



ACCOUNTS

NCERT - NCERT ACCOUNTS(HINGLISH)

BILL OF EXCHANGE

Illustration

1. Amit sold goods for Rs 20,000 to Sumit on credit on Jan 01,2017. Amit drew a bill of exchange upon Sumit for the same amount for

three months. Sumit accepted the bill and returned it to Amit. Sumit met this acceptance on maturity. Record the necessary journal entries under the following circumstances:

(i) Amit retained the bill till the date of its maturity and collected directly

(ii) Amit discounted the bill @ 12% p.a from his bank

(iii) Amit endorsed the bill to this creditor Ankit

(v) Amit retained the bill and on March 31,2017 Amit sent the bill for collection to its bank. On April 05,2017 bank advice was received.

2. On March 15, 2017 Ramesh sold goods for Rs 8,000 to Deepak on credit. Deepak accepted a bill of exchange drawn upon him by Ramesh payable after three months. On April, 15 Ramesh endorsed the bill in favour of this creditor Poonam in full settlement of her debt of Rs 8,250. On May 15, Poonam discounted the bill with her bank @ 12% p.a. On the due date Deepak met the bill. Record the necessary journal entries in the books of Ramesh, Deepak, Poonam.



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3. On Jan 01,2017 Shieba sold goods to Vishal for Rs 10,000 and drew upon him a bill of exchange for 2 months. Vishal accepted the bill and returned it to Shieba. On the date of maturity the bill was dishonoured by Vishal. Record the necessary entries in all the cases listed below in the books of Shieba and Vishal:

- (i) When the bill kept by Shieba till its maturity,
- (ii) When the bill is discounted by Shieba for Rs 200,

(iii) When the bill is endorsed to Lal Chand by Shieba.



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4. On Jan. 15, 2017 Sachin sold goods rs 30,000 to Narain and drew upon the later a bill for the same amount payable after 3 months. The bill was accepted by Narain. The bill was discounted by Sachin from his bank for Rs 29,250 on Jan. 31, 2017 on maturity the bill was dishonoured. He further agreed to pay Rs

10,500 in cash including Rs 500 interest and accept a new bill for two months for the remaining Rs 20,000. The new bill was endorsed by Sachin in favour of this creditor Kapil for setting a debt of Rs 20,800. The new bill was duly met by Narain on maturity. Record the necessary journal entries in the books of Sachin and Narain.



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5. Ashok sold goods Rs 14,000 to Bishan on October 30, 2016 and drew three bills for Rs 2,000, Rs 4,000 & Rs 8,000 payable after two, three, and four months respectively. The first bill was kept by Ashok with him till maturity. He endorsed the second bill in favour of his creditor Chetan. The third bill was discounted on December 03, 2016 at 12% p.a. The first and second bills were duly met on maturity but the third bill was dishonoured and the bank paid Rs 50 as noting charges. On March 03, 2017 Bishan paid Rs 4,000 and noting charges in

the cash and accepted a new bill at two months after date for the balance plus interest Rs 100 The new bill was met on maturity by Bishan. You are required to give the journal entries in the books of both Ashok and Bishan and prepare Bishan's account in Ashok's books and Ashok's account in Bishan's books.



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6. Aashirwad draws on Aakarshak a Bill of exchange for 3 months for Rs 10,000 which Aakarshak accepts on January 01, 2016. Aashirwad endorses the bill in favour of Aakarti. Before maturity Aakarshak approaches Aashirwad with the request that the bill be renewed for a further period of 3 months at 18 per cent per annum interest. Aashirwad pays the sum to Aakarti on the due date and agrees to the proposal of Aakarshak. Record journal entries in the books of Aashirwad, assuming that the second bill is duly met.



