

Bill of Exchange

MEANING OF KEY TERMS USED IN THE CHAPTER

- | | |
|------------------------------------|--|
| 1. Bill of Exchange | It is a written instrument directing a person to pay the amount specified in the bill to or to the order of specified person or to the bearer of the instrument. |
| 2. Promissory Note | It is an instrument in writing being an undertaking by the maker to pay the specified sum of money to or to the order of certain person or to the bearer of the instrument. |
| 3. Trade Bill | It is the bill drawn and accepted for a business transaction. |
| 4. Drawer | The maker of a bill of exchange is known as the drawer . |
| 5. Drawee | The person on whom the bill is drawn and is thereby directed to pay is known as the drawee . |
| 6. Maker | Maker is the person who makes the Promissory Note. |
| 7. Payee | Payee is the person named in the bill of exchange to whom the amount is payable. |
| 8. Cheque | A cheque is an unconditional order, drawn upon a specified banker, signed by the maker, directing the bank to pay on demand a certain sum of money only to or to the order of a person or to the bearer of the instrument. |
| 9. Endorsement | It means transfer of the instrument (bill or promissory note or cheque) to another person. |
| 10. Endorser | The person who endorses the instrument is called the endorser . |
| 11. Endorsee | The person in whose favour the instrument is endorsed is called the endorsee . |
| 12. Tenor or Tenure of Bill | The period in between the dates of drawing the bill and when it becomes due for payment. |
| 13. Date of Maturity | The date on which the bill becomes due for payment. |
| 14. Days of Grace | A period of three days post date of maturity. It is a practice to add the days of grace. |
| 15. Honouring the Bill | It means meeting the obligation to pay. |
| 16. Dishonour of Bill | A situation when the instrument (Bill) is not paid by the drawee on the date of maturity. |
| 17. Retirement of Bill | It means that the drawee pays the bill before it becomes due for payment. |
| 18. Renewal of Bill | It means replacement of the instrument with a new instrument with the consent of the holder. |

- 19. Discounting of Bill** It means taking amount from the bank before the instrument (Bill) becomes due for payment. Bank charges some amount called **Discounting Charges**, for making the payment before due date.
- 20. Noting of a Bill** It is a process by which the bill is presented for payment through a Notary Public. Notary Public makes a noting to the effect that bill is dishonoured.
- 21. Noting Charges** Charges paid to the notary public on the dishonour of a bill to record the facts of dishonour.

CHAPTER SUMMARY

- When a seller sells goods to a customer on credit, the customer or debtor gives a bill of exchange duly accepted by him or a promissory note to the seller or creditor. This is known as **Bill Receivable** because the creditor will get payment on this bill on maturity. From the debtor's point of view, it is called **Bill Payable** because he has to make the payment to the creditor.
- **Bill of Exchange** is an instrument in writing, containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to the bearer of the instrument.
- **Parties to the Bill of Exchange** are:
 - (i) The Drawer—the party who makes the bill.
 - (ii) The Drawee—the party who accepts the bill.
 - (iii) The Payee—the party to whom the amount is to be paid.
- **Types of Bill of Exchange** are:
 - (i) Trade Bill—a bill drawn and accepted for a business transaction.
 - (ii) Accommodation Bill—a bill drawn and accepted for mutual help.
- **Advantages of Bill of Exchange** are:
 - (i) Purchases and sales of goods can be made on credit.
 - (ii) Funds can be made available by discounting the bill.
 - (iii) Recovery of dues is easier, in case bill is dishonoured.
 - (iv) Bill can be endorsed in settlement of dues.
 - (v) Receipt of payment is certain.
 - (vi) Convenient means of remittance.
 - (vii) It is a valid evidence of debt.
- The date on which the term of the bill expires is called as **Due Date of the Bill**.
- The date which comes after adding three days to the due date of a bill, is called the **date of maturity**.
- **Promissory Note** is an instrument in writing (not being a bank note or a 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.
- **Parties to the Promissory Note** are:
 - (i) The Maker—the party who makes the note.
 - (ii) The Payee—the party to whom the amount is to be paid.
- **Cheque** is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and includes the electronic image of a truncated cheque and a cheque in the electronic form.
- **Parties to the Cheque** are:
 - (i) The Drawer—the party who makes the cheque.
 - (ii) The Drawee—the banker on whom the cheque is drawn and is directed to pay the amount of the cheque.
 - (iii) The Payee—the party to whom the amount of the cheque is to be paid.

Summary of accounting entries for Bill of Exchange is given on next page.

ACCOUNTING ENTRIES FOR BILLS OF EXCHANGE (B/E) AT A GLANCE

Transactions	In the Books of the Drawer				In the Books of the Drawee (Acceptor)
	When the B/E is Retained	When the B/E is Discounted	When the B/E is Endorsed	When the B/E is Sent to Bank for Collection	
1. Sale of Goods on credit	Debtor's A/c ...Dr. To Sales A/c	Debtor's A/c ...Dr. To Sales A/c	Debtor's A/c ...Dr. To Sales A/c	Debtor's A/c ...Dr. To Sales A/c	Purchases A/c ...Dr. To Creditor's A/c
2. Drawing of Bill of Exchange	No Entry				
3. Acceptance of Bill of Exchange by the Debtor	Bills Receivable A/c ...Dr. To Acceptor's A/c (Debtor's A/c)	Bills Receivable A/c ...Dr. To Acceptor's A/c (Debtor's A/c)	Bills Receivable A/c ...Dr. To Acceptor's A/c (Debtor's A/c)	Bills Receivable A/c ...Dr. To Acceptor's A/c (Debtor's A/c)	Drawer's A/c ...Dr. To Bills Payable A/c
4. Treatment of Bills	No Entry	Bank A/c ...Dr. Discounting Charges A/c ...Dr. To Bills Receivable A/c	Endorsee's A/c ...Dr. To Bills Receivable A/c	Bills Sent for Collection A/c ...Dr. To Bills Receivable A/c	No Entry
5. Bill of Exchange is met on Due Date.	Cash/Bank A/c ...Dr. To Bills Receivable A/c	No Entry	No Entry	Bank A/c ...Dr. To Bills Sent for Collection A/c	Bills Payable A/c ...Dr. To Cash/Bank A/c
6. Dishonour of a Bill of Exchange on Due Date					
(a) If Noting Charges (N.C) are not Incurred.	Acceptor's A/c ...Dr. To Bills Receivable A/c	Acceptor's A/c ...Dr. To Bank A/c	Acceptor's A/c ...Dr. To Endorsee's A/c	Acceptor's A/c ...Dr. To Bills Sent for Collection A/c	Bills Payable A/c ...Dr. To Drawer's A/c
(b) If Noting Charges (N.C) are Incurred.	Acceptor's A/c ...Dr. (By Amount of B/R + N.C) To Bills Receivable A/c To Cash A/c	Acceptor's A/c ...Dr. (By Amount of B/R + N.C) To Bank A/c	Acceptor's A/c ...Dr. (By Amount of B/R + N.C) To Endorsee's A/c	Acceptor's A/c ...Dr. (By Amount of B/R + N.C) To Bills Sent for Collection A/c To Cash/Bank A/c	Bills Payable A/c ...Dr. Noting Charges A/c ...Dr. To Drawer's A/c

