

72 Questions    72 Marks    75 Minutes

## Bills of Exchange and Promissory Notes

Select the best choice to answer the following question

- A bill of exchange must be-
  - In writing
  - Signed by the drawee
  - A conditional order to pay
  - An unconditional promise to pay
- A bill of exchange-
  - Requires no acceptance
  - Must be accepted
  - Can be drawn only on a bank
  - Is drawn by a debtor
- There are parties to a bill of exchange-
  - The seller, the buyer and the bank
  - The debtors, the creditor and the endorsee
  - The payer, the payee and the bank
  - The drawer, the drawee and the payee
- A bill of exchange is payable-
  - At any time in the future
  - Only on presentation
  - On presentation or at a time in the future
  - Only to a bank
- Noting is a procedure adopted if a bill of exchange has been dishonoured by
  - Acceptance
  - non-acceptance
  - non-payment
  - non-acceptance or non-payment
- upon retirement, the drawer of the bill
  - requires the payment on the due date
  - does not get the payment
  - receives the payment before the due date
  - receives the payment after the due date.
- The rebate on bill retired is actually calculated at a fixed percentage per annum on the face value of the bill for
  - Unexpired period of the bill
  - Expired period of the bill
  - Tenor of the bill
  - None of the above
- Upon renewal, the indebtedness of the drawee is not restricted to the-
  - Value of the bill
  - Face value of the bill
  - Discounted value of the bill
  - Present value of the bill
- When a bill of exchange is endorsed the amount is payable to the-
  - Original holder
  - Bank
  - Endorsee
  - Notary public
- The discounting of a bill does not affect the position of the-
  - Drawer
  - Bank
  - drawee
  - seller
- Discounted bills receivable is shown in the balance sheet as a
  - Current asset
  - Contingent liability
  - Liability
  - Contingent assets
- State which of the following is a promissory note.
  - 'Mr. Amar, I owe you Rs. 100'.
  - 'I promise to pay Rs. 5,000 to Y provided he is ready to go with me to kill X.'
  - 'Received from Mr. Y Rs. 4,000 which I promise to pay on demand'.
  - 'Deposit with me Rs. 4,000 to be returned on demand'.
- The liability of the maker of a promissory note is
  - Secondary but absolute
  - Secondary and conditional
  - Primary and absolute

- d) Primary but conditional
14. Accommodation bill is also called-
- a) Trade bill
  - b) promissory note
  - c) Kite bill
  - d) bank note
15. Which of the following is true?
- a) This bill is the acknowledgement of the debt
  - b) This bill is always discounted with bank
  - c) This bill is drawn and accepted for consideration.
  - d) In case of dishonour, legal action can be resorted.
16. Which of the following is true?
- a) A bill of exchange must direct a certain person to receive a certain sum of money.
  - b) A bills payable on demand is not required to be accepted.
  - c) A bill of exchange is not one kind of a post dated cheque.
  - d) A bill payable on demand is estimated to three days of grace.
17. Which of the following is true?
- a) The person to whom a bill is addressed is the creditor.
  - b) A bill from the point of view of a creditor is called a bills payable.
  - c) When the drawer discounts a bill, he credits discount account.
  - d) Refusal by the acceptor to make payment of the bill on the maturity date is called dishonour of the bill.
18. Which of the following is true?
- a) No cancellation entry is required when a bill is renewed.
  - b) A banker holds discounted bills as an agent for collection.
  - c) Discount at the time of retirement of a bill is a gain for the drawee.
  - d) The noting charges are ultimately borne by the drawer.
19. Which of the following is true?
- a) A bill of exchange should be presented on the due date and at the place named.
  - b) A bill can generally be discounted with the banker where the drawee of the bill has an account
  - c) A bill of exchange cannot be transferred by the holder to another party by mere physical delivery
  - d) No entry is passed in the books of the drawer in respect of bills sent for collection.
20. Which of the following is true?
- a) Noting is not a legally acceptable evidence of dishonour.
  - b) When a bill is honoured, notice must be given to the prior parties.
  - c) A renewed bill re-establishes the acknowledgment of the debt of the drawee.
  - d) Upon retirement, the drawer of the bill gets a fixed payment.
21. Which of the following is true?
- a) A bill is generally discounted on the due date.
  - b) A bill can be renewed before or after the due date.
  - c) Days of grace is allowed when the bill is payable on demand.
  - d) A bill can be endorsed by the drawer to the drawer to his creditors in full or part settlement of dues.
22. Which of the following is true?
- a) The banker realizes the face value of the discounted bill on the due date from the drawee.
  - b) Upon its dishonour, the holder of a bill has no right of action against the drawee or any previous endorser.
  - c) Entries for noting charges are not similar to the entries for dishonour of a bill
  - d) Upon renewal, the drawee of the bill becomes liable to make a part payment.
23. Which of the following is true?

