On the failure of the payment on the due date by the acceptor, a new bill is drawn on him by cancelling the old bill, which is known as renewal of bill. On renewal, the entries are passed for cancellation of old bill and recording of new bill.
- 13) **False:** - On a giving a bill, the debtor has committed for a payment; therefor, a bill given to creditor is called Bills payable.
- 14) **False:** - It is a gain for the drawee, as he receives an amount over the bill amount.
- 15) **False:** - Refusal by the acceptor to make payment of the bill on the date of maturity is called dishonour of the bill.
- 16) **False:** - Bill of exchange is an unconditional order signed by the maker, directing the debtor to pay a certain sum of money on a certain date or on the demand of the maker i.e. creditor.
- 17) **False:** - Promissory note is a written unconditional promise and it does not requires any acceptance. It is drawn and signed by the person to whom credit is granted or by the debtor.
- 18) **True:** - At the time of renewal of a bill, interest account is debited and drawer's account is credited in the books of drawee because interest becomes liability for drawee and it becomes payable to drawer.
- 19) **False:** In case of Bills of exchange, Drawer & payee may be same person when the Bill hold by drawer up to the date of Maturity. In case of promissory note, the maker and the payee cannot be the same person.
- 20) **False:** There can be more than 2 parties- namely the drawer, acceptor and the payee of the bill.
- 21) **False:** In case of a public holiday, the due date of the bill falls on the preceding working day.

HOMEWORK QUESTIONS

Question 1 ***(ICAI Study Material)*** _____ Pg no. _____

On 1st January, 2023, Ankita sells goods for ₹5,00,000 to Bhavika and draws a bill at three months for the amount. Bhavika accepts it and returns it to Ankita. On 4th March, 2023, Bhavika retires his acceptance under rebate of 12% per annum.

Record these transactions in the journals of Ankita and Bhavika.

Question 2 ***(ICAI Study Material)/(RTP May 2019)/(Nov 2020)/(June 2024)/(Sep 2024)*** Pg no. _____

Rita owed ₹1,00,000 to Siriman. On 1st October, 2023, Rita accepted a bill drawn by Siriman for the amount at 3 months. Siriman got the bill discounted with his bank for ₹99,000 on 3rd October, 2023. Before the due date, Rita approached Siriman for renewal of the bill. Siriman agreed on the conditions that ₹50,000 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, Rita should accept a new bill at three months. These arrangements were carried out. But afterwards, Rita became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of Siriman.

Question 3 ***(RTP May 2018) / (RTP Nov 2019) / (RTP Nov 2022)/(Nov 2023) (Similar)*** - Pg no. _____

Mr. B accepted a bill for ₹ 10,000 drawn on him by Mr. A on 1st August, 2023 for 3 months. This was for the amount which B owed to A. On the same date Mr. A got the bill discounted at his bank for ₹ 9,800. On the due date, B approached A for renewal of the bill. Mr. A agreed on condition that ₹ 2,000 be paid immediately along with interest on the remaining amount at 12% p.a. for 3 months & that for the remaining balance B should accept a new bill for 3 months. These arrangements were carried through. On 31st December, 2023, B became insolvent and his estate paid 40%.

Prepare Journal Entries in the books of Mr. A

Question 4 _____ Pg no. _____

R owed ₹ 1,000 to S. On 1st October, 2022, R accepted a bill drawn by S for the amount at 3 months. S got the bill discounted with his bank for ₹ 900 on 3rd October, 2022. Before the due date, R approached S for renewal of the bill. S agreed on the conditions that ₹ 500 be paid immediately together with interest on the remaining amount at 12% per annum for 3 months and for the balance, R should accept a new bill at three months. These arrangements were carried out. But afterwards, R became insolvent and 40% of the amount could be recovered from his estate.

Pass journal entries (with narration) in the books of S.

Question 5 ***(CA Foundation May 2019) (5 Marks) / (RTP May 2020)*** _____ Pg no. _____

On 1st January 2023, Akshay draws two bills of exchange for ₹ 16,000 and ₹ 25,000. The bill of exchange for ₹ 16,000 is for two months while the bill of exchange for ₹ 25,000 is for three months. These bills are accepted by Vishal. On 4th March, 2023, Vishal requests Akshay to renew the first bill with interest at 15% p.a. for a period of two months. Akshay agreed to this proposal. On 25th March, 2023, Vishal retires the acceptance for ₹ 25,000, the interest rebate i.e. discount being ₹ 250. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paise in a rupee could be recovered from his estate.