7. Retirement of a Bill of Exchange under a Rebate before Due Date	Cash A/c or Bank A/c ...Dr. Rebate A/c ...Dr. To Bills Receivable A/c	No Entry	No Entry	No Entry	Bills Payable A/c ...Dr. To Cash/Bank A/c To Rebate A/c
8. Renewal of a B/E					
(a) Cancellation of old B/E	Acceptor's A/c ...Dr. To Bills Receivable A/c	Acceptor's A/c ...Dr. To Bank A/c	Acceptor's A/c ...Dr. To Endorsee's A/c	Acceptor's A/c ...Dr. To Bills Sent for Collection A/c	Bills Payable A/c ...Dr. To Drawer's A/c
(b) Part Payment by the Drawee	Cash A/c ...Dr. To Acceptor's A/c	Cash A/c ...Dr. To Acceptor's A/c	Cash A/c ...Dr. To Acceptor's A/c	Cash A/c ...Dr. To Acceptor's A/c	Drawer's A/c ...Dr. To Cash A/c
(c) Interest Charged to Drawee	Acceptor's A/c ...Dr. To Interest A/c	Acceptor's A/c ...Dr. To Interest A/c	Acceptor's A/c ...Dr. To Interest A/c	Acceptor's A/c ...Dr. To Interest A/c	Interest A/c ...Dr. To Drawer's A/c
(d) Acceptance of New B/E	Bills Receivable A/c ...Dr. To Acceptor's A/c	Bills Receivable A/c ...Dr. To Acceptor's A/c	Bills Receivable A/c ...Dr. To Acceptor's A/c	Bills Receivable A/c ...Dr. To Acceptor's A/c	Drawer's A/c ...Dr. To Bills Payable A/c
9. Treatment of a New Bill	No Entry	Bank A/c ...Dr. Discounting Charges A/c ...Dr. To Bills Receivable A/c	Endorsee's A/c ...Dr. To Bills Receivable A/c	Bills Sent for Collection A/c ...Dr. To Bills Receivable A/c	No Entry
10. Insolvency of the Drawee					
(a) Dishonour of New B/E	Acceptor's A/c ...Dr. To Bills Receivable A/c	Acceptor's A/c ...Dr. To Bank A/c	Acceptor's A/c ...Dr. To Endorsee's A/c	Acceptor's A/c ...Dr. To Bills Sent for Collection A/c	Bills Payable A/c ...Dr. To Acceptor's A/c
(b) Receipt of Amount from the Acceptor	Cash A/c ...Dr. Bad Debts A/c ...Dr. To Acceptor's A/c	Cash A/c ...Dr. Bad Debts A/c ...Dr. To Acceptor's A/c	Cash A/c ...Dr. Bad Debts A/c ...Dr. To Acceptor's A/c	Cash A/c ...Dr. Bad Debts A/c ...Dr. To Acceptor's A/c	Drawer's A/c ...Dr. To Cash A/c To Deficiency A/c Or Profit and Loss A/c

***Always Remember**—When bill is dishonoured:

- **In the books of Drawer:** Acceptor's Account is always debited with the total amount, *i.e.*, the amount of the dishonoured bill *plus* noting charges (if any incurred).
- **In the Books of Drawee (Acceptor):** Drawer's Account is always credited with the total amount, *i.e.*, the amount of the dishonoured bill *plus* noting charges (if any incurred).

Solved Questions

Illustration 1.

On 1st January, 2019, A received ₹ 25,000 in cash and two bills for ₹ 45,000 and ₹ 30,000 for 2 months each from B, duly accepted by the latter, against sale proceeds. The first bill was endorsed to C in settlement of his account ₹ 45,500 and the second bill discounted from bank @ 12% p.a. on the date of acceptance of bills. Both the bills were dishonoured on due date. C has paid ₹ 100 and the bank has paid ₹ 80 as noting charges. B paid ₹ 20,000 and noting charges in cash and accepted a new bill for balance at 3 months. The interest on balance @ 18% p.a. was paid in cash.

On due date of the new bill, B became insolvent and no amount was recovered from his estate. Pass Journal entries in the books of the Drawer and Drawee.

