

CHAPTER – 8

BILLS OF EXCHANGE

Page No 310:

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

ANSWER:

The two types of commonly used negotiable instruments are:

1. Cheques
2. Bills of exchange

Page No 310:

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

ANSWER:

Basis of Difference	Bills of Exchange	Promissory Note
Drawer	It is drawn by a creditor.	It is drawn by a debtor.
Parties	There are three parties involved, namely drawer, drawee and payee.	There are two parties involved, namely maker and payee.

Page No 310:

Question 3: State any four essential features of bill of exchange.

ANSWER:

The four essential features of bills of exchange are:

1. It must be a written document.
2. It is an unconditional order to pay by the drawer to the drawee.
3. The maker of bill must sign it; without which it will **not** be a legal proof.
4. The amount to be paid along with its expiry date must be specifically mentioned (both in figures and words) in a bill of exchange.

Page No 310:

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

ANSWER:

The following three parties are involved in a bill of exchange.

1. **Drawer** who makes the bill
2. **Drawee** who accepts the bill
3. **Payee** who receives the payment

Page No 310:

Question 5: What is meant by maturity of a bill of exchange?

ANSWER:

Maturity of a bill means a date on which the bill is due for payment. Maturity date of the bill differs on the basis of the terms and conditions of the bill. There are three types of bill, *viz.* after date bill, after sight bill and at sight bill.

- 1. After date bill:** In case of after date bill, the payment of the bill is made on the maturity date of the bill. The maturity date of the bill is ascertained by adding three days of grace period with the specified period of the bill (*which starts from the date of drawing*). For example, if a bill is drawn on 1st March, 2011 and payable after one month; its maturity date is 4th April. If the maturity date happens to be a gazetted holiday, then the bill is due for payment one day before. However, if the maturity date happens to be a casual holiday, then the bill is due for payment after one day.
- 2. After sight bill:** In case of after sight bill, the payment of the bill is made on the maturity date of the bill. The maturity date of the bill is ascertained by adding three days of grace period with the specified period of the bill (*which starts from the date of acceptance by the drawee*). For example, if a one-month bill is drawn on 1st March, 2011 and is accepted by the drawee on 5th March, 2011; its maturity date is 8th April. In this case, the date of the bill starts from 5th March and **not** from 1st March. If the maturity date happens to be a gazetted holiday, then the bill is payable one day before. However, if the maturity date happens to be a casual holiday, then the bill is payable after one day.
- 3. At sight bill:** In case of at sight bill, the due date of the bill is considered as and when the bill is presented for payment by the holder of the bill. In this case, there is **no** grace period. The bill becomes due whenever it is presented for payment.

Page No 310:

Question 6: What is meant by dishonour of a bill of exchange?

ANSWER:

In the books of drawer

(Bill dishonoured)

(Bill dishonoured)

ANSWER:

A bill is drawn in favour of a person from whom the amount is due. In other words, a bill of exchange is drawn by the creditors on his/her debtors to make payment of specific amount, on a mentioned date. Generally, a bill is drawn by a seller to a purchaser. Purchaser accepts the bill for the amount due on account of the credit sales. The bill may be accepted for the amount due other than credit purchases, such as commission payable, salary outstanding, etc. A bill cannot come into existence without the acceptance of a debtor.

Page No 310:

Question 9: What is Noting of a bill of exchange.

ANSWER:

When a bill is presented for payment and acceptor fails to make payment, the bill gets dishonoured. In order to keep a legal proof of dishonour, the bill gets noted by the Notary public (which is approved by the government). In exchange of the Notary service, Notary public charges fees, known as Noting charges. Notary public notes the following facts:

1. Date and amount of the bill
2. Reasons for dishonour
3. Amount of Noting charges

Page No 310:

Question 10: What is meant by renewal of a bill of exchange?

ANSWER:

When an acceptor of a bill does **not** have sufficient fund to meet the obligations of the bill on time, he/she requests the drawer for extension (of time) for payment. If the drawer agrees, then a new bill is drawn which

is known as renewal of bill. Generally, a bill is renewed on the condition that the drawee has to pay interest for the extended period.

Page No 310:

Question 11: Give the performa of a Bills Receivable Book.

ANSWER:

Serial Number of Bill	Date Received	Date of Bill	Received From Whom	Drawer	Acceptor

Where payable	Term	Due date	Ledger Folio	Amount	Cash Book Folio	Remarks

Page No 310:

Question 12: Give the performa of a Bills Payable Book.

ANSWER:

Serial Number of Bill	Date of Bill	Given To Whom	Drawer	Payee	Payable Where

Term of Bill	Due Date	Ledger Folio	Amount Paid	Date	Cash Book Folio	Remarks

Page No 310:

Question 13: What is retirement of a bill of exchange?

ANSWER:

When a holder receives the amount of a bill before the maturity date on the request of the acceptor, then it is called retirement of the bill of exchange. Holder of the bill may give discount for such earlier payment. This discount is termed as 'rebate'.

Entry in the books of the holder of the bill

Cash A/c Dr.

Rebate A/c Dr.

To Bills Receivable A/c

(Bill amount received before maturity and rebate allowed)

Entry in the books of the acceptor (drawee) of the bill

Bills Payable A/c Dr.

To Cash A/c

To Rebate A/c

(Bill paid and received rebate for early payment)

Page No 310:

Question 14: Give the meaning of rebate.

ANSWER:

If the drawee expresses his/her wish to pay the bill before the due date to the holder, and if the holder accepts his/her request, then on account of the early payment, the holder may give some discount. This discount is termed as rebate. In other words, rebate is a discount given by the holder to the drawee (or acceptor) for his/her request of early payment of the bill before the due date. It is an expense for the drawer and hence, is debited to the drawer's books. On the other hand, as it is a gain for the acceptor of bill, so it is credited in the drawee's books.

Entry in the books of drawer of the bill:

Cash A/c	Dr.
----------	-----

Rebate A/c	Dr.
------------	-----

To Bills Receivable A/c

(Bill honoured before maturity)

Entry in the books of drawee of the bill:

Bills Payable A/c	Dr.
-------------------	-----

To Cash A/c

To Rebate A/c

(Bill paid and rebate received)

Page No 310:

Question 15: Give the performa of a Bill of Exchange.

ANSWER:

Performa of a Bill of exchange is given below.

Mr. X (The Drawer)	New Delhi
Rs 25,000	May 01, 2011
Two months after date pay to me or my order, the sum of rupees twenty five thousand only, for value received	
	(Signed)
Accepted	Mr. X
(Signed)	Janak Puri, New Delhi
To	110032
Mr. Z (The Drawee)	
May 01, 2011	
Tilak Nagar,	
New Delhi 110018	

Page No 310:

Question 1: A bill of exchange must contain an unconditional promise to pay. Do you agree with a statement?

ANSWER:

According to Negotiable Instrument Act, 1981, “*A bill of exchange is defined as 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.*”

An unconditional order to pay: It is one of the important characteristic of a negotiable instrument. Unconditional order implies **no** condition should be attached by the acceptor regarding the payment. The conditions like, payment of bill (only in case of profit on sales), payment of bill (only if the prices of goods increase), etc. should **not** be attached with the bill. Moreover, the language of the bill should **not** be ambiguous.

Question 2: Briefly explain the effects of dishonour and noting of a bill of exchange.

When a bill is presented for payment and the acceptor fails to make the payment, the bill gets dishonoured. In this situation, liability of the acceptor is restored.

Drawee Dr.

(Bill dishonoured)

Bills Payable A/c Dr.

(Bill dishonoured)

Noting charges are charged by the notary public for keeping a proof that the bill is dishonoured. The noting charges are paid by the holder of the bill but actually due on the drawee or the acceptor of the bill.

Notary public notes the below given facts.

1. Date and amount of bill
2. Reasons for dishonour
3. Amount of noting charges

Effect of Noting charges in the books of holder of bill (*if Noting charges are paid*):

Drawee	Dr.
--------	-----

To Bills Receivable A/c	
-------------------------	--

To Cash A/c (Noting charges)	
------------------------------	--

(Bill dishonoured and Noting charges paid)

In the books of drawee:

Bills Payable A/c	Dr.
-------------------	-----

Noting charges A/c	Dr.
--------------------	-----

To Drawer	
-----------	--

(Bill dishonoured and Noting charges due)

Page No 310:

Question 3: Explain briefly the procedure of calculating the date of maturity of a bill of exchange? Give example.

ANSWER:

The procedure to calculate the date of maturity of a bill of exchange is given below.

1. Ascertain the date on which the bill will be honoured.
2. Add three days of grace to the above date.

For example, a bill with maturity period of one month is drawn on 1st July and due date is 1st September. Then add 3 days of grace and payment will be made on 4th September.

Days of grace depend on the following situations:

1. Declared holidays: If the payment day happens to be a national holiday or Sunday, then the preceding day becomes the payment day.

For example,

1. If a bill is drawn on 12th July and its due date is 12th August, then after adding 3 days of grace the maturity day is 15th August. However, as 15th August is a national holiday; so, 14th August becomes the payment day.
2. If a bill is drawn on 1st May and the maturity period is of one month, then the due date is 1st June. After adding 3 days of grace, the payment date becomes 4th June. However, if 4th June happens to be a Sunday, then the payment will be made on 3rd June.