- a) Upon renewal, the indebtedness of the drawee is restricted to the face value of the bill.
- b) Retiring a bill is the act of withdrawing a bill of exchange from circulation.
- c) It is necessary that the drawee, the drawer and the payee should be three different persons.
- d) A bill of exchange cannot be transferred from one place to another in the same way a cheque is remitted.
24. Which of the following is true?
- a) A bill of exchange can be crossed.
- b) A dishonoured bill of exchange does not require any noting.
- c) A bill of exchange does not pay the amount the customer owes.
- d) A term bill is payable on demand.
25. Which of the following is true?
- a) When the period of the bill is stated in days, the calculation of the due date will be made in terms of calendar month.
- b) Noting charges paid by the bank is in the nature of interest.
- c) The noting charges cannot legally be recovered from the drawee.
- d) When a bill is discounted, the banker does not make the payment in cash.
26. A bill of exchange comes from a (an) \_\_\_\_\_ credit arrangement.
- a) Open                      b) deferred
- c) Part                        d) long
27. The drawing of a bill of exchange converts the \_\_\_\_\_ relationship into a \_\_\_\_\_ relationship.
- a) Debtor-creditor, drawer-drawee
- b) Debtor-creditor, payer-payee
- c) Buyer-seller, debtor-creditor
- d) Buyer-seller, drawer-drawee
28. A bill of exchange is a legal evidence of an acknowledgment of \_\_\_\_\_.
- a) Receipt                      b) loan
- c) Debt                         d) payment
29. A bill of exchange can be drawn on any \_\_\_\_\_ including a bank.
- a) Drawer                      b) creditor
- c) Seller                        d) person
30. For a (an) \_\_\_\_\_ bill of exchange, noting may be necessary.
- a) Honoured                      b) dishonoured
- c) Endorsed
- d) Discounted
31. Discounting is a device to convert the \_\_\_\_\_ into \_\_\_\_\_ at its present value.
- a) Cash, bill                      b) bill, cash
- c) Sales, cash                      d) sale, bill
32. The discount is an expense for the \_\_\_\_\_ and revenue for the \_\_\_\_\_.
- a) Seller, buyer
- b) banker, drawer
- c) drawer, banker
- d) drawer, drawee
33. When a bill is dishonoured, notice of dishonour must be given to the prior parties to retain their \_\_\_\_\_.
- a) Liability                      b) asset
- c) Bill                              d) discount
34. When a bill is dishonoured, it becomes \_\_\_\_\_.
- a) Worthless                      b) valueless
- c) Bad                              d) payable
35. The renewal of a bill re-establishes the acknowledgment of the debt of the \_\_\_\_\_.
- a) Debtor                        b) drawer
- c) Creditor                        d) drawee
36. There are \_\_\_\_\_ parties in a promissory note.
- a) Three                         b) four
- c) Two                              d) five
37. A promissory note is an instrument in writing containing \_\_\_\_\_.
- a) An unconditional undertaking to pay
- b) An unconditional order to pay
- c) A conditional undertaking to pay