Solution:

In the Books of A (Drawer)
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 Jan. 1	B To Sales A/c (Being the goods sold to B)	...Dr.	1,00,000	1,00,000
Jan. 1	Cash A/c Bills Receivable (I) A/c Bills Receivable (II) A/c To B (Being the cash and acceptance for bills received)	...Dr. ...Dr. ...Dr.	25,000 45,000 30,000	1,00,000
Jan. 1	C To Bills Receivable (I) A/c To Discount Received A/c (Being the bills receivable (I) endorsed to C in full settlement)	...Dr.	45,500	45,000 500
Jan. 1	Bank A/c Discounting Charges A/c (₹ 30,000 × 12/100 × 2/12) To Bills Receivable (II) A/c (Being the bills receivable (II) discounted @ 12% p.a.)	...Dr. ...Dr.	29,400 600	30,000
March 4	B Discount Received A/c To C (Being the bill for ₹ 45,000 dishonoured at maturity and ₹ 100 paid as noting charges)	...Dr. ...Dr.	45,100 500	45,600
March 4	B To Bank A/c (Being the amount of dishonoured bill and noting charges ₹ 80 debited to the drawee)	...Dr.	30,080	30,080
March 4	Cash A/c (₹ 20,000 + ₹ 100 + ₹ 80) To B (Being the cash received from B)	...Dr.	20,180	20,180

17.6

Double Entry Book Keeping—ISC XI

March	4	Cash A/c To Interest A/c (₹ 55,000 × 18/100 × 3/12) (Being the interest received)	...Dr.		2,475	2,475
March	4	Bills Receivable (III) A/c To B (Being the new bill accepted)	...Dr.		55,000	55,000
June	7	B To Bills Receivable (III) A/c (Being the bills receivable (III) dishonoured)	...Dr.		55,000	55,000
June	7	Bad Debts A/c To B (Being the amount due from B becoming irrecoverable)	...Dr.		55,000	55,000

In the Books of B (Drawee)

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 Jan.	1 Purchases A/c To A (Being the purchases made from A)	...Dr.	1,00,000	1,00,000
Jan.	1 A To Bills Payable (1) A/c To Bills Payable (2) A/c To Cash A/c (Being the two acceptances given for total ₹ 75,000 and balance paid in cash)	...Dr.	1,00,000	45,000 30,000 25,000
March	4 Bills Payable (1) A/c Noting Charges A/c To A (Being the bill payable (1) dishonoured on due date)	...Dr. ...Dr.	45,000 100	45,100
March	4 Bills Payable (2) A/c Noting Charges A/c To A (Being the bill payable (2) dishonoured)	...Dr. ...Dr.	30,000 80	30,080
March	4 A To Cash A/c (Being the part payment made along with noting charges)	...Dr.	20,180	20,180
March	4 Interest A/c To Cash A/c (Being the interest paid to A)	...Dr.	2,475	2,475
March	4 A To Bills Payable (3) A/c (Being the bill accepted for the balance amount)	...Dr.	55,000	55,000
June	7 Bills Payable (3) A/c To A (Being the bills payable (3) dishonoured on due date)	...Dr.	55,000	55,000
June	7 A To Deficiency or Profit and Loss A/c (Being the amount of unpaid bill transferred)	...Dr.	55,000	55,000

Illustration 2.

On 12th February, 2019, X sold goods for ₹ 6,000 to Y. On 15th February, 2019, X drew three bills of exchange worth ₹ 3,000, ₹ 2,000 and ₹ 1,000 payable after 3 months, 2 months and 1 month respectively. Y accepted all the bills and returned them to X immediately. X discounted the first bill on 15th March, 2019 @ 10% p.a. with his bank. He endorsed the second bill to Z on 20th February, 2019. He retained the third bill till maturity.

Y met the third bill on due date but dishonoured the first and the second bills. Noting charges amounting to ₹ 25 for each of these two bills were incurred.

Y was declared insolvent and could pay only 50 paise in a rupee on 30th May, 2019 in full settlement.

Pass Journal entries in the books of X and Y.

Solution:

JOURNAL OF X

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 Feb. 12	Y To Sales A/c (Being the goods sold to Y on credit)	...Dr.	6,000	6,000
Feb. 15	Bills Receivable (I, II & III) A/c To Y (Being the bills for ₹ 3,000, ₹ 2,000 and ₹ 1,000 accepted by Y payable after 3 months, 2 months and 1 month respectively)	...Dr.	6,000	6,000
Feb. 20	Z To Bills Receivable (II) A/c (Being the bills receivable endorsed)	...Dr.	2,000	2,000
March 15	Bank A/c Discounting Charges A/c To Bills Receivable (I) A/c (Being the bill receivable discounted with the bank and discounting charges recorded)	...Dr. ...Dr.	2,947 53	3,000
March 18	Bank A/c To Bills Receivable (III) A/c (Being the bill held till maturity paid by the drawee)	...Dr.	1,000	1,000

April 18	Y To Z (Being the bill endorsed to Z returned dishonoured and noting charges incurred by Z)	...Dr.	2,025	2,025
May 18	Y To Bank A/c (Being the bill discounted with the bank returned dishonoured and noting charges incurred by bank)	...Dr.	3,025	3,025
May 30	Bank A/c Bad Debts A/c To Y (Being 50% of the amount due from Y received and the balance written off as bad debts)	...Dr. ...Dr.	2,525 2,525	5,050

Note: Banker's discounting charge has been calculated for 64 days (March—16 days, April—30 days and May—18 days).

JOURNAL OF Y

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 Feb. 12	Purchases A/c To X (Being the goods purchased from X on credit)	...Dr.	6,000	6,000
Feb. 15	X To Bills Payable (I, II & III) A/c (Being the bills for ₹ 3,000, ₹ 2,000 and ₹ 1,000 accepted in favour of X payable after 3 months, 2 months and 1 month respectively)	...Dr.	6,000	6,000
March 18	Bills Payable (III) A/c To Bank A/c (Being the bill for ₹ 1,000 paid at maturity)	...Dr.	1,000	1,000
April 18	Bills Payable (II) A/c Noting Charges A/c To X (Being the bill for ₹ 2,000 not paid at maturity and noting charges payable)	...Dr. ...Dr.	2,000 25	2,025
May 18	Bills Payable (I) A/c Noting Charges A/c To X (Being the bill for ₹ 3,000 not paid at maturity and noting charges payable)	...Dr. ...Dr.	3,000 25	3,025
May 30	X To Bank A/c To Deficiency or Profit and Loss A/c (Being 50% of the amount due to X paid and the balance transferred to Deficiency or Profit and Loss Account)	...Dr.	5,050	2,525 2,525

Illustration 3.