2. Undeclared holidays: If the payment day happens to be an emergency holiday, then the succeeding day becomes the payment day. For example, if a bill is drawn on 1st May and is payable after 15 days, then, after adding 3 days of grace period, the due date becomes 18th May. However, if a national strike is declared on 18th May, then 19th May becomes the due date of the bill.

Page No 310:

Question 4: Distinguish between bill of exchange and promissory note.

ANSWER:

Basis of Difference	Bills of Exchange	Promissory Note
Order or promise	It is an order to pay.	It is a promise to pay.
Parties	There are three parties involved, drawer, acceptor and payee.	There are two parties involved, maker and payee.
Drawer	It is drawn by the creditor.	It is drawn by the debtors.
Acceptance	It needs acceptance by the drawee.	As it is prepared by promissor, so no acceptance is required.
Payee	Drawer and payee may be the same.	Promissor cannot be the payee.
Noting	In case of dishonour of the bill, the bill may get noted.	Noting is not necessary.
Liability	Drawer is not primarily liable.	Promissor is the primarily liable.

Page No 310:

Question 5: Briefly explain the purpose and benefits of retiring a bill of exchange to the debtor and the creditor.

ANSWER:

When a holder receives the amount of a bill before the maturity date on request of the acceptor, it is called retirement of the bill of exchange. Holder of the bill may give discount for such earlier payment. This discount is termed as 'rebate'.

Rebate is given by the holder to the acceptor of the bill on account of payment before the due date. Rebate is a loss for the holder of the bill; so, it is debited in the books of the holder when payment is received.

Cash A/c

Dr.

Rebate A/c

Dr.

To Bills Receivable A/c

(Payment received and rebate allowed for early payment)

Acceptor of the bill gets rebate for the payment made before the due date. The rebate is a gain for the drawee; so, it is credited in the books of the drawee.

Bills Payable A/c

Dr.

To Cash A/c

To Rebate A/c

(Bill paid before the due date and rebate received for early payment)

Page No 310:

Question 6: Explain briefly the purpose and advantages of maintaining of a Bills Receivable Book.

ANSWER:

Bills Receivable Book is a special purpose book that is maintained to keep records of bills received from the debtors. It contains details such as acceptor's name, date of bill, due date, amount, etc. for future references. It is totalled periodically and its balance is transferred to the debit side of the bills receivable account.

Benefits of Maintaining the Bill Receivable Book

- 1. Availability of information:** All the information related to the bills receivable, such as amount, due date, etc., are recorded at one place and hence are easily accessible.

- 2. Possibility of fraud:** Since all the bills are recorded at one place, possibility of fraud is minimised.
- 3. Responsibility:** The person who maintains the bills receivable book will also be responsible for any errors or omissions. Therefore, higher degree of accountability and responsibility exists. Also, if any error is detected, then it can be fixed quickly.
- 4. Time efficient:** Recording of bills receivable through the bills receivable book takes lesser time than that of journal entry. Therefore, it saves time of the accountant in recording numerous transactions of repetitive and routine nature.

Page No 310:

Question 7: Briefly explain the benefits of maintaining a Bills Payable Book and state how its posting is done in the ledger?

ANSWER:

A Bills Payable Book is a special purpose book, maintained to keep records of acceptance of bills, given to the creditors. It contains details of the amount, date of bill, due date, to whom acceptance is given, etc., for future references. It is totalled periodically and its balance is transferred to the credit side of the bills payable account.

Benefits of Maintaining Bills Payable Book

- 1. Availability of information:** All the information related to the bills payable are recorded at one place, such as the amount, due date, etc.
- 2. Possibility of fraud:** Since all the bills are recorded at one place, possibility of fraud is minimised.
- 3. Responsibility:** All the transactions are recorded by the same person. Therefore, errors can be easily detected and rectified. This leads to a higher degree of responsibility and accountability of the accountant.

Page No 310:

Question 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.

ANSWER:

Books of Rao

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.01	Reddy To Sales A/c (Goods sold to Reddy)	Dr.	10,000	10,000
Jan.01	Cash A/c To Reddy (Cash received from Reddy)	Dr.	5,000	5,000
Jan.01	Bills Receivable A/c To Reddy (Bill received for 30 days accepted by Reddy)	Dr.	5,000	5,000
Feb.03	Cash A/c To Bills Receivable A/c (Reddy's acceptance met on due date)	Dr.	5,000	5,000

Books of Reddy
Rao's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
Jan.01	Cash		5,000	2011			
Jan.01	Bills Receivable		5,000	Jan.01	Purchases		10,000
			10,000				10,000

Page No 311:

Question 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. Record the necessary Journal entries in the books of Parvati and Shankar.

ANSWER:

Books of Parvati
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016 Jan.01	Shankar To Sales A/c (Goods sold to Shankar)	Dr.	8,000	8,000
Jan.01	Bills Receivable A/c To Shankar (Promissory Note received from Shankar for three months)	Dr.	8,000	8,000
Apr.05	Cash A/c To Bills Receivable A/c (Cash received for Promissory Note one day after the maturity date on account of holiday declared by Govt.)	Dr.	8,000	8,000

Books of Shankar
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.01	Purchases A/c To Parvati (Goods purchased from Parvati)	Dr.	8,000	8,000
Jan.01	Parvati To Bills Payable A/c (Promissory note for three months sent to Parvati)	Dr.	8,000	8,000
Apr.5	Bills Payable A/c To Cash A/c (Cash paid on maturity of promissory note)	Dr.	8,000	8,000

Note: Here, it has been assumed holiday on Apr.04, 2016 is emergency holiday if it had gazetted holiday, the Promissory Note should have been discharged on Apr.05, 2011.

Page No 311:

Question 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.

ANSWER:

Books of Vishal

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.05	Manju Dr. To Sales A/c (Goods sold to Manju)		7,000	7,000
Jan.05	Bills Receivable A/c Dr. To Manju (Manju's acceptance received for two months)		7,000	7,000
Jan.05	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Bill Receivable discounted with the bank @ 12 % p.a. for two months)		6,860 140	7,000

Books of Manju
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.05	Purchases A/c Dr. To Vishal (Goods purchased from Vishal)		7,000	7,000
Jan.05	Vishal Dr. To Bills Payable A/c (Bill drawn by Vishal accepted)		7,000	7,000
Mar.08	Bills Payable A/c Dr. To Bank A/c (Amount of Bill Payable paid to bank on maturity)		7,000	7,000

Page No 311:

Question 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.

ANSWER:

Books of Jimmi
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Feb.01	John Dr. To Sales A/c (Goods sold to John)		15,000	15,000
Feb.01	Bank A/c Dr. To John (Cheque received for Rs 5,000 from John)		5,000	5,000
Feb.01	Bills Receivable A/c Dr. To John (Bill received from John for 40 days)		10,000	10,000
Mar.10	Bill Sent for Collection A/c Dr. To Bills Receivable A/c (John's acceptance sent to bank for collection)		10,000	10,000
Mar.15	Bank A/c Dr. To Bill Sent for Collection A/c (John's acceptance met on due date and bank received the payment)		10,000	10,000

Ledger
John's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016 Feb.01	Sales		15,000	2016 Feb.01	Bank		5,000
				Feb.01	Bills Receivable		10,000
			15,000				15,000

Books of John
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Feb.01	Purchases A/c Dr. To Jimmi (Goods purchased from Jimmi)		15,000	15,000
Feb.01	Jimmi Dr. To Bank A/c (Cheque paid to Jimmi)		5,000	5,000
Feb.01	Jimmi Dr. To Bills Payable A/c (Bill drawn by Jimmi accepted for 40 days)		10,000	10,000
Mar.15	Bills Payable A/c Dr. To Bank A/c (Payment of bill made on maturity to bank)		10,000	10,000

Ledger
Jimmi's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016				2016			
Feb.01	Bank		5,000	Feb.01	Purchases		15,000
Feb.01	Bills Payable		10,000				
			15,000				15,000

Page No 311:

Question 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 months, 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.