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7. Ankit owes Nikita a sum of Rs 6,000. On April 01, 2016 Ankit gives a promissory note for the amount for 3 months to Nikita who gets it discounted with her bankers for Rs 5,760. on the due date the bill is dishonoured, the bank paid Rs 15 as noting charges. Ankit then pays Rs 2,000 in cash and accepts a bill of exchange drawn on him for the balance together with Rs 100 as interest. This bill of exchange is for 2 months and on the due date the bill is again

dishonoured, Nikita paid Rs 15 as noting charges. Draft the journal entries to be recorded in Nikita's books



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8. On May 01, 2016 Mohit sends his promissory note of Rs 6000 for 3 months to Rohit. Rohit gets it discounted with his bankers at 18 percent per annum on May 04. On the due date the bill is dishonoured, the bank paying Rs 10 as noting charges. Rohit agrees to accept Rs

2,130 in cash (including Rs 130 for noting charges and interest) and another promissory note for Rs 4,000 at 2 months. On the due date, Mohit approaches Rohit again and asks for renewal of the bill for a further period of 3 months. Rohit agrees to the request, provided Mohit pays Rs 200 as interest in cash. This last bill is paid on maturity. Draft journal entries in the books of Mohit and Rohit.



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Test Your Understanding I

1. A bill of exchange must be accepted by the payee



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2. A bill of exchange is drawn by the creditor.



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3. A bill of exchange is drawn for all cash transaction



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4. A bill payable on demand is called Time bill:



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5. The person to whom payment is to be made in a bill of exchange is called payee



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6. A negotiable instrument does not require the signature of its maker.



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7. The hundi Payable at sight is called Darshani hundi.



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8. A negotiable instrument is not freely transferable.



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9. Stamping of promissory note is not mandatory.



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10. The time of payment of a negotiable instrument need not be certain.



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Test Your Understanding Ii

1. A bill of exchange is a _____ instrument.



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2. A bill of exchange is drawn by the _____ upon his _____.



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3. A promissory note is drawn by _____ in favour of his _____.



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4. There are _____ parties to a bill of exchange.



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5. There are _____ parties to a promissory note.



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6. Drawer and _____ can not be the same parties in case of a bill of exchange.



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7. Bill of exchange in India languages is called_____.



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8. _____days of grace are added in terms of the bill to calculate the date of its_____.



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Summary With Reference To Learning Objectives

1. Bill of exchange as an Instrument : A bill of exchange is a device by which the purchaser or debtor in a credit transaction is not required to make immediate payment but satisfies the seller or creditor by accepting in writing the liability to pay the amount due from him.



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2. Meaning of bill of exchange and promissory note: A bill of exchange is an acknowledgement of debt given by one person

to another, incorporating all the terms and conditions of payments. A promissory note is an undertaking in writing given by the debtor to the creditor to pay the latter a certain sum of money in accordance with the conditions stated therein.



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3. Difference between a bill of exchange and a promissory note.

(a) A bill is prepared by the creditor and

accepted by the debtor, a promissory note is prepared by the debtor.

(b) There are three parties to a bill, there are only two parties to a note.

(c) A bill requires acceptance to acquire financial status, a note in itself has financial status.



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4. Feature of a bill of exchange :



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Questions For Practice

1. Name any two types of commonly used negotiable instruments.



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2. Write two points of distinction between bills of exchange and promissory note



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3. State any four essential features of bill of exchange



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4. State the three parties involved in a bill of exchange.



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5. What is meant by maturity of a bill of exchange?



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6. What is meant by dishonour of a bill of exchange?



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7. Name the parties to a promissory note



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8. What is meant by acceptance of a bill of exchange?



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9. What is Noting of a bill of exchange.



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10. What is meant by renewal of a bill of exchange?



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11. Give the performa of a Bills Receivable Book.



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12. Give the performa of a Bills Payable Book



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13. What is retirement of a bill of exchange?



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14. Give the meaning of rebate



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15. Give the performa of a Bill of Exchange.



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16. A bill of exchange must contain “an unconditional promise to pay” Do you agree with a statement?



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17. Briefly explain the effects of dishonour and noting of a bill of exchange.