In the books of *A* there was a balance of ₹ 20,000 due from *B* on 31st March, 2019, which was written off as bad debts in closing of the books on that date. On 10th July, 2019, *B* paid cash ₹ 18,000 in full and final settlement of his dues.

Further transactions took place between *A* and *B* as follows:

2019

Aug. 5 *A* sold goods to *B* valued at ₹ 25,000 which were paid by cheque ₹ 4,000 and a bill of exchange for ₹ 21,000 at 1 month. *A* discounted the bill of exchange at the bank for ₹ 20,800.

Sept. 8 *B*'s bill was dishonoured and *A* was called upon to take it up. This he did by paying noting charges of ₹ 100.

Sept. 9 *B* met his obligation for ₹ 21,000 with a bill at 2 months for the same amount, paid cash for noting charges on the old bill and interest of ₹ 200 on the new bill.

Nov. 12 *B* met his bill by paying cash ₹ 11,000 and accepted a fresh bill at 2 months for ₹ 10,400 including interest.

Dec. 12 *B* having become insolvent paid final dividend of 40 paise in a rupee.

Show Journal entries in the books of *A* and necessary Ledger accounts in the books of *B*.

Solution:

JOURNAL OF A

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019				
March 31	Bad Debts A/c To <i>B</i> (Being the amount due from <i>B</i> written off as bad debts)	...Dr.	20,000	20,000
March 31	Profit and Loss A/c To Bad Debts A/c (Being the bad debts transferred to Profit and Loss Account)	...Dr.	20,000	20,000
July 10	Cash A/c To Bad Debts Recovered A/c (Being the recovery of bad debts from <i>B</i> in full settlement of ₹ 20,000)	...Dr.	18,000	18,000
Aug. 5	<i>B</i> To Sales A/c (Being the goods sold)	...Dr.	25,000	25,000
Aug. 5	Bank A/c Bills Receivable A/c To <i>B</i> (Being the receipt of a cheque for ₹ 4,000 and a bill of ₹ 21,000 from <i>B</i>)	...Dr. ...Dr.	4,000 21,000	25,000
Aug. 5	Bank A/c Discounting Charges A/c To Bills Receivable A/c (Being the bill discounted with the banker for ₹ 20,800)	...Dr. ...Dr.	20,800 200	21,000
Sept. 8	<i>B</i> To Bank A/c (Being the bill dishonoured at maturity and noting charges paid ₹ 100)	...Dr.	21,100	21,100
Sept. 9	<i>B</i> To Interest A/c (Being the interest charged for the dishonour of bill)	...Dr.	200	200

17.10

Double Entry Book Keeping—ISC XI

Sept. 9	Cash A/c To B (Being the interest and noting charges paid by B in cash)	...Dr.	300	300
Sept. 9	Bills Receivable A/c To B (Being the new bill drawn on B for 2 months)	...Dr.	21,000	21,000
Nov. 12	B To Bills Receivable A/c (Being the bill cancelled for renewal)	...Dr.	21,000	21,000
Nov. 12	Cash A/c To B (Being the part payment received from B)	...Dr.	11,000	11,000
Nov. 12	B To Interest A/c (Being the interest charged on B for renewal of the bill)	...Dr.	400	400
Nov. 12	Bills Receivable A/c To B (Being a new bill drawn on B for 2 months)	...Dr.	10,400	10,400
Dec. 12	B To Bills Receivable A/c (Being the bill dishonoured due to insolvency of B)	...Dr.	10,400	10,400
Dec. 12	Bank A/c Bad Debts A/c To B (Being 40% of the amount due from B received on final settlement)	...Dr. ...Dr.	4,160 6,240	10,400

In the Books of B
A'S ACCOUNT

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
2019 March 31	To Balance c/d	20,000	2019 March 31	By Balance b/d	20,000
2019 July 10	To Cash/Bank A/c	18,000	2019 April 1	By Balance b/d	20,000
July 10	To Discount Received A/c	2,000			20,000
		20,000			20,000
2019 Aug. 5	To Bank A/c	4,000	2019 Aug. 5	By Purchases A/c	25,000
Aug. 5	To Bills Payable A/c	21,000	Sep. 8	By Bills Payable A/c	21,000
Sep. 9	To Cash A/c (₹ 100 + ₹ 200)	300	Sep. 8	By Noting Charges A/c	100
Sep. 9	To Bills Payable A/c	21,000	Sep. 9	By Interest A/c	200
Nov. 12	To Cash A/c	11,000	Nov. 12	By Bills Payable A/c	21,000
Nov. 12	To Bills Payable A/c	10,400	Nov. 12	By Interest A/c	400
Dec. 12	To Cash A/c	4,160	Dec. 12	By Bills Payable A/c	10,400
Dec. 12	To Deficiency A/c	6,240			
		78,100			78,100

Dr.			Cr.		
BILLS PAYABLE ACCOUNT					
Date	Particulars	₹	Date	Particulars	₹
2019 Sept. 8	To A	21,000	2019 Aug. 5	By A	21,000
Nov. 12	To A	21,000	Sep. 9	By A	21,000
Dec. 12	To A	10,400	Nov. 12	By A	10,400
		52,400			52,400

Dr. DISCOUNT RECEIVED ACCOUNT Cr.					
Date	Particulars	₹	Date	Particulars	₹
2020 March 31	To Profit and Loss A/c	2,000	2019 July 10	By A	2,000
Dr. NOTING CHARGES ACCOUNT Cr.					
Date	Particulars	₹	Date	Particulars	₹
2019 Sept. 8	To A	100	2020 March 31	By Profit and Loss A/c	100
Dr. INTEREST ACCOUNT Cr.					
Date	Particulars	₹	Date	Particulars	₹
2019 Sept. 9	To A	200	2020 March 31	By Profit and Loss A/c	600
Nov. 12	To A	400			
		600			
Dr. DEFICIENCY ACCOUNT Cr.					
Date	Particulars	₹	Date	Particulars	₹
2020 March 31	To Profit and Loss A/c	6,240	2019 Dec. 12	By A	6,240

Illustration 4.