ANSWER:

Journal Entries in the Books of Kartar

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2015				
Jan.15	Bhagwan To Sales A/c (Goods sold to Bhagwan)	Dr.	30,000	30,000
Jan.15	Bills Receivable A/c To Bhagwan (Three bills of Rs 10,000 each, received from Bhagwan—first bill for one month, second bill for two months and third bill for three months)	Dr.	10,000	10,000
Jan.15	Ratna To Bills Receivable A/c (Second bill endorsed to Ratna)	Dr.	10,000	10,000
Jan.15	Bank A/c Discount A/c To Bills Receivable A/c (B/R discounted)	Dr. Dr.	9,850 150	10,000
Feb.19	Cash A/c To Bills Receivable A/c (First bill for one month met by Bhagwan, on due date)	Dr.	10,000	10,000

Bhagwan's Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2015 Jan. 15	Sales A/c		30,000	2015 Jan. 15	Bills Receivable A/c		30,000
			30,000				30,000

Ratna's Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2015 Jan. 15	Bills Receivable A/c		10,000	2015 Jan. 15	Balance b/d		10,000
			10,000				10,000

Bills Receivable Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2015 Jan. 15	Bhagwan		30,000	2015 Jan. 15	Ratna		10,000
				Jan. 15	Bank A/c		9,850
				Jan. 15	Discount A/c		150
				Feb. 19	Cash		10,000
			30,000				30,000

Cash Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2015 Feb. 19	Bills Receivable		10,000	2015 Feb. 19	Balance c/d		10,000
			10,000				10,000

Bank's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2015 Jan. 15	Bills Receivable		9,850	2015 Jan. 15	Balance c/d		9,850
			9,850				9,850

Journal Entries in the Books of Bhagwan

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2015				
Jan.15	Purchases A/c Dr. To Kartar (Good purchased from Kartar on credit)		30,000	30,000
Jan.15	Kartar Dr. To Bills Payable A/c (Three bill Rs 10,000 each drawn by Kartar– The first bill for one month, the second bill for two months and the third bill for three months, accepted and returned them to Kartar)		30,000	30,000
Feb.19	Bills Payable A/c Dr. To Cash A/c (First bill was paid on due date)		10,000	10,000
Mar.19	Bills Payable A/c Dr. To Bank A/c (Second bill was paid on due date to Ratna)		10,000	10,000
Apr.19	Bills Payable A/c Dr. To Bank A/c (Third bill was paid on due date to bank)		10,000	10,000

Kartar's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2015 Jan. 15	Bills Payable A/c		30,000	2015 Jan. 15	Purchases		30,000
			30,000				30,000

Bills Payable Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2015 Feb. 19	Cash A/c		10,000	2015 Jan. 15	Kartar		30,000
Mar. 19	Bank A/c		10,000				
Apr. 19	Bank A/c		10,000				
			30,000				30,000

Cash Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2015 Feb. 19	Balance b/d		10,000	2015 Feb. 19	Bills Payable A/c		10,000
			10,000				10,000

Bank's Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2015 Mar. 15	Balance b/d		20,000	2015 Mar. 19	Bills Payable A/c		10,000
				Apr. 19	Bills Payable A/c		10,000
			20,000				20,000

Page No 311:

Question 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.

ANSWER:

Journal Entries in the Books of Arun

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.01	Sunil To Sales A/c (Goods sold to Sunil)	Dr.	30,000	30,000
Jan.01	Cash A/c Discount Allowed A/c To Sunil (Half of the amount due from Sunil was received and allowed him 2% Cash Discount)	Dr. Dr.	14,700 300	15,000
Jan.01	Bills Receivable A/c To Sunil (Promissory note received for 20 days from Sunil for balance amount due from Sunil)	Dr.	15,000	15,000
Jan.23	Cash A/c To Bills Receivable A/c (Cash received from Sunil for B/R one day before maturity, as per negotiable instrument act, if the date of maturity is holiday, negotiable instrument will be met one day before maturity)	Dr.	15,000	15,000

Note: Date of maturity of the promissory note is Jan. 24, 2016, on account of holiday, it will be presented one day earlier that is on Jan. 23, 2016.

Journal Entries in the Book of Sunil

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.01	Purchases A/c Dr. To Arun (Goods purchased from Arun)		30,000	30,000
Jan.01	Arun Dr. To Cash A/c To Discount Received A/c (Half amount due to Arun paid by cheque and 2% discount allowed by him)		15,000	14,700 300
Jan.01	Arun Dr. To Bills Payable A/c (Promissory note issued in favour of Arun for twenty days)		15,000	15,000
Jan.23	Bills Payable A/c Dr. To Cash A/c (Promissory note met one day before the maturity day)		15,000	15,000

Page No 311:

Question 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.

ANSWER:

Case (i): When the bill was retained by Darshan till the date of its maturity

Journal Entries in the Books of Darshan

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.08	Varun To Sales A/c (Goods sold to Varun)	Dr.	40,000	40,000
Jan.08	Bills Receivable A/c To Varun (Varun's acceptance received for two months)	Dr.	40,000	40,000
Mar.11	Cash A/c To Bills Receivable A/c (Payment for B/R received for B/R)	Dr.	40,000	40,000

Journal Entries in the Books of Varun

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
2016				
Jan.08	Purchases A/c To Darshan (Goods bought from Darshan)	Dr.	40,000	40,000
Jan.08	Darshan To Bills Payable A/c (Bill of two months accepted for Darshan)	Dr.	40,000	40,000
Mar.11	Bills Payable A/c To Cash A/c (Varun cleared his acceptance on the due date)	Dr.	40,000	40,000

Case (ii): When Darshan immediately discounted the bill @ 6% p.a. with the bank.

Journal Entries in the Books of Darshan

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.08	Varun To Sales A/c (Goods sold to Varun)	Dr.	40,000	40,000
Jan.08	Bills Receivable A/c To Varun (B/R received from Varun for two months)	Dr.	40,000	40,000
Jan.08	Bank A/c Discount A/c To Bills Receivable A/c (B/R discounted from bank @ 6 p.a.)	Dr. Dr.	39,600 400	40,000

Journal Entries in the Books of Varun

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.08	Purchases A/c Dr. To Darshan (Goods bought from Darshan)		40,000	40,000
Jan.08	Darshan Dr. To Bills Payable A/c (Bill of two months accepted for Darshan)		40,000	40,000
Mar.11	Bills Payable A/c Dr. To Bank A/c (Varun cleared his acceptance on the due date)		40,000	40,000

Case (iii): When the bill was endorsed immediately by Darshan in favour of his creditor Suresh.

Journal Entries in the Books of Darshan

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.08	Varun To Sales A/c (Goods sold to Varun)	Dr.	40,000	40,000
Jan.08	Bills Receivable A/c To Varun A/c (Varun's acceptance received for two months)	Dr.	40,000	40,000
Jan.08	Suresh A/c To Bills Receivable A/c (Varun's acceptance endorsed in favour of Suresh)	Dr.	40,000	40,000

Journal Entries in the Books of Varun

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
2016				
Jan.08	Purchases A/c Dr. To Darshan (Goods bought from Darshan)		40,000	40,000
Jan.08	Darshan Dr. To Bills Payable A/c (Bill drawn by Darshan accepted for two months)		40,000	40,000
Mar.11	Bills Payable A/c Dr. To Cash A/c (Bill paid to the holder of bill)		40,000	40,000

Case (iv): When three days before its maturity, the bill, as sent by Darshan to his bank for Collection.

Journal Entries in the Books of Darshan

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.08	Varun A/c To Sales A/c (Goods sold to Varun)	Dr.	40,000	40,000
Jan.08	Bills Receivable A/c To Varun A/c (Varun's acceptance received for two months)	Dr.	40,000	40,000
Mar.08	Bill Sent for Collection A/c To Bills Receivable A/c (Bill sent for collection sent to the bank)	Dr.	40,000	40,000
Mar.11	Bank A/c To Bill Sent for Collection (Bill amount was met)	Dr.	40,000	40,000

Journal Entries in the Books of Varun

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.08	Purchases A/c To Darshan (Goods bought from Darshan)	Dr.	40,000	40,000
Jan.08	Darshan To Bills Payable A/c (Bill drawn by Darshan accepted for two months)	Dr.	40,000	40,000
Mar.11	Bills Payable A/c To Bank A/c (Bill paid to the bank)	Dr.	40,000	40,000

Page No 312:

Question 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.

Date	Amount
	Rs
Dec.21, 2016	1,000
Dec.26, 2016	1,200
Dec.18, 2016	2,000
Dec.31, 2016	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.

ANSWER:

Journal Entries in the Books of Bansal Traders

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016 Dec.21	Mohan Traders Dr. To Sales A/c (Goods sold to Mohan Traders list price Rs 1,000 at 10% trade discount)		900	900
2016 Dec.21	Bills Receivable A/c Dr. To Mohan Traders (Promissory note received from Mohan Traders payable after 30 days)		900	900
2016 Dec.26	Mohan Traders Dr. To Sales A/c (Goods sold to Mohan Traders list price Rs 1,200 at 10% trade discount)		1,080	1,080
2016 Dec.26	Bills Receivable A/c Dr. To Mohan Traders (Promissory note received from Mohan Traders)		1,080	1,080
2016 Dec.26	Bank A/c Dr. Discount A/c Dr.		1,071 9	

2016	To Bills Receivable A/c (Promissory note discounted from the Bank)			1,080
Dec.28	Mohan Traders A/c	Dr.	1,800	
2016	To Sales A/c (Goods sold to Mohan Traders list price Rs 2,000 at 10% trade discount)			1,800
Dec.28	Bills Receivable A/c	Dr.	1,800	
2016	To Mohan Traders A/c (Promissory note received from Mohan Traders)			1,800
Dec.28	Dream Soaps A/c	Dr.	1,900	
2016	To Bills Receivable A/c			1,800
	To Discount Received A/c (Promissory note of Rs 1,800 sent to Dream Soap in full settlement of amount due to him)			100
Dec.31	Mohan Traders	Dr.	4,500	
2016	To Sales A/c (Goods sold to Mohan trades list price Rs 5,000 at 10% trade discount)			4,500
Dec.31	Bills Receivable A/c	Dr.	4,500	
	To Mohan Traders			4,500