Show the Journal Entries (with narrations) in the books of Akshay.

Question 6 *(ICAI Study Material)* Pg no. _____

Ms. Sujata receives two bills from Ms. Aruna dated 1st January 2023 for 2 months. The first bill is for 10,200 and the second bill is for ₹ 15,000. The First bill is discounted immediately with the bank for ₹ 10,000 and the second bill was endorsed in favour of Mr. Sree on 3rd January. Pass the necessary journal entries in the books of Ms. Sujata.

Question 7 *(CA Foundation June 2023) (5 Marks)* Pg no. _____

Journalise the following transactions in the books of Karthik:

- Karthik accepted a bill of Balu for ₹ 3,500 discharged by a cash payment of ₹ 1,500 and a new bill for the balance plus ₹ 75 for interest.
- Gopal acceptance for ₹ 4,500 which was endorsed by Karthik to Mohan was dishonoured. Mohan paid ₹ 50 as noting charges. Bill was withdrawn against cheque.
- Doshi retires a bill for ₹ 2,500 drawn on him by Karthik for ₹ 25 discount.
- Karthik's acceptance to Prem for ₹ 6,500 discharged by Ashok's acceptance to Karthik for a similar amount.

Question 8 Pg no. _____

A draws on B a bill of ₹ 45,000 on 1st June, 2023 for 3 months. B accepts the bill and sends it to A who discounted for ₹ 44,100. A immediately remits ₹ 14,700 to B. On the due date A, being unable to remit the amount due, accepts a bill for ₹ 63,000 for three months which is discounted by B for ₹ 61,650. B sends ₹ 11,100 to A. On the due date A becomes insolvent, his estate paying forty paise in the rupee.

Give the Journal Entries in the books of A and B.

Question 9 *(ICAI Study Material)* Pg no. _____

X draws on Y a bill of exchange for ₹ 30,000 on 1st April, 2023 for 3 months. Y accepts the bill and sends it to X who gets it discounted for ₹ 28,800. X immediately remits ₹ 9,600 to Y. On the due date, X, being unable to remit the amount due, accepts a bill for ₹ 42,000 for three months which is discounted by Y for ₹ 40,110. Y sends ₹ 6,740 to X. Before the maturity of the bill X becomes bankrupt, his estate paying -fifty paise in the rupee.

Give the journal entries in the books of X and Y.

Question 10 *(CA Foundation Nov 2022) (15 Marks)* Pg no. _____

T draws on J a bill of exchange for ₹ 1,80,000 on 1st April, 2022 for 3 months. J accepts the bill and sends it to T, who gets it discounted from his banker for ₹ 1,72,800. T immediately remits ₹ 57,600 to J. On the due date, T, being unable to remit the amount due, accepts a bill for ₹ 2,52,000 for three months, which is discounted by J from his banker for ₹ 2,40,660. J sends ₹ 40,440 to T. Before the maturity of the bill, T becomes bankrupt and his estate paying fifty paise in a rupee.

Give the journal entries in the books of T and J.

Question 11 Pg no. _____

On 1st July, 2023 G drew a bill for ₹ 80,000 for 3 months on H for mutual accommodation who accepted the bill of exchange. G had purchased goods worth ₹ 81,000 from J on the same date. G endorsed H's acceptance to J in full settlement. On 1st September, 2023 J purchases goods worth ₹ 90,000 from H. J endorsed the bill of exchange received from G to H and paid ₹ 9,000 in full settlement of the amount due to H. On 1st October, 2023 H purchased goods worth ₹ 1,00,000 from G. He paid the amount due to G by cheque.

Give the necessary Journal Entries in the books of H.