On 1st January, 2019, Gaurav drew on Chetan three Bills of Exchange in full settlement of claim. The first ₹ 14,000 at one month, the second for ₹ 16,000 at two months and the third for ₹ 18,000 at three months. The bills were duly accepted by Chetan.

The first bill was endorsed by Gaurav to his creditor Tarun on 3rd January, 2019, the second bill was discounted on 15th January, 2019, for ₹ 15,900 and the third bill was sent to Bank for collection on 4th February 2019. All the bills were duly met on maturity except the second bill which was dishonoured, noting charges being ₹ 240. Gaurav charged Chetan ₹ 300 for interest and drew on him a fourth bill for two months for the amount due. The fourth bill was duly met on maturity.

Pass Journal entries in the books of Gaurav.

Solution:**In the Books of Gaurav**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 Jan. 1	Bills Receivable A/c ...Dr. To Chetan (Being the three bills received from Chetan: No. I for ₹ 14,000 at one month, No. II for ₹ 16,000 at two months and No. III for ₹ 18,000 at three months)		48,000	48,000
Jan. 3	Tarun ...Dr. To Bills Receivable A/c (Being the Bill No. I endorsed to Tarun, a creditor)		14,000	14,000
Jan. 15	Bank A/c ...Dr. Discounting Charges A/c ...Dr. To Bills Receivable A/c (Being the Bill No. II discounted from Bank)		15,900 100	16,000

Feb.	4	Bills Sent for Collection A/c To Bills Receivable A/c (Being the Bill No. III sent to bank for collection)	...Dr.	18,000	18,000
March	4	Chetan To Bank A/c (Being the Bill No. II dishonoured, noting charges ₹ 240)	...Dr.	16,240	16,240
March	4	Chetan To Interest A/c (Being the Interest for 2 months charged to Chetan)	...Dr.	300	300
March	4	Bills Receivable A/c To Chetan (Being the Bill No. IV received from Chetan at two months)	...Dr.	16,540	16,540
April	4	Bank A/c To Bills Sent for Collection A/c (Being the Bill No. III collected by Bank)	...Dr.	18,000	18,000
May	7	Bank/Cash A/c To Bills Receivable A/c (Being the amount of Bill No. IV collected on maturity)	...Dr.	16,540	16,540

Illustration 5.

Anil draws a bill of exchange on Bindu for goods supplied, for ₹ 10,000 dated 1st January at three months. Bindu accepts the bill and thereafter on 4th January Anil discounts it with his bank at 8 per cent per annum. The bill is dishonoured on presentation on the due date and the bankers debit Anil with ₹ 20 noting expenses in addition to the value of the bill. Bindu pays Anil cash ₹ 5,000 on 5th April and simultaneously accepts a fresh bill for the balance due by him, including ₹ 300 for interest and noting expenses on the first bill. The bill is paid in time. Journalise the above transactions in the books of Anil and Bindu.

Solution:**In the Books of Anil**
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)	
Jan.	1	Bills Receivable A/c To Bindu (Being the Bill accepted by Bindu for goods)	...Dr.	10,000	10,000
Jan.	4	Bank A/c Discounting Charges A/c To Bills Receivable A/c (Being the discounting of Bindu's Bill)	...Dr. ...Dr.	9,800 200	10,000
April	4	Bindu To Bank A/c (Being the dishonour of Bindu's acceptance on presentation by the Bank and the Noting Charge ₹ 20 incurred by Bank)	...Dr.	10,020	10,020
April	5	Bank A/c To Bindu (Being the part payment by Bindu against the bill dishonoured)	...Dr.	5,000	5,000
April	5	Bindu To Interest A/c (Being the interest charged in consideration of accepting a new bill)	...Dr.	300	300

Bill of Exchange

17.13

April	5	Bills Receivable A/c To Bindu (Being the Bill accepted by Bindu against dues of Bill together with noting charges of ₹ 20 and interest of ₹ 300)	...Dr.		5,320	5,320
		Bank A/c To Bills Receivable A/c (Being the cash received)	...Dr.		5,320	5,320

In the Books of Bindu
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)	
Jan.	1	Anil To Bills Payable A/c (Being the acceptance of Anil's bill given against purchase of goods)	...Dr.	10,000	10,000
April	4	Bills Payable A/c Noting Charges A/c To Anil (Being the dishonour of Anil's bill and ₹ 20 noting charges incurred by Anil)	...Dr. ...Dr.	10,000 20	10,020
April	5	Anil To Bank A/c (Being the part payment against dishonour of Anil's bill)	...Dr.	5,000	5,000
April	5	Interest A/c To Anil (Being the interest payable for renewal of bill)	...Dr.	300	300
April	5	Anil To Bills Payable A/c (Being the acceptance of a bill against the dues of bill cancelled together with noting charges and interest)	...Dr.	5,320	5,320
		Bills Payable A/c To Bank A/c (Being the payment of Anil's Bill)	...Dr.	5,320	5,320

Illustration 6.

Journalise the following transactions in the books of Ravi:

- (i) Ravi's acceptance to Dinesh for ₹ 10,000 renewed at 3 months on the condition that ₹ 2,000 be paid in cash immediately and the remaining amount will carry interest @ 10% p.a.
- (ii) Ravi's acceptance to Shyam for ₹ 5,000 is retired before the due date, rebate received being ₹ 200.
- (iii) Ravi gets Govinda's acceptance for ₹ 12,000 at 2 months discounted at 12% p.a. Later, the bill is dishonoured on the due date and the bank pays ₹ 50 as noting charges.