2017	(Promissory note received from Mohan Traders for 30 days)			
Jan.23	Cash A/c	Dr.	900	
	To Bills Receivable A/c			900
2017	(Promissory note issued on Dec. 21, 2005 was met on maturity)			
Jan.25	Bill Sent for collection A/c	Dr.	4,500	
	To Bills Receivable A/c			4,500
2017	(Promissory note issued on Dec. 31, 2005 sent for collection to bank)			
Feb.02	Bank A/c	Dr.	4,500	
	To Bill Sent for Collection A/c			4,500
	(Bank got payment of bill sent for collection on due date)			

In the books of Bansal Traders
Mohan Trader's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016				2016			
Dec.21	Sales		900	Dec.21	Bills Receivable		900
Dec.26	Sales		1,080	Dec.26	Bills Receivable		1,080
Dec.28	Sales		1,800	Dec.28	Bills Receivable		1,800
Dec.31	Sales		4,500	Dec.31	Bills Receivable		4,500
			8,280				8,280

Journal Entries in the Books of Mohan Trader's

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Dec.21	Purchases A/c Dr. To Bansal Traders (Goods bought from Bansal Trader's list price Rs 1,000 at 10% trade discount)		900	900
2016				
Dec.21	Bansal Trader Dr. To Bills Payable A/c (Promissory note issued Bansal Traders for Rs 900)		900	900

2016					
Dec.26	Purchases A/c	Dr.	1,080		
	To Bansal Traders				1,080
	(Goods bought from Bansal Traders list price Rs 1,200 at 10% Trade discount)				
2016					
Dec.26	Bansal Traders	Dr.	1,080		
	To Bills Payable A/c				1,080
	(Promissory note received from Bansal Traders)				
2016					
Dec.28	Purchases A/c	Dr.	1,800		
	To Bansal Traders				1,800
	(Goods bought from Bansal Traders list price Rs 2,000 at 10% trade discount)				
2016					
Dec.28	Bansal Traders	Dr.	1,800		
	To Bills Payable A/c				1,800
	(Promissory note issued to Bansal Traders)				
2016					
Dec.31	Purchases A/c	Dr.	4,500		
	To Bansal Traders				4,500
	(Goods bought from Bansal Traders of list price Rs 5,000 at 10% trade discount)				
2016					
Dec.31	Bansal Traders	Dr.	4,500		
	To Bills Payable A/c				4,500

2017	(Promissory note issued to Bansal Traders)			
Jan.23	Bills Payable A/c	Dr.	900	
	To Cash A/c			900
	(The first promissory note discharged on its due date)			
2017				
Jan.28	Bills Payable A/c	Dr.	1,080	
	To Bank A/c			1,080
	(The second promissory note discharged on its due date)			
2017				
Jan.30	Bills Payable A/c	Dr.	1,800	
	To Cash A/c			1,800
	(The third promissory discharged by paying Rs 1,800 to Dream Soaps)			
2017				
Feb.02	Bills Payable A/c	Dr.	4,500	
	To Bank A/c			4,500
	(The fourth promissory note discharged by paid Rs 4,500 to Bank)			

In the books of Mohan Traders
Bansal Trader's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016				2016			
Dec.21	Bills Payable		900	Dec.21	Purchases		900
Dec.26	Bills Payable		1,080	Dec.26	Purchases		1,080
Dec.28	Bills Payable		1,800	Dec.28	Purchases		1,800
Dec.31	Bills Payable		4,500	Dec.31	Purchases		4,500
			8,280				8,280

Page No 312:

Question 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. Pass 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 it maturity.

ANSWER:

Case (i): When the bill was retained by Ravinderan with him till the date of its maturity

Books of Ravinderan

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Feb.01	Narayanan To Sales A/c (Goods sold to Narayanan)	Dr.	25,000	25,000
Feb.01	Bills Receivable A/c To Narayanan (Narayanan's acceptance received for 30 days)	Dr.	25,000	25,000
Mar.05	Narayanan To Bills Receivable A/c (Narayanan failed to meet his acceptance and bill dishonoured)	Dr.	25,000	25,000

Books of Narayanan
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Feb.01	Purchases A/c To Ravinderan (Goods bought from Ravinderan)	Dr.	25,000	25,000
Feb.01	Ravinderan To Bills Payable A/c (Ravinderan's bill accepted)	Dr.	25,000	25,000
Mar.05	Bills Payable A/c To Ravinderan A/c (Bill dishonoured on maturity)	Dr.	25,000	25,000

Case (ii): When the bill was discounted by Ravinderan immediately with his bank @ 6% p.a.

Books of Ravinderan
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016 Feb.01	Narayanan To Sales A/c (Goods sold to Narayanan)	Dr.	25,000	25,000
Feb.01	Bills Receivable A/c To Narayanan (Narayanan's acceptance received)	Dr.	25,000	25,000
Feb.01	Bank A/c Discount A/c To Bills Receivable A/c (Narayanan's acceptance got discounted with bank @ 6% p.a.)	Dr. Dr.	24,875 125	25,000
Mar.05	Narayanan To Bank A/c (Narayanan's acceptance dishonoured)		25,000	25,000

Books of Narayanan
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Feb.01	Purchases A/c Dr. To Ravinderan (Goods bought from Ravinderan)		25,000	25,000
Feb.01	Ravinderan Dr. To Bills Payable A/c (Ravinderan's bill accepted)		25,000	25,000
Mar.05	Bills Payable A/c Dr. To Ravinderan (Bill dishonoured on maturity)		25,000	25,000

Case (iii): When the bill was endorsed to his creditor Ganeshan

Books of Ravinderan
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Feb.01	Narayanan To Sales A/c (Goods sold to Narayanan)	Dr.	25,000	25,000
Feb.01	Bills Receivable A/c To Narayanan (Narayanan's acceptance received)	Dr.	25,000	25,000
Feb.01	Ganeshan To Bills Receivable A/c (Narayanan's acceptance endorsed in favour of Ganeshan)	Dr.	25,000	25,000
Mar.05	Narayanan To Ganeshan A/c (Narayanan's acceptance dishonoured)	Dr.		25,000

Books of Narayanan
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Feb.01	Purchases A/c To Ravinderan (Goods bought from Ravinderan)	Dr.	25,000	25,000
Feb.01	Ravinderan To Bills Payable A/c (Ravinderan's bill accepted)	Dr.	25,000	25,000
Mar.05	Bills Payable A/c To Ravinderan (Ravinderan's bill dishonoured on due date)	Dr.	25,000	25,000

Case (iv): When the bill was sent by Ravinderan to his bank for collection a few days before it maturity

Books of Ravinderan
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Feb.01	Narayanan To Sales A/c (Goods sold to Narayanan)	Dr.	25,000	25,000
Feb.01	Bills Receivable A/c To Narayanan (Narayanan's acceptance received)	Dr.	25,000	25,000
Feb.01	Bill Sent for Collection A/c To Bills Receivable A/c (Bill sent to bank for collection)	Dr.	25,000	25,000
Mar.05	Narayanan To Bill Sent for Collection A/c (Bill got dishonoured)	Dr.	25,000	25,000

Books of Narayanan
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Feb.01	Purchases A/c Dr. To Ravinderan (Bought goods from Ravinderan)		25,000	25,000
Feb.01	Ravinderan Dr. To Bills Payable A/c (Ravinderan's bill accepted)		25,000	25,000
Mar.05	Bills Payable A/c Dr. To Ravinderan (Ravinderan's bill dishonoured)		25,000	25,000

Page No 312:

Question 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 Rs 10,000 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 Sudershan 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.

ANSWER:

Books of Ravi
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016 Feb.13	Sudershan To Sales A/c (Goods sold to Sudershan)	Dr.	40,000	40,000
Feb.13	Bills Receivable A/c To Sudershan (Four bills from Sudershan received: the first for Rs 5,000, the second bill for Rs 10,000, the third bill for Rs 12,000 and the fourth bill for Rs 13)	Dr.	40,000	40,000

Feb.13	Bank A/c	Dr.	4,975	
	Discount A/c	Dr.	25	
	To Bills Receivable A/c			5,000
	(The first bill discounted with bank at 6% p.a.)			
Feb.13	Mustaq	Dr.	10,200	
	To Bills Receivable A/c			10,000
	To Discount Received A/c			200
	(The second bill endorsed to Mustaq in full settlement of amount due to him)			
Mar.03	Bill Sent for Collection A/c	Dr.	13,000	
	To Bills Receivable A/c			13,000
	(The fourth bill sent to bank for collection)			
Mar.07	Sudershan	Dr.	13,000	
	To Bill Sent for Collection A/c			13,000
	(The fourth bill dishonoured on due date)			
Mar.07	Sudershan	Dr.	81	
	To Interest A/c			81
	(Interest due on the fourth bill Rs 13,000 for 19 days at 12% p.a.)			