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18. Explain briefly the procedure of calculating the date of maturity of a bill of exchange? Give example.



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19. Distinguish between bill of exchange and promissory note.



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20. Briefly explain the purpose and benefits of retiring a bill of exchange to the debtor and the creditor.



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21. Explain briefly the purpose and advantages of maintaining of a Bills Receivable Book.



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22. Briefly explain the benefits of maintaining a Bills Payable Book and state how is its posting is done in the ledger?



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Numerical Questions

1. On Jan 01, 2016 Rao sold goods Rs 10,000 to Reddy. Half of the payment was made immediately and for the remaining half Rao

drew a bill of exchange upon Reddy payable after 30 days. Reddy accepted the bill and returned it to Rao. On the due date Rao presented the bill to Reddy and received the payment. Journalise the above transactions in the books Rao and prepare of Rao's account in the books of Reddy.



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2. On Jan 01, 2016, Shankar purchased goods from Parvati for Rs 8,000 and immediately

drew a promissory note in favour of Parvati payable after 3 months. On the date of maturity of the promissory note, the Government of India declared holiday under the Negotiable Instrument Act 1881. Since, Parvati was unaware about the provision of the law regarding the date of maturity of the bill, she handed over the bill to her lawyer, who duly presented the bill and received the payment. The amount of the bill was handed over by the lawyer to Parvati immediately. Recore the necessary Journal entries in the books of Parvati and Shankar.



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3. Vishal sold goods for Rs 7,000 to Manju on Jan 05, 2016 and drew upon her a bill of exchange payable after 2 months. Manju accepted Vishal's draft and handed over the same to Vishal after acceptance. Vishal immediately discounted the bill with his bank @ 12% p.a. On the due date Manju met her acceptance. Journalise the above transactions in the books of Vishal and Manju.



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4. On Feb 01, 2016, John purchased goods for Rs 15,000 from Jimmi. He immediately made a payment of Rs 5,000 by cheque and for the balance accepted the bill of exchange drawn upon him by Jimmi. The bill of exchange was payable after 40 days. Five days before the maturity of the bill, Jimmi sent the same to his bank for collection. The bank duly presented the bill to John on the due date who met the bill. The bank informed the same to Jimmi.

Prepare John's account in the books of Jimmi and Jimmi account in the books of John.



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5. On Jan 15, 2015, Kartar Sold goods for Rs 30,000 to Bhagwan and drew upon him three bills of exchanges of Rs 10,000 each payable after one month, two month, and three months respectively. The first bill was retained by Kartar till its maturity. The second bill was endorsed by him in favour of his creditor

Ratna and the third bill was discounted by him immediately @ 6% p.a. All the bills were met by Bhagwan. Journalise the above transactions in the books of Kartar and Bhagwan. Also prepare ledger accounts in books of Kartar and Bhagwan.



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6. On Jan. 01, 2016 Arun sold goods for Rs 30,000 to Sunil. 50% of the payment was made immediately by Sunil on which Arun allowed a

cash discount of 2%. For the balance Sunil drew a promissory note in favour of Arun payable after 20 days. Since, the date of maturity of bill was a public holiday, Arun presented the bill on a day, as per the provisions of Negotiable Instrument Act which was met by Sunil. State the date on which the bill was presented by Arun for payment and Journalise the above transactions in the books of Arun and Sunil.



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7. Darshan sold goods for Rs 40,000 to Varun on 8.1.2016 and drew upon him a bill of exchange payable after two months. Varun accepted the bill and returned the same to Darshan. On the due date the bill was met by Varun. Record the necessary Journal entries in the books of Darshan and Varun in the following circumstances.

- When the bill was retained by Darshan till the date of its maturity.
- When Darshan immediately discounted the bill @ 6% p.a. with his bank.
- When the bill was endorsed immediately by

Darshan in favour of his creditor Suresh.

- When three days before its maturity, the bill was sent by Darshan to his bank for collection.