Solution:

In the Books of Ravi
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bills Payable A/c To Dinesh (Being the bill cancelled for renewal)	...Dr.	10,000	10,000

	Dinesh To Bank A/c (Being a part payment made)	...Dr.	2,000	2,000
	Interest A/c (WN) To Dinesh (Being the interest payable to Dinesh for the extended period)	...Dr.	200	200
	Dinesh To Bills Payable A/c (Being the acceptance of a new bill for the balance <i>plus</i> interest)	...Dr.	8,200	8,200
(ii)	Bills Payable A/c To Bank A/c To Discount Received A/c (Being the bill retired before maturity and discount received ₹ 200)	...Dr.	5,000	4,800 200
(iii)	Bank A/c Discounting Charges A/c To Bills Receivable A/c (Being the bill discounted for 2 months @ 12% p.a.)	...Dr. ...Dr.	11,760 240	12,000
	Govinda To Bank A/c (Being the bill dishonoured and noting charges paid by bank ₹ 50)	...Dr.	12,050	12,050

Working Note: Interest = ₹ 8,000 × 10/100 × 3/12 = ₹ 200.

Illustration 7.

On 1st January, 2019, A sold goods of the value of ₹ 20,000 to B on credit and drew a bill for 3 months for the same amount which B accepted on the same date. The bill was discounted for ₹ 19,700. On the due date, B notified his inability to meet the bill and requested A to take it up and pay the noting charges of ₹ 150, which A did. The following day B met his obligation with a bill at 2 months for the amount together with interest at 6% p.a. and paid cash for noting charges. When the bill became due, B paid ₹ 10,000 and accepted a fresh bill at 3 months for ₹ 10,500. B became insolvent before this last bill became due and a first and final dividend of 25 paise in the rupee was realised from his estate on 1st December, 2019.

Pass Journal entries in the books of A to record the above transactions.

Solution:

In the Books of A JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 Jan. 1	B To Sales A/c (Being the goods sold to B on credit)	...Dr.	20,000	20,000
Jan. 1	Bills Receivable A/c To B (Being the acceptance received of the bill drawn on B for 3 months)	...Dr.	20,000	20,000
	Bank A/c Discounting Charges A/c To Bills Receivable A/c (Being the bill discounted for ₹ 19,700)	...Dr. ...Dr.	19,700 300	20,000

Bill of Exchange**17.15**

April	4	<i>B</i> To Bank A/c (Being the bill dishonoured at maturity—noting charges ₹ 150 paid by bank)	...Dr.	20,150	20,150
April	5	Cash A/c To <i>B</i> (Being the noting charges received in cash)	...Dr.	150	150
April	5	<i>B</i> To Interest A/c (Being the interest charged for 2 months @ 6% p.a. on ₹ 20,000)	...Dr.	200	200
April	5	Bills Receivable A/c To <i>B</i> (Being a fresh bill drawn on <i>B</i> for 2 months)	...Dr.	20,200	20,200
June	8	<i>B</i> To Bills Receivable A/c (Being the bill dishonoured at maturity)	...Dr.	20,200	20,200
June	8	Cash A/c To <i>B</i> (Being the part payment received)	...Dr.	10,000	10,000
June	8	<i>B</i> To Interest A/c (Being the interest charged for the period extended)	...Dr.	300	300
June	8	Bills Receivable A/c To <i>B</i> (Being a further bill drawn on <i>B</i> for 3 months)	...Dr.	10,500	10,500
Sept.	11	<i>B</i> To Bills Receivable A/c (Being the 3rd bill also dishonoured)	...Dr.	10,500	10,500
Dec.	1	Bank A/c Bad Debts A/c To <i>B</i> (Being a first and final dividend received from the estate of <i>B</i> @ 25 paise in a rupee)	...Dr. ...Dr.	2,625 7,875	10,500

Illustration 8.

K owes ₹ 60,000 to *Z*. The debt is discharged by *K* on 1st June, 2019 by accepting two bills of exchange drawn on him by *Z*—one for ₹ 40,000 at 2 months and the other for ₹ 20,000 at 3 months. The first bill is endorsed in favour of *R*, a creditor, in full settlement of his debt for ₹ 42,000. The second bill is discounted with the bank at 15% p.a. on 4th June. Both the bills were dishonoured, the noting charges in each case being ₹ 600. On 5th September, *K* agreed to accept another bill for the total amount including interest @ 18% p.a. payable after 3 months. On the due date the bill was dishonoured. *K* was declared insolvent and a final dividend @ 30% was realised from his estate.

Show the Journal entries in the books of *Z* and *K*.

Solution:**In the Books of Z**
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 June 1	Bills Receivable A/c ...Dr. To K (Being the acceptance received of the two bills of ₹ 40,000 and ₹ 20,000 drawn on K for 2 and 3 months respectively)		60,000	60,000
June 1	R ...Dr. To Bills Receivable A/c To Discount Received A/c (Being the bill for ₹ 40,000 endorsed in favour of R in full settlement of a debt of ₹ 42,000)		42,000	40,000 2,000
June 4	Bank A/c ...Dr. Discounting Charges A/c ...Dr. To Bills Receivable A/c (Being the bill for ₹ 20,000 discounted @ 15% p.a.)		19,250 750	20,000
Aug. 4	K ...Dr. Discount Received A/c ...Dr. To R (Being the bill for ₹ 40,000 dishonoured at maturity—noting charges ₹ 600)		40,600 2,000	42,600
Sept. 4	K ...Dr. To Bank A/c (Being the bill for ₹ 20,000 dishonoured at maturity—noting charges ₹ 600)		20,600	20,600
Sept. 5	K ...Dr. To Interest A/c (Note) (Being the interest charged for the extended period)		3,363	3,363
Sept. 5	Bills Receivable A/c ...Dr. To K (Being a new bill drawn for the balance plus interest duly accepted by K)		64,563	64,563
Dec. 8	K ...Dr. To Bills Receivable A/c (Being the bill dishonoured at maturity)		64,563	64,563
	Bank A/c ...Dr. Bad Debts A/c ...Dr. To K (Being a final dividend of 30% received in full settlement)		19,369 45,194	64,563