Mar.10	Cash A/c To Sudershan (Cash received from Sudershan)	Dr.	13,081	13,081
Mar.16	Sudershan To Bank A/c (The first bill dishonoured)	Dr.	5,000	5,000
Mar.16	Sudershan To Interest A/c (Interest due on amount Rs 5,000 at 12% for one month)	Dr.	50	50
Mar.19	Cash A/c To Sudershan A/c (Sudershan paid the amount due on account dishonoured of the first bill plus interest)	Dr.	5,050	5,050
Mar.28	Sudershan Discount Received A/c To Mustaq (The second bill dishonoured, which had endorsed in favour of Mustaq)	Dr. Dr.	10,000 200	10,200
Mar.28	Sudershan	Dr.	132	

	To Interest A/c (Interest charged at 12% on the amount due on account of dishonour of the second bill Rs 10,000)			132
Apr.01	Cash A/c To Sudershan A/c (Received cash from Sudershan for the second bill along with interest)	Dr.	10,132	10,132
May16	Sudershan To Bills Receivable A/c (The third bill dishonoured on due date)	Dr.	12,000	12,000
May16	Sudershan To Interest A/c (Interest at 12% for 3 months charged on the amount due on account of dishonour the third bill Rs 12,000)	Dr.	360	360
May19	Cash A/c To Sudershan (Cash received from Sudershan for the third bill along with interest 12% p.a.)	Dr.	12,360	12,360

Ledger
Sudershan's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016				2016			
Feb.13	Sales		40,000	Feb.13	Bills Receivable		40,000
Mar.07	Bill sent for Collection		13,000	Mar.10	Cash		13,081
Mar.07	Interest		81	Mar.19	Cash		5,050
Mar.16	Bank		5,000	Apr.01	Cash		10,132
Mar.16	Interest		50	May19	Cash		12,360
Mar.28	Mustaq		10,000				
Mar.28	Interest		132				
May 16	Bills Receivable		12,000				
May 16	Interest		360				
			80,623				80,623

Mustaq's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016				2016			
Feb.13	B/R		10,000	Mar.28	Sudershan		10,000
Feb.13	Discount Received		200	Mar.28	Discount Received		200
			10,200				10,200

Books of Sudershan

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Feb.13	Purchases A/c Dr. To Ravi (Goods bought from Ravi)		40,000	40,000
Feb.13	Ravi Dr. To Bills Payable A/c (Four bills drawn by Ravi accepted: the first bill for Rs 5,000 payable after one month, the second for Rs 10,000 payable after 40 days, the third for Rs 12,000 payable after 3 months and the fourth for Rs 13,000 payable after 19 days)		40,000	40,000

Mar.07	Bills Payable A/c To Ravi (The fourth bill dishonoured)	Dr.	13,000	13,000
Mar.07	Interest A/c To Ravi (Interest charged for the amount of fourth bill at 12% p.a.)	Dr.	81	81
Mar.10	Ravi To Cash A/c (Cash paid to Ravi for amount due on account of dishonor of the fourth bill along with interest at 12% p.a. for 19 days)	Dr.	13,081	13,081
Mar.16	Bills Payable A/c To Ravi (The first bill dishonoured)	Dr.	5,000	5,000
Mar.16	Interest A/c To Ravi (Interest charged at 12% p.a. on the first bill for one month)	Dr.	50	50

Mar.19	Ravi	Dr.	5,050	
	To Cash A/c			5,050
	(Cash paid to Ravi for amount due on account of dishonor of the first bill along with interest at 12% p.a. for one month)			
Mar.28	Bills Payable A/c	Dr.	10,000	
	To Ravi			10,000
	(The second bill dishonoured)			
Mar.28	Interest A/c	Dr.	132	
	To Ravi			132
	(Interest charged at 12% p.a. for 40 days on the second bill)			
Apr.01	Ravi	Dr.	10,132	
	To Cash A/c			10,132
	(Cash paid to Ravi for amount due on account of dishonor of the second bill along with interest at 12% p.a. for 40 days)			
May 16	Bills Payable A/c	Dr.	12,000	
	To Ravi			12,000
	(The third bill dishonoured)			
Mar.16	Interest A/c	Dr.	360	
	To Ravi			360
	(Interest charged at 12% p.a. for 3 months on third bill)			
May 19	Ravi	Dr.	12,360	
	To Cash A/c			12,360
	(Cash paid to Ravi for amount due on account of dishonor of the third bill along with interest at 12% p.a. for 3 months)			

Books of Mustaq
Journal

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
2016				
Feb.13	Bills Receivable A/c Dr.		10,000	
	Discount Allowed A/c Dr.		200	
	To Ravi			10,200
	(Bills Receivable received from Ravi and allowed discount)			
Mar.28	Ravi Dr.		10,200	
	To Bills Receivable A/c			10,000
	To Discount Received			200
	(Bill dishonoured)			

Page No 313:

Question 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.

ANSWER:

Books of Neha
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.01	Muskan Dr. To Sales A/c (Goods sold to Muskan)		20,000	20,000
Jan.01	Bills Receivable A/c Dr. To Muskan (Muskan's acceptance received)		20,000	20,000
Feb.04	Cash A/c Dr. Rebate on bill A/c Dr. To Bills Receivable A/c (Muskan's acceptance retired one month before maturity and allowed rebate at 12% p.a.)		19,800 200	20,000

Books of Muskan
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.01	Purchases A/c Dr. To Neha (Goods bought from Neha)		20,000	20,000
Jan.01	Neha Dr. To Bills Payable A/c (Bill drawn by Neha payable after 2 months accepted)		20,000	20,000
Feb.04	Bills Payable A/c Dr. To Cash A/c To Rebate on Bills A/c (Bill paid one month before maturity and received rebate at 12% p.a.)		20,000	19,800 200

**Books of Bank
Journal**

Date	Particulars	L.F	Debit Amount Rs	Credit Amount Rs
2016				
Mar.03	Bills Receivable A/c Dr. To Bills for Collection A/c (Bill received from Ravi for collection)		13,000	13,000
Mar.07	Bills for Collection A/c Dr. To Bills Receivable A/c (Bill dishonoured)		13,000	13,000

Page No 313:

Question 12: On Jan 15, 2016 Raghu sold goods worth Rs 35,000 to Devendra and drew up to 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 dishonoured 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.

ANSWER:

Books of Raghu
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.15	Devendra Dr. To Sales A/c (Goods sold to Devendra)		35,000	35,000
Jan.15	Bills Receivable A/c Dr. To Devendra (Three bills received from Devendra—the first bill Rs 5,000, the second bill Rs 20,000, the third bill Rs 10,000)		35,000	35,000
Jan.15	Dewan Dr. To Bills Receivable A/c To Discount Received A/c (The first bill endorsed to Dewan in full settlement of amount due to him)		5,200	5,000 200

Jan.15	Bank A/c	Dr.	19,700	
	Discount A/c	Dr.	300	
	To Bills Receivable A/c			20,000
	(The second bill discounted with bank at 6% p.a.)			
Apr.18	Devendra	Dr.	20,030	
	To Bank A/c			20,030
	(The second bill dishonoured and bank paid Rs 30 for noting charges)			
May14	Bill Sent for Collection A/c	Dr.	10,000	
	To Bills Receivable A/c			10,000
	(The third bill sent to bank for collection)			
May18	Davendra	Dr.	10,200	
	To Bill sent for collection A/c			10,000
	To Bank A/c			200
	(The third bill dishonoured and bank paid Rs 200 as noting charges)			
May23	Davendra	Dr.	1,000	
	To Interest A/c			1,000
	(Interest due to Devendra on account of bills dishonoured)			
May23	Cash A/c	Dr.	31,230	
	To Davendra			31,230
	(Cash received from Davendra)			

Ledger
Devendra's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016				2016			
Jan.15	Sales		35,000	Jan.15	Bills Receivable		35,000
Apr.18	Bank		20,030	May23	Cash		31,230
May18	Bills Sent for Collection		10,000				
May18	Bank		200				
May23	Interest		1,000				
			66,230				66,230

Books of Davendra
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.15	Purchases A/c Dr. To Raghu (Goods bought from Raghu)		35,000	35,000

Jan.15	Raghu	Dr.	35,000	
	To Bills Payable A/c			35,000
	(Three bills drawn by Raghu accepted: the first bill for Rs 5,000 payable after one month, the second for Rs 20,000 payable after 3 months and the third for Rs 10,000 payable after 4 months)			
Feb.18	Bills Payable A/c	Dr.	5,000	
	To Cash			5,000
	(The first bill discharged on the due date)			
Apr.18	Bills Payable A/c	Dr.	20,000	
	Noting Charges A/c	Dr.	30	
	To Raghu			20,030
	(The second bill dishonoured and Noting Charges Rs 30)			
May18	Bills Payable A/c	Dr.	10,000	
	Noting Charges A/c	Dr.	200	
	To Raghu			10,200
	(The third bill dishonoured and Noting Charges Rs 200)			
May23	Interest A/c	Dr.	1,000	
	To Raghu			1,000
	(Interest charged Rs 1,000 on account of bills dishonoured)			
May23	Cash A/c	Dr.	31,230	
	To Bank Loan A/c			31,230
	(Bank loan taken for settling Raghu's account)			
May23	Raghu	Dr.	31,230	

	To Cash A/c (Cash paid to Raghu)			31,230
--	-------------------------------------	--	--	--------

Ledger
Raghu's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016				2016			
Jan.15	Bills Payable		35,000	Jan.15	Purchases		35,000
May23	Cash		31,230	Apr.18	Bills Payable		20,000
				Apr.18	Noting Charges		30
				May18	Bills Payable		10,000
				May18	Noting Charges		200
				May18	Interest		1,000
			66,230				66,230

Books of Dewan
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.15	Bills Receivable A/c Dr.		5,000	
	Discount Allowed A/c Dr.		200	
	To Raghu			5,200
	(Bill Receivable received from Raghu for one month and allowed him discount of Rs 200)			
Feb.18	Cash A/c Dr.		5,000	
	To Bills Receivable A/c			5,000
	(Bill met on maturity)			

Note: In this question, there is no information regarding honour of the first bill of Rs 5,000. Therefore, it has been assumed that the first bill has been met on maturity.

