

Bhagya Achievers Test Series

CA Foundation

Paper 1: Accounting

Chapter 6: Bills of Exchange and Promissory Notes

Total Marks: 20

Time: 40 min.

Question1. (10 Marks)

On 1st January 2023, Rajat draws two bills of exchange for Rs 32,000 and Rs 50,000.

The bill of exchange for Rs 32,000 is for two months while the bill of exchange for Rs 50,000 is for three months. These bills are accepted by Vishal. On 4th March, 2023, Vishal requests Rajat to renew the first bill with interest at 15% p.a. for a period of two months. Rajat agreed to this proposal. On 25th March, 2023, Vishal retires the acceptance for Rs 50,000, the interest rebate i.e. discount being Rs 500. Before the due date of the renewed bill, Vishal becomes insolvent and only 50 paise in a rupee could be recovered from his estate.

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

Answer: 1. (10 Marks)

Journal Entries in the books of Rajat

2023		Dr. (Rs)	Cr. (Rs)
Jan. 1	Bills receivable (No. 1) A/c Bills receivable (No. 2) A/c To Vishal A/c (Being drawing of bills receivable No. 1 due for maturity on 4.3.2023 and bills receivable No. 2 due for maturity on 4.4.2023)	Dr. 32,000 Dr. 50,000	82,000

March 4	Vishal's A/c To Bills receivable (No.1) A/c (Being the reversal entry for bill No.1 on renewal)	Dr.	32,000	32,000
March 4	Bills receivable (No. 3) A/c To Interest A/c To Vishal 's A/c (Being the drawing of bill of exchange no. 3 due for maturity on 7.5.2023 together with interest at 15%p.a. in lieu of the original acceptance of Vishal)	Dr.	32,800	800 32,000
March 25	Bank A/c Discount A/c To Bills receivable (No. 2) A/c (Being the amount received on retirement of bills No.2 before the due date)	Dr.	49,500 500	50,000
May 7	Vishal's A/c To Bills receivable (No. 3) A/c (Being the amount due from Vishal on dishonour of his acceptance on presentation on the due date)	Dr.	32,800	32,800
May 7	Bank A/c To Vishal's A/c (Being the amount received from official assignee of Vishal at 50 paise per rupee against dishonoured bill)	Dr.	16,400	16,400
May 7	Bad debts A/c To Vishal's A/c (Being the balance 50% debt in Vishal's Account arising out of dishonoured bill written off as bad debts)	Dr.	16,400	16,400

Question2. (6 Marks)

Journalise the following transactions in K. Katrak's books.

- (i) Katrak's acceptance to Basu for Rs 2,500 discharged by a cash payment of Rs 1,000 and a new bill for the balance plus Rs 50 for interest.
- (ii) G. Gupta's acceptance for Rs 4,000 which was endorsed by Katrak to M. Mehta was dishonoured. Mehta paid Rs 20 noting charges. Bill withdrawn against cheque.
- (iii) D. Dalal retires a bill for Rs 2,000 drawn on him by Katrak for Rs10 discount.
- (iv) Katrak's acceptance to Patel for Rs 5,000 and Mody's acceptance to Katrak for a similar amount were duly discharged.

Answer: 2. (6 Marks)

		Dr.	Cr.
		(Rs)	(Rs)
(i)	Bills Payable Account	Dr. 2,500	
	Interest Account	Dr. 50	
	To Cash A/c		1,000
	To Bills Payable Account		1,550
	(Bills Payable to Basu discharged by cash payment of Rs1,000 and a new bill for Rs1,550 including Rs50 as interest)		
(ii)	(a) G. Gupta	Dr. 4,020	
	To M. Mehta		4,020
	(G. Gupta's acceptance for Rs4,000 endorsed to M. Mehta dishonoured, Rs20 paid by M. Mehta as		

	noting charges)			
	(b) M. Mehta To Bank Account (Payment to M. Mehta on withdrawal of bill earlier received from Mr. G. Gupta)	Dr.	4,020	4,020
(iii)	Bank Account Discount Account To Bills Receivable Account (Payment received from D. Dalal against his acceptance for Rs2,000. Allowed him a discount of Rs10)	Dr.	1,990 Dr. 10	2,000
(iv)	Bills Payable Account To Bills Receivable Account (Bills Receivable from Mody endorsed to Patel in settlement of bills payable issued to him earlier)	Dr.	5,000	5,000

Question3. (4 Marks)

What is bill of exchange? How does it differ from Promissory Note?

Answer: 3. (4 Marks)

A bill of exchange has been 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 certain person or to the bearer of the instrument”. When such an order is accepted by the drawee, it becomes a valid bill of exchange. A promissory note is an instrument in writing (not being a bank note or a government currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument. A promissory

note needs no acceptance, as the debtor himself writes the document promising to pay the stated amount. Like bills of exchange, promissory notes are also negotiable instruments, and can be transferred by endorsement. In case of bill of exchange, the drawer and the payee may be the same person but in case of a promissory note, the maker and the payee cannot be the same person.