- d) A conditional order to pay.
38. Promissory note \_\_\_\_\_.
- Includes bank note
  - Includes currency notice
  - Does not include bank note
  - Does not include bank note or currency note
39. Accommodation bill is drawn and accepted \_\_\_\_\_.
- For consideration
  - To discharge an obligation
  - Without consideration
  - For love and affection
40. In case of dishonour, accommodation bills are \_\_\_\_\_.
- Always legally enforceable
  - Legally enforceable under certain circumstances
  - Noted with the notary public
  - Not legally enforceable
41. What is the due date of a bill drawn on 15 January, 2007 for 3 months?
- 18 April, 2007
  - 15 April, 2007
  - 15 March, 2007
  - 18 March, 2007
42. The due date of a bill is 26 January and 25 January is also a public holiday. When does the bill fall due?
- 26 January
  - 27 January
  - 24 January
  - 25 January
43. A drew a bill on B for Rs. 1,000. Upon dishonour of the bill, A paid Rs. 25 as noting charges. How much is recoverable from B now?
- Rs. 975
  - Rs. 1,025
  - Rs. 1,000
  - Rs. 1,035
44. A bill of Rs. 1,000 is renewed. The drawee pays Rs. 300 as part payment. The amount of interest charged is Rs. 20. What is the value of the new bill?
- Rs. 700
  - Rs. 1,020
  - Rs. 900
  - Rs. 720
45. The value of the bill is Rs. 5,000. The due date of a bill is 4.5.2006, but the drawee made payment on 4.2.2006. The rate of discount is 6% p.a. What is the amount of rebate on bill retired?
- Rs. 75
  - Rs. 65
  - Rs. 85
  - Rs. 95
46. What is the journal entry for the following transaction of A in his books?  
A's acceptance to D for Rs. 5,000 is discharged by M's acceptance to A for a similar amount.
- Bills Receivable Dr.  
To Bills payable
  - Bills payable Dr.  
To Bills Receivable
  - D Dr.  
To M
  - M Dr.  
To A
47. A bill of Rs. 5,000 is discounted with the banker for Rs. 4,750. The bill is dishonoured at maturity. The drawee pays 60% of his acceptance. What is the amount of bad debts?
- Rs. 1,800
  - Rs. 1,900
  - Rs. 2,000
  - Rs. 2,100
48. When the bank pays for the noting charges, the journal entry in the books of the drawer is:
- Drawee Dr.  
To Cash
  - Drawee Dr.  
To Cash
  - Drawee Dr.  
To Noting charges
  - Drawee Dr.  
To Bank
49. Give journal entries for the following transaction in the books of A:  
B retires a bill for Rs. 1,000 drawn on him by A for Rs. 5 discount.
- Bank Dr. 995  
Discount Allowed Dr. 5  
To Bill Receivable 1,000
  - Bank Dr. 1,000

- To bills receivable 1,000  
 c) Bills Receivable Dr. 1,000  
     To Bank 995  
     To Discount received 5  
 d) Bank Dr. 1,005  
     To Bills Receivable 1,005

- b) Bills Receivable A/c Dr. 5,000  
     To Current A/c of Romen 4,900  
     To discount A/c 100  
 c) Bills discount A/c Dr. 5,000  
     To Current A/c of Romen 4,900  
     To Discount 100  
 d) Bills for collection A/c Dr. 5,000  
     To Cash A/c 4,900  
     To discount A/c 100

50. A bill of Rs. 10,000 for 3 months renewed for a further period of 2 months. The drawee paid Rs. 3,000 as part payment one month before the due date. The rate of interest is @ 12% p.a. What is the amount of the interest?  
 a) Rs. 120                      b) Rs. 140  
 c) Rs. 110                      d) Rs. 100

54. In the balance of the bank , discount bill be shown till the bill is honoured-  
 a) As a current asset  
 b) As an investment  
 c) As a contingent asset  
 d) As a contingent liability

**The following information is related to Question Nos. 51 and 52.**

Raja gets Govinda's acceptance for Rs. 12,000 at two months discounted at 12%. Later the bill is dishonoured on the due date and the bank pays Rs. 50 as noting charges.

51. The discount charge is  
 a) Rs. 200                      b) Rs. 220  
 c) Rs. 240                      d) Rs. 280
52. For dishonour of the bill, the entry in the books of Raja will be:  
 a) Bills Receivable Dr. 12,000  
     To bank A/c 12,000  
 b) Gobind A/c Dr. 11,810  
     To bank A/c 11,810  
 c) Gobind A/c Dr. 12,050  
     To Bank A/c 12,050  
 d) Gobind A/c Dr. 12,000  
     To Bills Receivable 12,000

The following information is relevant for Question Nos. 53 and 54.

On 1.4.2007 Romen received a bill for Rs. 5,000 payable after two months, accepted by Karim. Romen discounted the bill with the bank for Rs. 4,900.

53. In the books of the bank, the entry for discounting of the bill will be:  
 a) Bills Receivable Dr. 5,000  
     To cash A/c 4,900  
     To Discount A/c 100

**The following information is relevant for Question Nos. 55, 56, and 57**

On 1 January, 2007 X purchased goods from Y valued at Rs. 10,000. Trade discount allowed by Y @ 20%. X accepted a bill of exchanges for the amount due for 3 months. On 4<sup>th</sup> January, 2007 Y endorses the bill in favour of Z for Rs. 8,100 in full settlement of a debt. On the due date the bill was dishonoured. Noting charge is Rs. 50.