Page No 313:

Question 13: Vimal 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.

ANSWER:

Case (i): The bill was retained by Kamal till the date of its maturity

**Books of Kamal
Journal**

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016 Jan.15	Vimal To Sales A/c (Goods sold to Vimal)	Dr.	25,000	25,000
Jan.15	Bills Receivable A/c To Vimal (Vimal's acceptance received)	Dr.	25,000	25,000

Mar.18	Vimal	Dr.	25,000	
	To Bills Receivable A/c			25,000
	(Vimal acceptance dishonoured)			

Books of Vimal
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.15	Purchases A/c	Dr.	25,000	
	To Kamal			25,000
	(Goods bought from Kamal)			
Jan.15	Kamal	Dr.	25,000	
	To Bills Payable A/c			25,000
	(Bill drawn by Kamal accepted)			
Mar.18	Bills Payable A/c	Dr.	25,000	
	To Kamal			25,000
	(Bill drawn by Kamal dishonoured)			

Case (ii): The bill was immediately discounted by Kamal with his bank @ 6% p.a.

**Books of Kamal
Journal**

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.15	Vimal Dr.		25,000	
	To Sales A/c			25,000
	(Goods sold to Vimal)			
Jan.15	Bills Receivable A/c Dr.		25,000	
	To Vimal			25,000
	(Vimal's acceptance received)			
Jan.15	Bank A/c Dr.		24,750	
	Discount A/c Dr.		250	
	To Bills Receivable A/c			25,000
	(Vimal's acceptance discounted at 6% p.a. with bank)			
Mar.18	Vimal Dr.		25,000	
	To Bank A/c			25,000
	(Vimal's acceptance dishonoured)			

Books of Vimal
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.15	Purchases A/c To Kamal (Goods bought from Kamal)	Dr.	25,000	25,000
Jan.15	Kamal To Bills Payable A/c (Bill drawn by Kamal accepted)	Dr.	25,000	25,000
Mar.18	Bills Payable A/c To Kamal (Bill drawn by Kamal dishonoured)	Dr.	25,000	25,000

Case (iii): The bill was endorsed by Kamal in favour of his creditor Sharad

Books of Kamal
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.15	Vimal To Sales A/c (Goods sold to Vimal)	Dr.	25,000	25,000
Jan.15	Bills Receivable A/c To Vimal (Vimal's acceptance received)	Dr.	25,000	25,000
Jan.15	Sharad To Bills Receivable A/c (Vimal's acceptance endorsed to Sharad)	Dr.	25,000	25,000
Mar.18	Vimal To Sharad (Vimal's acceptance endorsed to Kamal dishonoured)	Dr.	25,000	25,000

Books of Vimal
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.15	Purchases A/c To Kamal (Goods bought from Kamal)	Dr.	25,000	25,000
Jan.15	Kamal To Bills Payable A/c (Bill drawn by Kamal accepted)	Dr.	25,000	25,000
Mar.18	Bills Payable A/c To Kamal (Bill drawn by Kamal dishonoured)	Dr.	25,000	25,000

Case (iv): Five days before its maturity the bill was sent by Kamal to his bank for collection

Books of Kamal
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2016				
Jan.15	Vimal To Sales A/c (Goods sold to Vimal)	Dr.	25,000	25,000
Jan.15	Bills Receivable A/c To Vimal (Vimal's acceptance received, payable after two months)	Dr.	25,000	25,000
Mar.13	Bill Sent for Collection A/c To Bills Receivable A/c (Vimal's acceptance sent to bank for collection)	Dr.	25,000	25,000
Mar.18	Vimal To Bill Sent for Collection (Vimal's acceptance dishonoured)	Dr.	25,000	25,000

Books of Vimal
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
Case (iii) 2016				
Jan.15	Purchases A/c To Kamal (Goods bought from Kamal)	Dr.	25,000	25,000
Jan.15	Kamal To Bills Payable A/c (Bill drawn by Kamal accepted)	Dr.	25,000	25,000
Mar.18	Bills Payable A/c To Kamal (Bill drawn by Kamal dishonoured)	Dr.	25,000	25,000

Page No 314:

Question 14: Abdula 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.

ANSWER:

Books of Abdulla
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Jan.17	Tahir Dr. To Sales A/c (Goods sold to Tahir)		18,000	18,000
Jan.17	Bills Receivable A/c Dr. To Tahir (Tahir's acceptance received)		18,000	18,000
Mar.06	Tahir Dr. To Bills Receivable A/c To Cash (Tahir's acceptance dishonoured and Rs 40 paid as noting charges)		18,040	18,000 40

Mar.06	Tahir	Dr.		660	
	To Interest A/c				660
	(Interest charged from Tahir on account of bill dishonoured)				
Mar.12	Cash A/c	Dr.		18,700	
	To Tahir				18,700
	(Tahir cleared his account by paying cash)				

Ledger
Tahir's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Jan.17	Sales		18,000	Jan.17	Bills Receivable		18,000
Mar.06	Bills Receivable		18,000	Mar.11	Cash		18,700
Mar.06	Cash		40				
Mar.06	Interest		660				
			36,700				36,700

Books of Tahir
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Jan.17	Purchases A/c Dr. To Abdula (Goods bought from Abdula)		18,000	18,000
Jan.17	Abdula Dr. To Bills Payable A/c (Bill drawn by Abdula accepted, payable after 15 days)		18,000	18,000
Mar.06	Bills Payable A/c Dr. Noting Charges A/c Dr. To Abdula (Abdula's bill dishonoured)		18,000 40	18,040
Mar.07	Interest A/c Dr. To Abdula (Interest charged on account of bill dishonoured)		660	660
Mar.11	Abdula Dr. To Cash A/c (Cash paid to Abdula)		18,700	18,700

Ledger
Abdula's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Jan.17	Bills Payable		18,000	Jan.17	Purchases		18,000
Mar.11	Cash		18,700	Mar.06	Bills Payable		18,000
				Mar.06	Noting Charges		40
				Mar.06	Interest		660
			36,700				36,700

Page No 314:

Question 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.

ANSWER:

Books of Asha
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Mar.02	Nisha Dr.		19,000	
	To Sales A/c			19,000
	(Goods sold to Nisha)			
Mar.02	Cash A/c Dr.		4,000	
	Bills Receivable A/c Dr.		15,000	
	To Nisha			19,000
	(Cash and Nisha's acceptance received)			
Mar.02	Bank A/c Dr.		14,635	
	Discount A/c Dr.		375	
	To Bills Receivable A/c			15,000
	(Nisha's acceptance discounted with bank at 10% p.a.)			
	Note: In this question rate of discount is not given, the rate of discount (10% p.a.) has been assumed).			
June.05	Nisha Dr.		15,030	
	To Bank A/c			15,030
	(Nisha's acceptance dishonoured and bank paid Rs 30 as noting charges)			

Books of Nisha
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Mar.02	Purchases A/c Dr. To Asha (Goods bought from Asha)		19,000	19,000
Mar.02	Asha Dr. To Bills Payable A/c To Cash A/c (Asha's bill accepted payable after three months and Rs 4,000 paid in cash)		19,000	15,000 4,000
Jun.05	Bills Payable A/c Dr. Noting Charges A/c Dr. To Asha (Asha's bill dishonoured)		15,000 30	15,030

Page No 314:

Question 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.