In the Books of K
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 June 1	Z ...Dr. To Bills Payable A/c (Being the acceptance given of two bills of ₹ 40,000 and ₹ 20,000 from Z respectively for 2 and 3 months)		60,000	60,000

Bill of Exchange**17.17**

Aug.	4	Bills Payable A/c Noting Charges A/c To Z (Being the bill for ₹ 40,000 dishonoured—noting charges ₹ 600)	...Dr. ...Dr.	40,000 600	40,600
Sept.	4	Bills Payable A/c Noting Charges A/c To Z (Being the bill for ₹ 20,000 dishonoured—noting charges ₹ 600)	...Dr. ...Dr.	20,000 600	20,600
Sept.	5	Interest A/c To Z (Note) (Being the interest payable for the extended period)	...Dr.	3,363	3,363
Sept.	5	Z To Bills Payable A/c (Being the acceptance of a new bill for the balance <i>plus</i> interest)	...Dr.	64,563	64,563
Dec.	8	Bills Payable A/c To Z (Being the bill dishonoured at maturity)	...Dr.	64,563	64,563
		Z To Bank A/c To Deficiency A/c (Being a final dividend of 30% paid in full settlement)	...Dr.	64,563	19,369 45,194

Note: Interest for the extended period:

	₹
₹ 40,600 for 4 months @ 18% p.a.	2,436
₹ 20,600 for 3 months @ 18% p.a.	927
	<u>3,363</u>

Illustration 9.

Record the following in the Journal:

- Our own acceptance to Gupta & Co. for ₹ 5,000 dishonoured due to omission of necessary instructions to our bank. Gupta & Co., claims ₹ 5,200 including noting charges which is settled by issue of cheque.
- Patil's promissory note for ₹ 10,000 endorsed in favour of Wadekar was dishonoured. Wadekar paid ₹ 250 as noting charges. We paid Wadekar by cheque and accepted from Patil another bill for the amount due *plus* interest ₹ 300.
- Renewed our acceptance to Kaul & Bros. for ₹ 20,000 by cheque ₹ 8,000 and a new bill for the balance at 3 months at 10% p.a. interest.
- Vijay Malhotra's acceptance for ₹ 7,500 renewed for 2 months at 12% p.a. interest.
- Our acceptance to Mohan for ₹ 20,000 retired before the date, rebate allowed to us was ₹ 250.
- Our acceptance to Ajay Verma for ₹ 12,000 was discharged by Arun Thaman's acceptance to us for a similar amount.
- Roy's acceptance for ₹ 14,000 which we sent to the bank for collection was returned by the bank as being dishonoured. Bank paid ₹ 200 as noting charges.
- Gaurav renewed a bill for ₹ 13,000 drawn by us by paying us ₹ 5,000 and accepting a new bill for the balance for 2 months, interest at 12% p.a. being paid in cash forthwith.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Bills Payable A/c ...Dr.		5,000	
	Noting Charges A/c ...Dr. To Gupta & Co. (Being our acceptance to Gupta & Co. dishonoured and noting charges ₹ 200 paid by Gupta & Co.)		200	5,200
	Gupta & Co. ...Dr. To Bank A/c (Being the payment made by cheque)		5,200	5,200
(b)	Patil ...Dr. To Wadekar (Being the Patil's promissory note for ₹ 10,000 endorsed in favour of Wadekar dishonoured and noting charges ₹ 250 paid by Wadekar)		10,250	10,250
	Wadekar ...Dr. To Bank A/c (Being the payment made by cheque)		10,250	10,250
	Patil ...Dr. To Interest A/c (Being the interest charged for the extended period of credit)		300	300
	Bills Receivable A/c ...Dr. To Patil (Being acceptance given by Patil for the amount due ₹ 10,250 plus interest ₹ 300)		10,550	10,550
(c)	Bills Payable A/c ...Dr. To Kaul & Bros. (Being the old acceptance to Kaul & Bros. cancelled)		20,000	20,000
	Kaul & Bros. ...Dr. To Bank A/c (Being the part payment of the old bill made by cheque)		8,000	8,000
	Interest A/c ...Dr. To Kaul & Bros. (Being interest @ 10% on ₹ 12,000—the balance of the old bill—for 3 months)		300	300
	Kaul & Bros. ...Dr. To Bills Payable A/c (Being the new acceptance given for 3 months for the balance of the amount of old bill plus interest ₹ 300)		12,300	12,300
(d)	Vijay Malhotra ...Dr. To Bills Receivable A/c (Being the Vijay Malhotra's acceptance cancelled)		7,500	7,500
	Vijay Malhotra ...Dr. To Interest A/c (Being the interest charged @ 12% p.a. for 2 months on ₹ 7,500)		150	150
	Bills Receivable A/c ...Dr. To Vijay Malhotra (Being the new acceptance for 2 months received including interest)		7,650	7,650

Bill of Exchange

17.19

(e)	Bills Payable A/c To Bank A/c To Rebate A/c (Being our acceptance for ₹ 20,000 retired before due date for ₹ 19,750)	...Dr.	20,000	19,750 250
(f)	Bills Payable A/c To Bills Receivable A/c (Being the acceptance to Ajay Verma discharged by endorsing Arun Thaman's acceptance in favour of Ajay Verma)	...Dr.	12,000	12,000
(g)	Roy To Bills Sent for Collection A/c To Bank A/c (Being the bills sent to the bank for collection dishonoured and noting charges paid by bank debited to Roy and credited to Bank)	...Dr.	14,200	14,000 200
(h)	Gaurav To Bills Receivable A/c (Being the Gaurav's acceptance cancelled)	...Dr.	13,000	13,000
	Cash A/c To Gaurav (Being part payment of the old bill received)	...Dr.	5,000	5,000
	Cash A/c To Interest A/c (Being the interest on ₹ 8,000—balance of the bill—for 2 months @ 12% p.a.)	...Dr.	160	160
	Bills Receivable A/c To Gaurav (Being the new acceptance for 2 months received from Gaurav)	...Dr.	8,000	8,000

Illustration 10.

