

BILL OF EXCHANGE & PROMISSORY NOTE

Solution 1

Books of Ankita

Date	Particulars	L.F.	Debit	Credit
01.01.2023	Bhavika's A/c Dr.		5,00,000	
	To Sales A/c			5,00,000
	(Being the goods sold to Bhavika on credit)			
01.01.2023	Bills receivable A/c Dr.		5,00,000	
	To Bhavika's A/c			5,00,000
	(Being the acceptance of bill received)			
04.03.2023	Bank A/c Dr.		4,95,000	
	Rebate on Bills A/c Dr.		5,000	
	To Bills Receivable A/c			5,00,000
	(Being retirement of bill by Bhavika 1 month before maturity ,rebate being given to her at 12% p.a.)			

Books of Bhavika

Date	Particulars	L.F.	Debit	Credit
01.01.2023	Purchases A/c Dr.		5,00,000	
	To Ankita's A/c			5,00,000
	(Being the goods purchased from Ankita)			
01.01.2023	Ankita's A/c Dr.		5,00,000	
	To Bills Payable A/c			5,00,000
	(Being the acceptance of bill)			
04.03.2023	Bills Payable A/c Dr.		5,00,000	
	To Rebate on Bills Income A/c			5,000
	To Bank A/c			4,95,000
	(Being retirement of bill one month before maturity, rebate being received 12% p.a.)			

Solution 2

Books of Siriman

S.No.	Particulars	L.F.	Debit	Credit
1	Bills receivable A/c Dr.		1,00,000	
	To Rita A/c			1,00,000
	(Being a 3 month's bill drawn on Rita for the amount due)			
2	Bank A/c Dr.		99,000	
	Discount on Bills A/c Dr.		1,000	
	To Bills Receivable A/c			1,00,000
	(Being bill discounted with bank)			
3	Rita A/c Dr.		1,00,000	
	To Bank A/c			1,00,000
	(Being the bill cancelled up due to Rita's inability to pay it)			
4	Rita A/c Dr.		1,500	
	To Interest A/c			1,500
	(Being the interest due on ₹ 50,000 @ 12% for 3 months)			

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5	Bank A/c	Dr.	51,500	
	To Rita A/c			51,500
	(Being the receipt of a portion of the amount due on the bill together with interest)			
6	Bills receivable A/c	Dr.	50,000	
	To Rita A/c			50,000
	(Being the new bill drawn for the balance)			
7	Rita A/c	Dr.	50,000	
	To Bills Receivable A/c			50,000
	(Being bill dishonored due to Rita's insolvency)			
8	Bank A/c	Dr.	20,000	
	Bad Debts A/c	Dr.	30,000	
	To Rita A/c			50,000
	(Being the receipt of 40% of the amount due on the bill from Rita's estate)			

Solution 3

Books of A

Date	Particulars	L.F.	Debit	Credit
01.08.2023	Bills receivable A/c	Dr.	10,000	
	To B A/c			10,000
	(Being the acceptance received from B to settle his account)			
01.08.2023	Bank A/c	Dr.	9,800	
	Discount on Bills A/c	Dr.	200	
	To Bills Receivable A/c			10,000
	(Being bill discounted with bank)			
04.11.2023	B A/c	Dr.	10,000	
	To Bank A/c			10,000
	(Being the B's acceptance is to be renewed)			
04.11.2023	B A/c	Dr.	240	
	To Interest A/c			240
	(Being the interest due from B for 3 months i.e., $8000 \times 3 / 12 \times 12\% = 240$)			
04.11.2023	Cash A/c	Dr.	2,240	
	Bills receivable A/c	Dr.	8,000	
	To B A/c			10,240
	(Being amount and acceptance of new bill received from B)			
31.12.2023	B A/c	Dr.	8,000	
	To Bills Receivable A/c			8,000
	(Being the dishonour of the bill due to B's insolvency)			
31.12.2023	Bank A/c	Dr.	3,200	
	Bad Debts A/c	Dr.	4,800	
	To B A/c			8,000
	(Being the receipt of 40% of the amount due on the bill from B's estate)			