ANSWER:

Books of Sharma

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017 Feb.02	Verma To Sales A/c (Goods sold to Verma)	Dr.	17,500	17,500
Feb.02	Cash A/c Bills Receivable A/c To Verma	Dr. Dr.	2,500 15,000	17,500

	(Cash Rs 2,500 and Promissory Note Rs 15,000 received from Verma for 60 days)			
Feb.02	Gupta A/c Dr.	15,400		
	To Bills Receivable A/c			15,000
	To Discount Received A/c			400
	(Promissory Note endorsed to Gupta in full settlement of amount due to him)			
Apr.05	Discount Received A/c Dr.	400		
	Verma Dr.	15,050		
	To Gupta			15,450
	(Promissory Note issued by Verma dishonoured and Gupta paid Rs 50 as noting charges)			
	Note: In this question Rs 5,000 is given as noting charges, there is mistake. Here Rs 50 has been taken as noting charges instead of Rs 5,000).			
Apr.06	Interest A/c Dr.	50		
	To Gupta			50
	(Interest of Rs 50 debited to Gupta, on account of dishonour of Promissory Note)			
Apr.06	Gupta Dr.	15,500		
	To Bank A/c			15,500
	(Gupta's A/c settled)			
Apr.06	Bank A/c Dr.	15,050		
	To Verma			15,050
	(Cheque received from Verma for the amount due from him)			

Ledger
Verma's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Feb.02	Sales		17,500	Feb.02	Cash		2,500
Apr.06	Gupta		15,050	Feb.02	Bills Receivable		15,000
				Apr.06	Bank		15,050
			32,550				32,550

Gupta's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Feb.02	B/R		15,000	Apr.01	Balance b/d		15,400
Feb.02	Discount Received		400	Apr.06	Verma		15,050
Feb.02	Bank		15,500	Apr.06	Discount Reserved		400
				Apr.06	Interest		50
			30,900				30,900

Books of Verma
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Feb.02	Purchases A/c Dr. To Sharma (Goods bought from Sharma)		17,500	17,500
Feb.02	Sharma Dr. To Bills Payable A/c To Cash A/c (Cash Rs 2,500 paid and Promissory Note made for the balance)		17,500	15,000 2,500
Apr.06	Bills Payable A/c Dr. Noting Charges A/c Dr. To Sharma (Promissory Note dishonoured on maturity)		15,000 50	15,050
Apr.06	Sharma Dr. To Bank A/c (Payment made to Sharma through cheque)		15,050	15,050

Ledger
Sharma's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Feb.02	Cash		2,500	Feb.02	Purchases		17,500
Feb.02	Bills Payable		15,000	Apr.06	Bills Payable		15,000
Apr.06	Bank		50	Apr.06	Noting Charges		50
			30,900				30,900

Books of Gupta
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Feb.02	Bills Receivable A/c Dr.		15,000	
	Discount Allowed A/c Dr.		400	
	To Sharma			15,400
	(Promissory Note Rs 15,000 received from Sharma in full settlement for 60 days)			
Apr.06	Sharma Dr.		15,450	
	To Bills Receivable A/c			15,000
	To Discount Allowed A/c			400
	To Bank A/c			50
	(Promissory Note received from Sharma, dishonoured)			
Apr.06	Sharma Dr.		50	
	To Interest A/c			50
	(Interest Rs 50 credited on account of Promissory Note dishonoured)			
Apr.06	Bank A/c Dr.		15,500	
	To Sharma			15,500
	(Cheque received from Sharma)			

Ledger
Sharma's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Feb.01	Balance b/d		15,400	Feb.02	Bills Receivable		15,000
Apr.06	Bills Receivable		15,000	Feb.02	Discount Allowed		400
Apr.06	Discount Allowed		4,000	Apr.06	Bank		15,500
Apr.06	Bank		50				
Apr.06	Interest		50				
			30,900				30,900

Page No 314:

Question 17: Lilly sold goods to Mathew on 1.3.2017 for Rs 12,000 and drew upon Mathew 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 Mathew and Lilly paid Rs 45 as noting charges. Mathew settled the claim of Lilly five days after the dishonour 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 Mathew and prepare Mathew's account in the books of Lilly and Lilly's account in the books of Mathew.

ANSWER:

Books of Lilly
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Mar.01	Mathew To Sales A/c (Goods sold to Mathew)	Dr.	12,000	12,000
Mar.01	Bills Receivable A/c To Mathew (Mathew's acceptance payable after two months received)	Dr.	12,000	12,000
Mar.01	Bank A/c Discount A/c To Bills Receivable A/c (Mathew's bill discounted at 9% p.a.)	Dr. Dr.	11,820 180	12,000
May 03	Mathew A/c To Bank A/c (Mathew's acceptance dishonoured bank paid Rs 45 as noting charges) <u>Note</u> : In this question, May 04 has been considered as Holiday, so the date of maturity will be May 03, 2006 in place of May 04, 2006.	Dr.	12,045	12,045

May 08	Mathew	Dr.	241	241
	To Interest A/c			
	(Interest @ 12% credited to Mathew on account of bill dishonoured)			
May 08	Bank A/c	Dr.	12,286	12,286
	To Mathew			
	(Cheque received from Mathew for the amount due from him)			

Ledger
Mathew's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Mar.01	Sales		12,000	Mar.01	Bills Receivable		12,000
May03	Bank		12,045	May08	Bank		12,286
May08	Interest		241				
			24,286				24,286

Books of Mathew
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Mar.01	Purchases A/c To Lilly (Goods bought from Lilly)	Dr.	12,000	12,000
Mar.01	Lilly To Bills Payable A/c (Lilly's acceptance payable after two months accepted)	Dr.	12,000	12,000
May 03	Bills Payable A/c Noting Charges A/c To Lilly (Bill drawn by Lilly dishonoured)	Dr. Dr.	12,000 45	12,045
May 08	Interest A/c To Lilly (Interest charged @ 12% from Lilly on account of bill dishonoured)	Dr.	241	241
May 08	Lilly To Bank A/c (Amount paid to Lilly through cheque)	Dr.	12,286	12,286

Ledger
Lilly's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Mar.01	Bills Payable		12,000	Mar.01	Purchases		12,000
May 09	Bank		12,286	May 03	Bills Payable		12,000
				May 03	Noting charges		45
				May 08	Interest		241
			24,286				24,286

Note: In this question, there is a contradiction. As per the discounting rule—Bank is regarded as the holder of the bill. It is the bank who presents the bill for payment and also pays the noting charges on behalf of the drawer (Lilly). However, as per the question, Lilly, who is presenting, discounting the bill and also paying the noting charges. Thus, in the solution, we have assumed that it is bank and not Lilly who presents, discounts and pays the noting charges in case of dishonour of bill.

Page No 314:

Question 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.

ANSWER:

Books of Gaurav
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Feb.01	Kapil Dr. To Sales A/c (Goods sold to Kapil)		21,000	21,000
Feb.01	Bills Receivable A/c Dr. To Kapil (Kapil's acceptance received)		21,000	21,000
Feb.25	Bills Sent for Collection A/c Dr. To Bills Receivable A/c (Bill Receivable sent to bank for collection)		21,000	21,000
Mar.04	Kapil Dr. To Bill Sent for Collection A/c To Bank A/c (Kapil's acceptance dishonoured)		21,100	21,000 100

Books of Kapil
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Feb.01	Purchases A/c Dr. To Gaurav (Goods bought from Gaurav)		21,000	21,000
Feb.01	Gaurav Dr. To Bills Payable A/c (Bill drawn by Gaurav payable after one month accepted)		21,000	21,000
Mar.04	Bills Payable A/c Dr. Noting Charges A/c Dr. To Gaurav (Bill drawn by Kapil dishonoured)		21,000 100	21,100

Page No 315:

Question 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.

ANSWER:

Books of Rashmi
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Feb.14	Alka Dr. To Sales A/c (Goods sold to Alka)		7,500	7,500
Feb.14	Cash A/c Dr. Bills Receivable A/c Dr. To Alka (Cash received Rs 500 and the bill accepted by Alka)		500 7,000	7,500
Apr.10	Alka Dr. To Bills Receivable A/c		7,000	7,000

Apr.10	(Alka got the bill cancelled) Cash A/c To Alka (Received cash from Alka)	Dr.	2,000	2,000
Apr.10	Alka To Interest A/c (Interest charged on the amount due from Alka)	Dr.	500	500
Apr.10	Bills Receivable A/c To Alka (Alka's acceptance payable of two months received)	Dr.	5,500	5,500
June 13	Cash A/c To Bills Receivable A/c (Alka's acceptance met on due date)	Dr.	5,500	5,500

Ledger
Alka's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Feb.14	Sales		7,500	Feb.14	Cash		500
Apr.10	Bills Receivable		7,000	Feb.14	Bills Receivable		7,000
Apr.10	Interest		500	Apr.10	Cash		2,000
				Apr.10	Bills Receivable		5,500
			15,000				15,000

Books of Alka
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Feb.14	Purchases A/c Dr. To Rashmi (Goods bought from Rashmi)		7,500	7,500
Feb.14	Rashmi Dr. To Cash A/c To Bills Payable A/c		7,500	500 7,000

	(Cash paid to Rashmi Rs 500 and a bill for Rs 7,000 drawn by Rashmi accepted)			
Apr.10	Bills Payable A/c	Dr.	7,000	
	To Rashmi			7,000
	(Bill cancelled before maturity)			
Apr.10	Rashmi	Dr.	2,000	
	To Cash A/c			2,000
	(Cash paid to Rashmi)			
Apr.10	Interest A/c	Dr.	500	
	To Rashmi			500
	(Interest due to Rashmi)			
Apr.10	Rashmi	Dr.	5,500	
	To Bills Payable A/c			5,500
	(Rashmi's acceptance payable after two months accepted)			
June.13	Bills Payable A/c	Dr.	5,500	
	To Cash A/c			5,500
	(The bill met on due date)			

Ledger
Rashmi's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Feb.14	Cash		500	Feb.14	Purchases		7,500
Feb.14	Bills Payable		7,000	Apr.10	Bills Payable		7,000
Apr.10	Cash		2,000	Apr.10	Interest		500
Apr.10	Bills Payable		5,500				
			15,000				15,000

Page No 315:

Question 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.