55. The amount of bill of exchange is  
 a) Rs. 10,000    b) Rs. 9,000  
 c) Rs. 8,000    d) Rs. 8,500
56. When the bill is endorsed in favour of Z, the entry in the books of Y will be:  
 a) Z A/c Dr. 8,100  
     To Bills Receivable A/c 8,100  
 b) Z A/c Dr. 8,100  
     To Bills Receivable A/c 8,000  
     To Discount Received A/c 100  
 c) Z A/c Dr. 8,000  
     Discount Allowed A/c Dr. 100  
     To Bills Receivable A/c 8,100  
 d) No entry
57. When the bill is dishonoured, the entry in the books of Y will be:  
 a) X A/c Dr.  
     To Z A/c 8,050  
 b) X A/c Dr. 8,000  
     Discount Received A/c Dr. 50

	To Z A/c	8,050
c) X A/c	Dr. 8,000	
	Noting charges A/c	Dr. 50
	To Z A/c	8,050
d) X A/c	Dr. 8,050	
	Discount Received A/c	Dr. 100
	To Z A/c	8,150

**The following information is relevant for Question 58, 59, and 60.**

On 1.1.2007 Sachin sold goods Rahul valuing Rs. 30,000. On 4.1.2007, Sachin received from Rahul Rs. 10,000 and drew a bill payable 3 months after date for the balance. On the same date, Sachin endorses the accepted bill to Sourav for a full settlement of a debt of Rs. 21,000. On the due date, the bill was dishonoured and Rahul having become insolvent, paid on 10.5.2007, 75% of his acceptance.

58. For payment on 10.5.2007, the entry in the books of Rahul will be:

a) Sachin A/c	Dr. 20,000	
	To Cash A/c	20,000
b) Bank A/c	Dr. 20,000	
	To Sachin A/c	20,000
c) Sachin A/c	Dr. 20,000	
	To Bank A/c	15,000
	To Bad Debts A/c	5,000
d) Sachin A/c	Dr. 20,000	
	To Bank A/c	15,000
	To Deficiency A/c	5,000

59. For dishonour of the bill, the entry in the books of Sachin will be:

a) Rahul A/c	Dr. 20,000	
	To Sourav A/c	20,000
b) Rahul A/c	Dr. 20,000	
	To Sourav A/c	19,000
	To Discount Received A/c	1,000
c) Rahul A/c	Dr. 20,000	
	Discount Received A/c	Dr. 1,000
	To Sourav A/c	21,000
d) Rahul A/c	Dr. 20,000	
	Discount Allowed A/c	Dr. 1,000
	To Sourav A/c	21,000

60. For dividend received from Rahul's estate, the entry in the books of Sachin will be:

a) Bank A/c	Dr. 15,000
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	To Rahul A/c	15,000
b) Bank A/c	Dr. 15,000	
	Deficiency A/c	Dr. 5,000
	To Bank A/c	20,000
c) Bank A/c	Dr. 15,000	
	Bad Debts A/c	Dr. 5,000
	To Rahul A/c	20,000
d) Rahul A/c	Dr. 15,000	
	To Bank A/c	15,000

**The following information is relevant for Questions 61 and 62.**

Shyam sold goods to Ram for Rs. 20,000 on 1.1.2006. On the same date Shyam drew upon Ram a bill for the amount of bill at 2 months and Ram accepted the same. On the due date Ram told Shyam that he was not in a position to pay the full amount. He requested Shyam to accept Rs. 10,000 in cash and to draw a fresh bill on him for the remaining amount for 2 months together with interest at 15% p.a. Shyam agreed. The second bill was duly met.

61. Interest on renewal of the bill is

a) Rs. 500	b) Rs. 750
c) Rs. 250	d) Rs. 1,000

62. The amount of new bill is

a) Rs. 20,000	b) Rs. 20,250
c) Rs. 10,250	d) Rs. 10,500

**The following information is relevant for the Questions 63 and 64.**

On 1<sup>st</sup> January, 2006 Mohan sold goods worth Rs. 6,000 to Sohan. On the same day Mohan gave his 2 months acceptance for the same. Mohan discounted the bill on 4<sup>th</sup> January with his bank @ 6% p.a. Before the due date, Sohan made a request to Mohan for its renewal for a further period for 3 months. Mohan agreed on the condition that new bill should include interest @ 10% p.a. The new bill was paid on the due date.