Solution 4**Books of S**

Date	Particulars	L.F.	Debit	Credit
01.10.2022	Bills receivable A/c Dr.		1,000	
	To R A/c			1,000
	(Being the acceptance received from R to settle his account)			
03.10.2022	Bank A/c Dr.		900	
	Discount on Bills A/c Dr.		100	
	To Bills Receivable A/c			1,000
	(Being bill discounted with bank)			
04.01.2023	R A/c Dr.		1,000	
	To Bank A/c			1,000
	(Being the R's acceptance is to be renewed)			
04.01.2023	R A/c Dr.		15	
	To Interest A/c			15
	(Being the interest due from B for 3 months i.e., $500 \times 3 / 12 \times 12\% = 30$)			
04.01.2023	Cash A/c Dr.		515	
	Bills receivable A/c Dr.		500	
	To R A/c			1,015
	(Being amount and acceptance of new bill received from R)			
07.04.2023	R A/c Dr.		500	
	To Bills Receivable A/c			500
	(Being the dishonour of the bill due to R's insolvency)			
07.04.2023	Bank A/c Dr.		200	
	Bad Debts A/c Dr.		300	
	To R A/c			500
	(Being the receipt of 40% of the amount due on the bill from B's estate)			

Solution 5**Journal Entries in the books of Akshay**

2023	Particulars	Dr. (₹)	Cr. (₹)
Jan.1	Bills receivable (No. 1) A/c Dr.	16,000	
	Bills receivable (No. 2) A/c Dr.	25,000	
	To Vishal A/c		41,000
	(Being drawing of bills receivable No. 1 due for maturity on 4.3.2023 and bills receivable No. 2 due for maturity on 4.4.2023)		
Mar 4	Vishal's A/c Dr.	16,000	
	To Bills receivable (No.1) A/c		16,000
	(Being the reversal entry for bill No.1 on renewal)		
Mar 4	Bills receivable (No. 3) A/c Dr.	16,400	
	To Interest A/c		400
	To Vishal's A/c		16,000
	(Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2023 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)		

Mar 25	Bank A/c	Dr.	24,750	
	Discount A/c	Dr.	250	
	To Bills receivable (No. 2) A/c			25,000
(Being the amount received on retirement of bills No.2)				
May 7	Vishal's A/c	Dr.	16,400	
	To Bills receivable (No. 3) A/c			16,400
	(Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)			
May 7	Bank A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)			
May 7	Bad debts A/c	Dr.	8,200	
	To Vishal's A/c			8,200
	(Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)			

Solution 6

Journal Entries in the books of Sujata

2023	Particulars		Dr. (₹)	Cr. (₹)
Jan.1	Bills receivable A/c	Dr.	25,200	
	To Aruna A/c			25,200
	(Being 2 bills receivable from Aruna)			
Jan 1	Bank A/c	Dr.	10,000	
	Discount Charges A/c	Dr.	200	
	To Bills Receivable A/c			10,200
(Being bill discounted with the Bank)				
Jan 3	Sree A/c	Dr.	15,000	
	To Bills receivable A/c			15,000
	(Being bill endorsed in favour of Sree)			

Solution 7

Journal Entries in the Books of Karthik

			₹	₹
(i)	Bills Payable Account	Dr.	3,500	
	Interest Account	Dr.	75	
	To Cash A/c			1,500
To Bills Payable Account			2,075	
(Bills Payable to Balu discharged by cash payment of ₹1,500 and a new bill for ₹ 2,075 including ₹ 75 as interest)				
(ii)	(a) Gopal Account	Dr.	4,550	
	To Mohan Account			4,550
	(Gopal's acceptance for ₹ 4,500 endorsed to Mohan dishonoured, ₹ 50 paid by Mohan as noting charges)			
(b) Mohan Account	Mohan Account	Dr.	4,550	
	To Bank Account			4,550
	(Payment to Mohan on withdrawal of bill earlier received from Mr. Gopal)			
(iii)	Bank Account	Dr.	2,475	
	Discount Account	Dr.	25	
	To Bills Receivable Account			2,500