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8. Bansal Traders allow a trade discount of 10% on the list price of the goods purchased from them. Mohan traders, who runs a retail shop made the following purchases from Bansal Traders.

| <i>Date</i> | <i>Amount</i> (<i>Rs</i>) |
|--------------------|--------------------------------|
| <i>Dec.21.2016</i> | 1.000 |
| <i>Dec.26.2016</i> | 1.200 |
| <i>Dec.18.2016</i> | 2.000 |
| <i>Dec.31.2016</i> | 5.000 |

For all the purchases Mohan Traders drew promissory note in favour of Bansal Traders payable after 30 days. The promissory note for the sale of Dec. 21, 2016 was retained by Bansal Traders with them till the date of its maturity. The promissory note drawn on 26.12.2016 was discounted by Bansal Traders from their bank at 12% p.a. The promissory note drawn on Dec. 28, 2016 was endorsed by Bansal Traders in

favour of their creditor Dream Soaps in full settlement of a purchase amounting to Rs 1,900. On 25.1.2017 Bansal Traders sent the promissory note drawn on Dec. 31, 2016 to their bank for collection. All the promissory notes were met by Mohan Traders. Record the necessary journal entries for the above transactions in the books of Bansal Traders and Mohan Traders and prepare Mohan Traders account in the books of Bansal Traders and Bansal Traders account in the books of Mohan Traders.



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9. Narayanan purchased goods for Rs 25,000 from Ravinderan on Feb. 01, 2016. Ravinderan drew upon Narayanan a bill of exchange for the same amount payable after 30 days. On the due date Narayanan dishonoured his acceptance. Record the necessary journal entries in the books of Ravinderan and Narayanan in following cases:

- When the bill was retained by Ravinderan with him till the date of its maturity.
- When the bill was discounted by Ravinderan

immediately with his bank @ 6% p.a.

- When the bill was endorsed to his creditor Ganeshan.
- When the bill was sent by Ravinderan to his bank for collection a few days before its maturity.



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10. Ravi sold goods for Rs 40,000 to Sudershan on Feb 13, 2016. He drew four bills of exchange upon Sudershan. The first bill was for Rs 5,000

payable after one month. The second bill was for Rs10,000 payable after 40 days, the third bill was for Rs 12,000 payable after three months and fourth bill was for the balance amount payable after 19 days. Sudershan accepted all the bills and returned the same to Ravi. Ravi discounted the first bill with his bank at 6% p.a. He endorsed the second bill to his creditor Mustaq for the full settlement of a debt of Rs 10,200. The third bill was kept by Ravi with him till the date of maturity. Five days before the maturity of the fourth bill, Ravi sent the bill to his bank for collection. All

the four bills were dishonoured by Sudarshan on maturity. Sudershan settled Ravi's claim in cash three days after the dishonour of each bill along with interest @ 12% p.a. for the terms of the bills. You are requested to record the necessary journal entries in the books to Ravi, Sudershan, Mustaq and bank for the above transaction. Also prepare Sudershan's account and Mustaq's account in the books of Ravi.



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11. On Jan 01, 2016 Neha sold goods for Rs 20,000 to Muskan and drew upon her a bill of exchange payable after two months. One month before the maturity of the bill Muskan approached Neha to accept the payment against the bill at a rebate @ 12% p.a. Neha agreed to the request of Muskan and Muskan retired the bill under the agreed rate of rebate. Journalise the above transaction in the books of Neha and Muskan.