Question 12 (CA Foundation Dec 2021) (10 Marks) Pg no. _____

On 12th May, 2023 A sold goods to B for ₹ 36,470 and drew upon the later two bills one for ₹ 16,470 at one month and the other for ₹ 20,000 at three months. B accepted both the bills. On 5th June, 2023 A sent both the bills to his banker for collection on the due dates. The first bill was duly met. But due to some temporary financial difficulties, B failed to honour the second bill on the due date and the bank had to pay ₹ 20 as noting charges. However, on 16th August, 2023 it was agreed between A and B that B would immediately pay ₹ 8,020 in cash and accept a new bill at 3 months for ₹ 12,480 which included interest for postponement of the part payment of the dishonoured bill. A immediately sent new acceptance to its bank for collection on the due date. On 1st October, 2023 B approached A offering ₹ 12,240 for retirement of his acceptance A accepted the request.

You are required to pass journal entries of all the above transactions in the books of A.

Question 13 (RTP May 2019) / (RTP May 2021) / (RTP May 2022) / (RTP Nov 2022) - Pg no. _____

Write short notes on:

- (i) Noting Charges. (ii) Retirement of bills of exchange.

Question 14 (RTP Nov 2019) / (RTP Nov 2021) / (RTP Nov 2023) Pg no. _____

Write short note on Bills of exchange and various parties to it.

Question 15 (RTP May 2020) / (RTP Nov 2022) / (RTP May 2023) Pg no. _____

Write short note on Trade bill vs. Accommodation bill.

Question 16 (CA Foundation Dec 2023) (10 Marks) Pg no. _____

R draws a bill of exchange on P for ₹ 2,00,000 on 1st July, 2022 for 4 months P accepted the bill and sent it to R. R discounts the bill with his bankers for ₹ 1,88,000 R. immediately remits ₹ 75,200 to P. On the due date, R, being unable to remit the amount due accepts a bill for ₹ 2,50,000 for 4 months which is discounted by P for ₹ 2,36,250. P sends ₹ 56,700 to R. Before the bill is due for payment R becomes insolvent and his estate is paying fifty paise in a rupee. Give the journal entries in the books of P. Also show R's account in P's books.

Question 17 (CA Foundation Sep 2024) (10 Marks) Pg no. _____

Harry draws a bill on Sejal for ₹ 60,000 on 01.01.2023 for 3 months. Sejal accepts the bill and sends it back to Harry to get it discounted for ₹ 56,000.

Harry remits 1/4th amount to Sejal. On the due date, Harry was unable to remit his share to Sejal, rather accepts a bill of ₹ 80,000 for a period of 3 months. This bill was discounted by Sejal for ₹ 74,600. Sejal after making the payment of first bill sent 3/4th of the amount remaining to Harry. On maturity of the bill, Harry became bankrupt and his estate paying 40 paise in the rupee.

Give journal entries in the books of Sejal. Also prepare ledger account of Harry. All workings should form part of the answer.

Question 18 (CA Foundation Jan 2025) (5 Marks) Pg no. _____

Mr. A accepts two bills of exchange on June 1, 2024 for ₹ 1,50,000 and ₹ 60,000 drawn on him by Mr. B. The bill of exchange for ₹ 1,50,000 is for two months while the bill of exchange for ₹ 60,000 is for three months. Mr. B got the first bill discounted with the bank for ₹ 1,49,000 on June 3, 2024. On August 2, 2024 Mr. A requested Mr. B to cancel both the bills and drew a new bill on him with the combined amount of both the bills along with interest @ 12% per annum for a period of two months. Before the due date of the renewed bill on September 3, 2024, Mr. A becomes insolvent and only 40 paise in a rupee could be recovered from his estate.

You are required to give the journal entries in the books of Mr. B.

Question 19 *(RTP Jan 2025) / (RTP May 2025)* Pg no. _____

On 1st April, 2024, X sells goods to Y for ₹ 25,000 plus IGST@ 18% and draws two bills of exchange on him; the first bill for ₹ 15,000 for 2 months and second bill for the balance for 3 months. Y accepts and returns these bills to X. Both the bills are sent to the bank for collection on 1st April, 2024. In due course, X receives the information from the bank on the due date of the respective bill that the bill for ₹ 15,000 has been duly met and the other bill has been dishonored. Noting charges paid on the dishonour of second bill are ₹ 500.

Pass the journal entries along with narrations in the books of X.