	(Payment received from Doshi against his acceptance for ₹ 2,500. Allowed him a discount of ₹25)			
(iv)	Bills Payable Account	Dr.	6,500	
	To Bills Receivable Account			6,500
	(Bills Receivable from Ashok endorsed to Prem in settlement of bills payable issued to him earlier)			

Solution 8

Books of A

Date	Particulars	L.F.	Debit	Credit
01.06.2023	Bills receivable A/c Dr.		45,000	
	To B A/c			45,000
	(Being the acceptance received from B for mutual accommodation)			
01.06.2023	Bank A/c Dr.		44,100	
	Discount on Bills A/c Dr.		900	
	To Bills Receivable A/c			45,000
	(Being bill discounted with bank)			
01.06.2023	B A/c Dr.		15,000	
	To Bank A/c			14,700
	To Discount on Bills A/c			300
	(Being 1/3 rd proceeds remitted to B)			
04.09.2023	B A/c Dr.		63,000	
	To Bills Payable A/c			63,000
	(Being acceptance given to B on the failure of remittance of the amount due)			
04.09.2023	Bank A/c Dr.		11,100	
	Discount on Bills A/c Dr.		900	
	To B A/c			12,000
	(Being receipt of amount from B and discount amount credited to him)			
07.12.2023	Bills Payable A/c Dr.		63,000	
	To B A/c			63,000
	(Being acceptance to B dishonoured due to insolvency)			
07.12.2023	B A/c Dr.		42,000	
	To Bank A/c			16,800
	To Deficiency A/c			25,200
	(Being amount paid @40% & balance credited to deficiency account on failure of payment)			

Books of B

Date	Particulars	L.F.	Debit	Credit
01.06.2023	A's A/c Dr.		45,000	
	To Bills Payable A/c			45,000
	(Being the acceptance given for the bill)			
01.06.2023	Bank A/c Dr.		14,700	
	Discount on Bills A/c Dr.		300	
	To A's A/c			15,000
	(Being 1/3 rd proceeds of the bill after discounting received from A)			
04.09.2023	Bills Receivable A/c Dr.		63,000	
	To A's A/c			63,000

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	(Being acceptance received from A to cover the amount due from him)			
04.09.2023	Bank A/c Dr.		61,650	
	Discount on Bills A/c Dr.		1,350	
	To Bills Receivable A/c			63,000
	(Being bill discounted with bank)			
04.09.2023	Bills Payable A/c Dr.		45,000	
	To Bank A/c			45,000
	(Being own acceptance due on the date met)			
04.09.2023	A's A/c Dr.		12,000	
	To Bank A/c			11,100
	To Discount on Bills A/c			900
	(Being amount remitted to A after getting bill discounted)			
07.12.2023	A's A/c Dr.		63,000	
	To Bank A/c			63,000
	(Being A's acceptance dishonoured on insolvency)			
07.12.2023	Bank A/c Dr.		16,800	
	Bad Debts A/c Dr.		25,200	
	To A A/c			42,000
	(Being the receipt of 40% of the amount due from A)			