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12. On Jan 15, 2016 Raghu sold goods worth Rs 35,000 to Devendra and drew upto the latter three bills of exchanges. The first bill was for Rs 5,000 payable after one month, the second bill was for Rs 20,000 payable after three months and third bill for balance amount for 4 months. Raghu endorsed the first bill in favour of his creditor Dewan in full settlement of a debt of Rs 5,200. The second bill was discounted by Raghu @ 6 % p.a. and the third bill was retained by Raghu till the date of maturity. Devendra dishonoured the bill on

maturity and the bank paid Rs 30 as noting charges. Four days before the maturity of the third bill Raghu, sent the same for collection to his bank. The third bill was also dishonored by Devendra and the bank paid Rs 200 as noting charges. Five days after the dishonour of the bill Devendra paid the entire amount due to Raghu along with interest Rs 1,000 for this purpose Devendra obtained a short term loan from his bank. You are requested to record the necessary journal entries in the books of Raghu Devendra and Dewan and also

prepare Devendra's account in Raghu's books and Raghu's account in Devendra's account.



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13. Viaml purchased goods Rs 25,000 from Kamal on Jan 15, 2016 and accepted a bill of exchange drawn upon him by Kamal payable after two months. On the date of the maturity the bill was duly presented for payment. Vimal dishonoured the bill. record the necessary journal entries in the books of Kamal and

Vimal when.

- The bill was retained by Kamal till the date of its maturity.
- The bill was immediately discounted by Kamal with his bank @ 6% p.a.
- The bill was endorsed by Kamal in favour of his creditor Sharad.
- Five days before its maturity the bill was sent by Kamal to his bank for collection



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14. Abdulla sold goods to Tahir on Jan 17, 2017 for Rs 18,000. He drew a bill of exchange for the same amount on Tahir for 45 days. On the same date Tahir accepted the bill and returned it to Abdulla. On the due date Abdulla presented the bill to Tahir which was dishonoured. Abdulla paid Rs 40 as noting charges. Five days after the dishonour of his acceptance Tahir settled his debt by making a payment of Rs 18,700 including interest and noting charges. Record the necessary journal entries in the books of Abdulla and Tahir. Also

prepare Tahir's account in the books of Abdulla and Abdulla's account in the books of Tahir.



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15. Asha sold goods worth Rs 19,000 to Nisha on March 02, 2017. Rs 4,000 were paid by Nisha immediately and for the balance she accepted a bill of exchange drawn upon her by Asha payable after three months. Asha discounted the bill immediately with her bank.

On the due date Nisha dishonoured the bill and the bank paid Rs 30 as noting charges. Record the necessary journal entries in the books of Asha and Nisha.



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16. On Feb. 02, 2017, Verma purchased from Sharma goods for Rs 17,500. Verma paid Rs 2,500 immediately and for the balance gave a promissory note to Sharma payable after 60 days. Sharma immediately endorsed the

promissory note in favour of his creditor. Gupta for the full settlement of a debt of Rs 15,400. On the due date of the bill Gupta presented the bill to Verma which the latter dishonoured and Gupta paid Rs 5,000 noting charges. On the same date Gupta informed Sharma about the dishonour of the bill. Sharma settled his debt to Gupta by cheque for Rs 15,500 which includes noting charges and interest. Verma settled Sharma's claim by cheque for the same amount. Record the necessary journal entries in the books of Sharma, Gupta and Verma for the above

transaction and prepare Verma's and Gupta's accounts in the books of Sharma. Sharma's account in the books of Verma. And also Sharma's account in the books of Gupta.



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17. Lilly sold goods to Methew on 1.3.2017 for Rs 12,000 and drew upon Methew a bill of exchange for the same amount payable after two months. Lilly immediately discounted the bill with her bank at 9% p.a. The maturity date

of the bill was a non business day (holiday), therefore, Lilly had to present the bill as per the provisions of the Indian Instruments Act.1881. The bill was dishonoured by Methew and Lilly paid Rs 45 as noting charges. Methew settled the claim of Lilly five days after the disonour of the bill by a cheque, which includes interest @ 12% for the term of the bill. Journalise the above transactions in the books of Lilly and Methew and prepare Mathew's account in the books of Lilly and Lilly's account in the books of Mathew.