63. The amount of discounting charge is

a) Rs. 30	b) Rs. 60
c) Rs. 90	d) Rs. 120

64. Interest on renewal of the bill is

- a) Rs. 100                      b) Rs. 120  
c) Rs. 150                      d) None of the above

**The following information is relevant for the Questions 65 and 66**

A purchased goods from B for Rs. 1,500 on 1<sup>st</sup> July, 2006 and accepted a bill for 2 months drawn on him by B on the same date for the same amount. B immediately discounted the bill at his bank at 6% p.a. At maturity the bill was dishonoured and noting charges amounted to Rs. 20. B agreed to receive from A Rs. 550 in cash and a new bill of Rs. 1,000 for 3 months in full settlement.

65. Interest on renewal is  
a) Rs. 20                                      b) Rs. 30  
c) Rs. 40                                      d) Rs. 50

66. Discount on bill is  
a) Rs. 15                                      b) Rs. 20  
c) Rs. 25                                      d) Rs. 30

**The following information is relevant for Questions 67 and 68.**

On 1.4.2006 Amar accepts a three months' bill drawn by his creditor Binod for Rs. 10,000. On 4.4.2006 Binod discounts the same at 5% p.a. Amar, being unable to meet the bill at maturity requests Binod to accept Rs. 4,000 in cash and to draw another bill for three months for the balance sum plus interest 7% p.a. and Binod agrees. But before the second bill matures Amar becomes insolvent and is unable to pay any amount whatsoever.

67. The amount of discounting charge is  
a) Rs. 125                                      b) Rs. 120  
c) Rs. 100                                      d) Not given

68. The amount of new bill is  
a) Rs. 6,000                                      b) Rs. 6,125  
c) Rs. 6,105                                      d) Rs. 6,230

**The following information is relevant for the Questions 69 and 70.**

For goods supplied, P draws a bill on Q for Rs. 10,000 dated 10<sup>th</sup> January, 2006, due three

months hence. Q accepts the bill and P discounts it with his banker paying Rs. 150 as discounting charges. On the due date, the banker presents the bill to Q for payment, who is unable to meet it. P then meets the bill himself after paying Rs. 60 for noting charges, and Q gives his another bill for Rs. 10,200 due one month from the date of maturity of the first bill. The second bill was duly met by Q.

69. Interest charged to Q is  
a) Rs. 200                                      b) Rs. 60  
c) Rs. 140                                      d) Rs. 100

70. For dishonour of the bill on due date, the entry in the books of P will be:  
a) Debit: Q account Rs. 10,000; Credit Bank Account Rs 10,000  
b) Debit: Q Account Rs. 10,000; Credit: Bank Account Rs. 10,060  
Debit: Noting Charges Account Rs. 60  
c) Debit: Q Account Rs. 10,060; Credit: Bank Account Rs. 10,060  
d) None of the above

**The following information is relevant for the Question 71 and 72.**

On 1<sup>st</sup> July, 2006, A sold goods to B priced at Rs. 6,000 subject to a deduction of 16 2/3 % trade discount and drew a bill on B for 3 months. B accepted the bill and returned it to A. A and B mutually agreed that this bill should be discharged by a cash payment of Rs. 2,000 and a new bill on such a date as would enable the latter to earn a rebate of Rs. 100 @ 10% p.a. The new bill would be accepted for 2 months at 12% p.a. interest. The new bill was met on the due date.

71. To earn a rebate of Rs. 100, the date of payment should be  
a) 4 September                                      b) 4 August  
c) 23 July    d) Not given

72. The amount of new bill will be  
a) Rs. 2,900                                      b) Rs. 2,958  
c) Rs. 3,000  
d) None of the above

**Answers:**

1. a	2. b	3. d
4. c	5. d	6. c
7. a	8. b	9. c
10. b	11. b	12. c
13. c	14. c	15. b
16. b	17. d	18. c
19. a	20. c	21. d
22. a	23. b	24. c
25. d	26. a	27. a
28. c	29. d	30. b
31. b	32. c	33. a
34. b	35. d	36. c
37. a	38. d	39. c
40. d	41. a	42. c
43. b	44. d	45. a
46. b	47. c	48. d
49. a	50. c	51. c
52. c	53. c	54. a
55. c	56. b	57. d
58. d	59. c	60. c
61. c	62. c	63. b
64. c	65. b	66. a
67. a	68. c	69. c
70. c	71. c	72. b