Solution 9

Books of X

Date	Particulars	L.F.	Debit	Credit
01.04.2023	Bills receivable A/c Dr.		30,000	
	To Y A/c			30,000
	(Being the acceptance received from Y for mutual accommodation)			
01.04.2023	Bank A/c Dr.		28,800	
	Discount on Bills A/c Dr.		1,200	
	To Bills Receivable A/c			30,000
	(Being bill discounted with bank)			
01.04.2023	Y A/c Dr.		10,000	
	To Bank A/c			9,600
	To Discount on Bills A/c			400
	(Being 1/3 rd proceeds remitted to Y)			
04.07.2023	Y A/c Dr.		42,000	
	To Bills Payable A/c			42,000
	(Being acceptance given to Y on the failure of remittance of the amount due)			
04.07.2023	Bank A/c Dr.		6,740	
	Discount on Bills A/c Dr.		1,260	
	To Y A/c			8,000
	(Being receipt of amount from Y and discount amount credited to him)			
07.10.2023	Bills Payable A/c Dr.		42,000	
	To Y A/c			42,000
	(Being acceptance to Y dishonoured due to insolvency)			
07.10.2023	Y A/c Dr.		28,000	
	To Bank A/c			14,000
	To Deficiency A/c			14,000

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(Being amount paid @50% & balance credited to deficiency account on failure of payment)

Books of Y

Date	Particulars	L.F.	Debit	Credit
01.04.2023	X's A/c Dr.		30,000	
	To Bills Payable A/c			30,000
	(Being the acceptance given for the bill)			
01.04.2023	Bank A/c Dr.		9,600	
	Discount on Bills A/c Dr.		400	
	To X's A/c			10,000
	(Being 1/3 rd proceeds of the bill after discounting received from X)			
04.07.2023	Bills Receivable A/c Dr.		42,000	
	To X's A/c			42,000
	(Being acceptance received from X to cover the amount due from him)			
04.07.2023	Bank A/c Dr.		40,110	
	Discount on Bills A/c Dr.		1,890	
	To Bills Receivable A/c			42,000
	(Being bill discounted with bank)			
04.07.2023	Bills Payable A/c Dr.		30,000	
	To Bank A/c			30,000
	(Being own acceptance due on the date met)			
04.07.2023	X's A/c Dr.		8,000	
	To Bank A/c			6,740
	To Discount on Bills A/c			1,260
	(Being amount remitted to X after getting the bill discounted)			
07.10.2023	X's A/c Dr.		42,000	
	To Bank A/c			42,000
	(Being X's acceptance dishonoured on insolvency)			
07.10.2023	Bank A/c Dr.		14,000	
	Bad Debts A/c Dr.		14,000	
	To X A/c			28,000
	(Being receipt of 50% of amount due from X)			

Solution 10

In the books of T Journal Entries

2022	Particulars		Debit ₹	Credit ₹
1-Apr	Bills receivable A/c Dr.		1,80,000	1,80,000
	To J's A/c			
	(Being acceptance received from J for mutual accommodation)			
1-Apr	Bank A/c Dr.		1,72,800	
	Discount A/c Dr.		7,200	
	To Bills receivable A/c			1,80,000
	(Being bill discounted with bank)			
1-Apr	J's A/c Dr.		60,000	
	To Bank A/c			57,600
	To Discount A/c			2,400
	(Being ₹ 57,600 sent to J)			

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4-Jul	J's A/c	Dr.	2,52,000	
	To Bills payable A/c			2,52,000
	(Being Acceptance given)			
4-Jul	Bank A/c	Dr.	40,440	
	Discount A/c [(1,20,000+40,440)/ 2,40,660 × 11,340]	Dr.	7,560	
	To J's A/c			48,000
	(Being proceeds of second bill received from J)			
7-Oct	Bills payable A/c	Dr.	2,52,000	
	To J's A/c			2,52,000
	(Being bill dishonoured due to insolvency)			
7-Oct	J's A/c (1,20,000+48,000)	Dr.	1,68,000	
	To Bank A/c			84,000
	To Deficiency A/c *			84,000
	(Being insolvent, only 50% amount paid to J)			