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18. Kapil purchased goods for Rs 21,000 from Gaurav on 1.2.2017 and accepted a bill of exchange drawn by Gaurav for the same amount. The bill was payable after one month. On 25.2.2017 Gaurav sent the bill to his bank for collection. The bill was duly presented by the bank. Kapil dishonoured the bill and the bank paid Rs 100 as noting charges. Record the necessary journal entries for the above transactions in the books of Kapil and Gourav.



19. On Feb. 14, 2017 Rashmi sold good Rs 7,500 to Alka. Alka paid Rs 500 in cash and for the bank balance accepted a bill of exchange drawn upon her by Rashmi payable after two months. On Apr.10, 2017 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 prepared Alka's account in the books of Rashmi's and Rashmi's account in the books of Alka's



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20. Nikhil sold goods for Rs 23,000 to Akhil on Dec. 01, 2017. He drew upon Akhil a bill of

exchange for the same amount payable after 2 months. Akhil accepted the bill and sent it back to Nikhil. Nikhil discounted the bill immediately with his bank @12 p.a. On the due date Akhil dishonoured the bill of exchange and the bank paid Rs 100 as noting charges. Akhil requested Nikhil to draw a new bill upon him with interest @10% p.a. which he agreed. The new bill was payable after two months. A week before the maturity of the second bill Akhil requested Nikhil to cancel the second bill. He further requested to accept Rs 10,000 in cash immediately and drew a third bill upon

him including interest of Rs 500. Nikhil agreed to Akhil's request. The third bill was payable after one month. Akhil met the third bill on its maturity. record the necessary journal entries in the books of Nikhil and Akhil and also prepare Akhil's account in the books of Nikhil and Nikhil's account in the books of Akhil.



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21. On Jan 01, 2017 Vibha sold goods worth Rs 18,000 to Sudha and drew upon the latter a

bill of exchange for the same amount payable after two months. Sudha accepted Vibha's draft and returned the same to Vibha after acceptance. Vibha endorsed the bill immediately in favour of her creditor Geeta. Five days before the maturity of the bill Sudha requested Vibha to cancel the bill since she was short of funds. She further requested to draw a new bill upon her including interest of Rs 200. Vibha accepted Sudha's request. Vibha took the bill from Geeta by making the payment to her in cash and cancelled the same. Then she drew a new bill upon Sudha as

agreed. The new bill was payable after one month. The new bill was duly met by Sudha on maturity. Record the necessary journal entries in the books of Vibha.



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22. Following was the position of debtor and creditor of Gautam as on 1.1.2017.

| | Debtors | Creditors |
|-------------|-----------|-----------|
| | <i>Rs</i> | <i>Rs</i> |
| Babu | 5000 | — |
| Chanderkala | 8000 | — |
| Kiran | 135000 | — |
| Anita | 14000 | — |

| | | |
|---------|---|-------|
| Anju | — | 5000 |
| Sheilba | — | 12000 |
| Manju | — | 6000 |

The following transactions took place in the month of Jan 2017: Jan 2

Drew on Babu at two months after date at full settlement for Rs 4,800.

Babu accepted the bill and returned it on 5.1.2017 . Jan. 04

Babu's bill discounted for Rs 4,750. Jan. 08

Chanderkala sent a promissory note for Rs 8,000 payable three months after date. Jan. 10

Promissory note received from Chanderkala discounted for Rs 7,900. Jan. 12

Accepted Sheiba draft for the amount due payable two months after date. Jan. 22 Anita sent his promissory note payable after two months. Jan. 23

Anita's promissory note endorsed in favour of Manju. Jan. 25 Accepted Anju's draft payable after three months. Jan. 29

Kiran sent Rs 2,000 in cash and a promissory note for the balance payable after three months. Record the above transactions in the proper subsidiary books.



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23. On Jan. 01, 2017 Harsh accepted a months bill for Rs 10,000 drawn on him by tanu for latter's benefit. Tanu discounted the bill on same day @ 8% p.a On the due date tanu sent a cheque to Harsh for honour the bill. Harsh duly honoured his acceptance. Record the journal entries in the Books of Tanu and Harsh.



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