ANSWER:

Books of Nikhil
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Dec.01	Akhil To Sales A/c (Goods sold to Akhil)	Dr.	23,000	23,000
Dec.01	Bills Receivable A/c To Akhil (Akhil's acceptance received)	Dr.	23,000	23,000
Dec.01	Bank A/c Discount A/c To Bills Receivable A/c (Akhil's acceptance discounted at 12% p.a with bank)	Dr. Dr.	22,540 460	23,000

2018				
Feb.04	Akhil To Bank A/c (Akhil's acceptance dishonoured, bank paid Rs 100 as noting charges)	Dr.	23,100	23,100
Feb.04	Akhil To Interest A/c (Interest credited on account of bill dishonoured at 10% p.a. for two months)	Dr.	385	385
Feb.04	Bills Receivable A/c To Akhil (New acceptance received from Akhil for next two months received)	Dr.	23,485	23,485
Apr.01	Akhil To Bills Receivable A/c (The second bill cancelled one week before maturity)	Dr.	23,485	23,485
Apr.01	Cash A/c To Akhil (Cash received from Akhil)	Dr.	10,000	10,000

Apr.01	Akhil To Interest A/c (Interest due from Akhil for the bill)	Dr.	500	500
Apr.01	Bills Receivable A/c To Akhil (Bill from Akhil received)	Dr.	13,985	13,985
May 04	Cash A/c To Bills Receivable A/c (The third bill met on due date)	Dr.	13,985	13,985

Akhil's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Dec.01	Sales		23,000	Dec.01	Bills Receivable		23,000
2018				2018			
Feb.04	Bank		23,100	Feb.04	Bills Receivable		23,485
Feb.04	Interest		385	Apr.01	Cash		10,000
Apr.01	Bills Receivable		23,485	Apr.01	Bills Receivable		13,985
Apr.01	Interest		500				
			70,470				70,470

Books of Akhil
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Dec.01	Purchases A/c To Nikhil (Goods bought from Nikhil)	Dr.	23,000	23,000
Dec.01	Nikhil To Bills Payable A/c (Bill drawn by Nikhil payable after two months accepted)	Dr.	23,000	23,000
2018				
Feb.04	Bills Payable A/c Noting Charges A/c To Nikhil (Bill dishonoured on due date and Rs 100 paid by the holder of bill)	Dr. Dr.	23,000 100	23,100
Feb.04	Interest A/c To Nikhil A/c	Dr.	385	385

	(Interest due to Nikhil for the bill dishonoured)			
Feb.04	Nikhil	Dr.	23,485	
	To Bills Payable A/c			23,485
	(New bill accepted payable after two months)			
Apr.01	Bills Payable A/c	Dr.	23,485	
	To Nikhil			23,485
	(Bill cancelled before maturity)			
Apr.01	Nikhil	Dr.	10,000	
	To Cash A/c			10,000
	(Cash paid to Nikhil)			
Apr.01	Interest A/c	Dr.	500	
	To Nikhil			500
	(Interest due to Nikhil for bill cancellation)			
Apr.01	Nikhil	Dr.	13,985	
	To Bills Payable A/c			13,985
	(New bill accepted payable after one month)			
May 04	Bills Payable A/c	Dr.	13,985	
	To Cash A/c			13,985
	(The third bill met on maturity)			

Nikhil Account

Dr.

Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Dec.01	Bills Payable		23,000	Dec.01	Purchases		23,000
2018				2018			
Feb.04	Bills Payable		23,485	Feb.04	Bills Payable		23,000
Apr.01	Cash		10,000	Feb.04	Noting Charge		100
Apr.01	Bills Payable		13,985	Feb.04	Interest		385
				Apr.01	Bills Payable		23,485
				Apr.01	Interest		500
			70,470				70,470

Page No 315:

Question 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.

ANSWER:

Books of Vibha
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Jan.01	Sudha To Sales A/c (Goods sold to Sudha)	Dr.	18,000	18,000
Jan.01	Bills Receivable A/c To Sudha (Sudha's acceptance received)	Dr.	18,000	18,000
Jan.01	Geeta To Bills Receivable A/c (Sudha's acceptance endorsed in favour of Geeta)	Dr.	18,000	18,000
Feb.27	Sudha To Geeta (Sudha cancelled the bill five days before the maturity)	Dr.	18,000	18,000

Feb.27	Geeta	Dr.	18,000	
	To Cash A/c			18,000
	(Cash paid to Geeta)			
Feb.27	Sudha		200	
	To Interest A/c			200
	(Interest credited to Sudha on account of cancelling the bill)			
Feb.27	Bills Receivable A/c	Dr.	18,200	
	To Sudha			18,200
	(New bill received from Sudha)			
Mar.02	Cash A/c	Dr.	18,200	
	To Sudha			18,200
	(Shudha's acceptance met on due date)			

Page No 315:

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

	Debtors Rs	Creditors Rs
Babu	5,000	—
Chanderkala	8,000	—

Kiran	13,500	—
Anita	14,000	—
Anju	—	5,000
Sheiba	—	12,000
Manju	—	6,000

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

- Jan. 02 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.

ANSWER:

Bills Receivable Book

No.	Date of Bill 2017	Date Received 2016	From whom of Bill	Drawer whom received	Acceptor	Where	Term Payable	Due date 2016	L.F.	Amount Rs	Cash Book Folio	Re- marks
01	Jan.02	Jan.05	Babu	Self	Babu		2 months	Mar.05		4,800		
								Total		4,800		

Bills Payable Book

No.	Date of Bill 2017	To Whom Given	Drawer	Payee	Where payable	Term	Due date 2017	Ledger	Amount Rs	Date paid	Cash Book Folio	Re- marks
01	Jan.12	Sheiba	Sheiba	—		2 months	Mar.15		12,000			
02	Jan.25	Anju	Anju	—		2 months	Apr.28		5,000			
							Total		17,000			

Cash Book

Dr.

Cr.

Date	Particulars	L.F.	Cash Rs	Bank Rs	Date	Particulars	L.F.	Cash Rs	Bank Rs
2017					2017				
Jan.04	Bills Receivable			4,750					
Jan.10	Bills Receivable			7,900					
Jan.29	Kiran		2,000		Jan.31	Balance c/d		2,000	12,650
			2,000	12,650				2,000	12,650

There is difference between Bills of Exchange and Promissory Note. In case of Promissory Note, parties are makers and payees. However, in Bills of Exchange parties are Drawer, drawee (acceptor) and payee on account difference Promissory Note has not been recorded in Bills Receivable and Bills Payable book.

Books of Gautam
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Jan.05	Discount Allowed A/c Dr. To Babu (Babu's acceptance received and allowed him discount Rs 200)		200	200
Jan.04	Discount A/c Dr. To Bills Receivable A/c (Babu's acceptance discounted with a discount charge of Rs 50)		50	50
Jan.08	Bills Receivable A/c Dr. To Chanderkala (Promissory Note from Chanderkala received)		8,000	8,000
Jan.10	Discount A/c Dr. To Bills Receivable A/c (Chanderkala's Promissory Note discounted with bank at discount of Rs 100)		100	100

Jan.22	Bills Receivable A/c To Anita (Promissory Note received from Anita)	Dr.	14,000	14,000
Jan.23	Manju To Bills Receivable A/c (Anita's Promissory Note endorsed to Manju)	Dr.	14,000	14,000
Jan.29	Bills Receivable A/c To Kiran (Promissory Note from Kiran received)	Dr.	11,500	11,500

Page No 316:

Question 23: On Jan. 01, 2017 Harsh accepted a month 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.

ANSWER:

Books of Tanu

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Jan.01	Bills Receivable A/c To Harsh (Harsh's acceptance received)	Dr.	10,000	10,000
Jan.01	Bank A/c Discount A/c To Bills Receivable A/c (Harsh's acceptance discounted at 8% p.a. for one month)	Dr.	9,933 67	10,000
Feb.04	Harsha To Bank A/c (Harsh's account settled by paying amount due to Harsh through cheque)	Dr.	10,000	10,000

Books of Harsh
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2017				
Jan.01	Tanu Dr. To Bills Payable A/c (Bill drawn by Tanu accepted)		10,000	10,000
Feb.04	Bank A/c Dr. To Tanu (Cheque received from Tanu)		10,000	10,000
Feb.04	Bills Payable A/c Dr. To Bank A/c (Bill drawn by Tanu met on due date)		10,000	10,000