**In the books of J
Journal Entries**

2022	Particulars		Debit ₹	Credit ₹
1-Apr	T A/c	Dr.	1,80,000	
	To Bills Payable A/c			1,80,000
	(Being bill of exchange accepted and send to Mr. T)			
1-Apr	Bank A/c	Dr.	57,600	
	Discount Charges A/c	Dr.	2,400	
	To T A/c			60,000
	(Being the amount received from T on account of the bill receivable)			
4-Jul	Bills Receivable A/c	Dr.	2,52,000	
	To T A/c			2,52,000
	(Being the bills accepted by T)			
4-Jul	Bank A/c	Dr.	2,40,660	
	Discount Charges A/c	Dr.	11,340	
	To Bills Receivable A/c			2,52,000
	(Being T's acceptance discounted with bank)			
4-Jul	Bills Payable A/c	Dr.	1,80,000	
	Bank A/c			1,80,000
	(Being the amount met on the due date)			
4-Jul	T A/c	Dr.	48,000	
	To Bank A/c			40,440
	To Discount A/c			7,560
	(Being amount received and discount debited to T account) {[(1,20,000+40,440)/ 2,40,660] × 11,340} = 7,560			
7-Oct	T A/c	Dr.	2,52,000	
	To Bank A/c			2,52,000
	(Being T's acceptance dishonoured due to T's bankruptcy)			
7-Oct	Bank A/c	Dr.	84,000	
	Bad Debts A/c*	Dr.	84,000	
	To T A/c			1,68,000
	(Being the amount received from T and the balance being written off as bad debts)			

Solution 11**Books of H**

Date	Particulars	L.F.	Debit	Credit
01.07.2023	G's A/c Dr.		80,000	
	To Bills Payable A/c			80,000
	(Being the acceptance of bill drawn by G)			
01.09.2023	J's A/c Dr.		90,000	
	To Sales A/c			90,000
	(Being Sales made to J)			
01.09.2023	Bank A/c Dr.		9,000	
	Discount A/c Dr.		1,000	
	Bills Receivable		80,000	
	To J's A/c			90,000
	(Being bill & amount received in full settlement from J)			
01.09.2023	Bills Payable A/c Dr.		80,000	
	To Bills Receivable A/c			80,000
	(Being own acceptance received from J's endorsement cancelled)			
01.10.2023	Purchases A/c Dr.		1,00,000	
	To G A/c			1,00,000
	(Being purchases made from G)			
01.10.2023	G A/c Dr.		20,000	
	To Bank A/c			20,000
	(Being amount paid to G after adjustment of 80,000 for accommodation extended to him)			

Solution 12**Journal Entries in the books of Mr. A**

2023		(₹)	(₹)
May, 12	B's A/c Dr.	36,470	
	To Sales account		36,470
	(Being goods sold to B on credit)		
May, 12	Bills receivable (No. 1) A/c Dr.	16,470	
	Bills receivable (No. 2) A/c Dr.	20,000	
	To B's A/c		36,470
	(Being drawing of bills receivable No. 1 due for maturity on 15.6.2020 and bills receivable No. 2 due for maturity on 14.8.2020)		
	OR		
	Bills receivable A/c Dr.	36,470	
	To B's A/c		36,470
(Being acceptances received from B, one for ₹ 16,470 at one month and other for ₹ 20,000 at 3 months)			
June, 5	Bills for Collection A/c Dr.	36,470	
	To Bills receivable (No.1) A/c		16,470
	To Bills receivable (No.2) A/c		20,000
	(Being both the bills sent to bank for collection)		
	OR		
	Bills for Collection A/c Dr.	36,470	
	To Bills receivables A/c		36,470
(Being B's acceptances sent for collection on due dates)			

June,15	Bank A/c	Dr.	16,470	
	To Bills for Collection A/c			16,470
	(Being amount received on retirement of Bills receivable No. 1)			
	B's A/c	Dr.	20,020	
	To Bills for Collection a/c			20000
	To Noting Charges or Bank Charges			20
	(Being the amount due from Mr. B on dishonour of his acceptance on presentation on the due date)			
	B's A/c	Dr.	480	
	To Interest a/c			480
(Being interest due)				
Aug,16	Bank/Cash A/c	Dr.	8,020	
	To B's A/c			8,020
	(Being cash received)			
Aug,16	Bills receivable (No. 3) A/c	Dr.	12,480	
	To B's A/c			12,480
	(Being Bills receivable (No. 3) drawn accepted by B)			
	OR			
	Alternatively combined entry may be given for the above 2 entries			
	Bank/Cash a/c	Dr.	8,020	
	Bills receivable a/c	Dr.	12,480	
	To B's A/c			20,500
(Being cash and new acceptance at 3 months received from B)				
Aug,16	Bills for Collection A/c	Dr.	12,480	
	To Bills receivable (No.3) A/c			12,480
	(Being Bills receivable (No.3) sent to bank for collection)			
	OR			
	Bills for collection A/c	Dr.	12,480	
	To Bills receivable A/c			12,480
(Being new acceptance sent to bank for collection on due date)				
Oct, 1	Bank A/c	Dr.	12,240	
	Rebate A/c	Dr.	240	
	To Bills for Collection			12,480
	(Being amount received on retirement of Bills receivable (No.3))			

Alternately combined entry may be given for the first three entries of Aug,16 :

Aug,16	Bank/ Cash A/c	Dr.	8,020	
	Bills Receivable (No. 3) A/c	Dr.	12,480	
	To B's A/c			20,020
	To Interest A/c			480
	(Being the ₹ 8,020 paid in cash and new bill (Bills receivable No. 3) accepted for 3 months)			

Solution 13

- (i) **Noting Charges:** It is necessary that the fact of dishonour and the causes of dishonour should be established. If there is a fear of dishonour, the bill will be given to the public official known as "Notary Public". These officials present the bill for payment and if the money is received, they will hand over the money to the original party. But, if the bill is dishonoured they will note the fact of dishonour, and the reasons given and give the bill back to their client. For this service, they charge a small fee. This fee is known as noting charges. The amount of noting charges is recoverable from the party who is responsible for dishonour.

- (ii) **Retirement of bills of exchange:** Sometimes, the acceptor of a bill of exchange has spare funds much before the maturity date of the bill of exchange accepted by him. He may, therefore, desire to pay the bill before the due date. In such a circumstance, the acceptor shall ask the payee or the holder of the bill to accept cash before the maturity date. If the payee agrees, the acceptor may be allowed a rebate or discount on such early payment. This rebate is generally the interest at an agreed rate for the period between the date of payment and date of maturity. The interest/rebate/discount becomes the income of the acceptor and expense of the payee. It is a consideration for premature payment. When a bill is paid before due date, it is said to be retired under rebate.

Solution 14

A **bill of exchange** is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money to or to the order of certain person or to the bearer of the instrument. When such an order is accepted by the drawee on the face of the order itself, it becomes a valid bill of exchange.

There are three parties to a bill of exchange:

- a) The **drawer**, who draws the bill, that is, the creditor to whom the money is owing;
- b) The **drawee**, the person to whom the bill is addressed or on whom it is drawn and who accepts the bill that is, the debtor; and
- c) The **payee**, the person who is to receive the payment. The drawer in many cases is also the payee.

Solution 15

Distinction between Trade bill and Accommodation bill

- (a) Trade bills are usually drawn to facilitate trade transmission, that is, these bills are meant to finance actual purchase and sale of goods. On the other hand, an accommodation bill is one which is drawn, accepted or endorsed for the purpose of arranging financial accommodation for one or more interested parties.
- (b) On discount of a trade bill, full amount is retained by the drawer. In an accommodation bill however, the amount may be shared by the drawer and the drawee in an agreed ratio.
- (c) Trade bill is drawn for some consideration while accommodation bill is drawn and accepted without any consideration.
- (d) Trade bill acts as an evidence of indebtedness while accommodation bill acts as a source of finance.
- (e) In order to recover the debt, drawer can initiate legal action on a trade bill. In accommodation bill, legal remedy for the recovery of amount may not be available for immediate parties.