On 1st January, 2019, A sold goods to the value of ₹ 10,000 to B on credit and draws a bill for three months for the same amount. B accepts it and returns it to A. The bill was discounted for ₹ 9,850. On the due date, B notified his inability to meet the bill and requested A to take it up and pay the noting charge of ₹ 175, which A did. The following day B met his obligation with a bill at two months for the amount together with interest at 6% p.a. and paid cash for noting charges. When the bill became due, B paid ₹ 5,000 and accepted a fresh bill at three months for ₹ 5,250. B became insolvent before this last bill become due and a first and final dividend of 60 paise in a rupee was received from his estate on 1st December, 2019.

Pass the necessary Journal entries in the books of A to record the above transaction.

Solution:

JOURNAL OF A

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 Jan. 1	B To Sales A/c (Being the goods sold to B on credit)	...Dr.	10,000	10,000
Jan. 1	Bills Receivable A/c To B (Being the acceptance of the bill received from B)	...Dr.	10,000	10,000

?	Bank A/c	...Dr.	9,850	
	Discounting Charges A/c	...Dr.	150	
	To Bills Receivable A/c			10,000
	(Being the bill discounted for ₹ 9,850)			
April 4	B	...Dr.	10,175	
	To Bank A/c			10,175
	(Being the bill dishonoured at maturity—noting charges ₹ 175 paid)			
April 5	Cash A/c	...Dr.	175	
	To B			175
	(Being noting charges received in cash)			
April 5	B	...Dr.	100	
	To Interest A/c			100
	(Being the interest due @ 6% p.a. on ₹ 10,000 for 2 months)			
April 5	Bills Receivable A/c	...Dr.	10,100	
	To B			10,100
	(Being the acceptance of the fresh bill received from B)			
June 8	B	...Dr.	10,100	
	To Bills Receivable A/c			10,100
	(Being the bill dishonoured at maturity)			
June 8	Cash A/c	...Dr.	5,000	
	To B			5,000
	(Being the part payment received)			
June 8	B	...Dr.	150	
	To Interest A/c			150
	(Being the interest charged for the period extended, (i.e., ₹ 5,250 – ₹ 5,100 = ₹ 150))			
June 8	Bills Receivable A/c	...Dr.	5,250	
	To B			5,250
	(Being a further bill drawn on B for 3 months and accepted by him)			
Sept. 11	B	...Dr.	5,250	
	To Bills Receivable A/c			5,250
	(Being the 3rd bill also dishonoured)			
Dec. 1	Bank A/c (₹ 5,250 × 60/100)	...Dr.	3,150	
	Bad Debts A/c (₹ 5,250 × 40/100)	...Dr.	2,100	
	To B			5,250
	(Being a first and final dividend received from the estate of B @ 60 paise in a rupee)			

Advanced Level Questions

Illustration 11.

D owes ₹ 30,000 to *S*. The debt is discharged by *D* on 1st June, 2019 by accepting two bills of exchange drawn on him by *S*—One for ₹ 20,000 at 2 months and the other for ₹ 10,000 at 3 months. The first bill is endorsed in favour of *C*, a creditor, in full settlement of his debt for ₹ 21,000. The second bill is discounted with the bank at 12% p.a. on 4th June. Both the bills were dishonoured on the due date, the noting charges in each case being ₹ 500. On 5th September, *D* agreed to accept another bill for the total amount including interest @ 15% p.a. payable after 3 months. On the due date the bill was dishonoured. *D* was declared insolvent and his estate paid 60 paise in the rupee of 8th December, 2019. Show Journal entries in respect of the above in the books of *S* and *D*.

Solution:JOURNAL OF *S*

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 June 1	Bills Receivable A/c (1) ...Dr. Bills Receivable A/c (2) ...Dr. To <i>D</i> (Being two bills of ₹ 20,000 and ₹ 10,000 drawn on <i>D</i> for 2 and 3 months respectively)		20,000 10,000	30,000
June 1	<i>C</i> ...Dr. To Bills Receivable (1) A/c To Discount Received A/c (Being the bill for ₹ 20,000 endorsed in favour of <i>C</i> in full settlement of a debt of ₹ 21,000)		21,000	20,000 1,000
June 4	Bank A/c ...Dr. Discounting Charges A/c (₹ 10,000 × 12/100 × 3/12) ...Dr. To Bills Receivable (2) A/c (Being the bill for ₹ 10,000 discounted @ 12% p.a.)		9,700 300	10,000
August 4	<i>D</i> ...Dr. Discount Received A/c ...Dr. To <i>C</i> (Being the bill for ₹ 20,000 dishonoured at maturity—noting charges ₹ 500 paid by <i>C</i>)		20,500 1,000	21,500
Sept. 4	<i>D</i> ...Dr. To Bank A/c (Being the bill for ₹ 10,000 dishonoured at maturity—noting charges ₹ 500 paid)		10,500	10,500
Sept. 5	<i>D</i> ...Dr. To Interest A/c (WN) (Being the interest charged for the extended period)		1,419	1,419
Sept. 5	Bills Receivable (New) A/c ...Dr. To <i>D</i> (₹ 20,500 + ₹ 10,500 + ₹ 1,419) (Being a new bill drawn on <i>D</i> for the balance plus interest)		32,419	32,419
Dec. 8	<i>D</i> ...Dr. To Bills Receivable (New) A/c (Being the fresh bill dishonoured due to <i>D</i> 's insolvency)		32,419	32,419
Dec. 8	Bank A/c ...Dr. Bad Debts A/c ...Dr. To <i>S</i> (Being the first and final dividend received @ 60 paise in a rupee of the net amount due)		19,451* 12,968*	32,419

In the Books of D
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 June 1	S To Bills Payable A/c (1) To Bills Payable A/c (2) (Being the acceptance of two bills of ₹ 20,000 and ₹ 10,000 given to S for 2 and 3 months respectively)	...Dr.	30,000	20,000 10,000
August 4	Bills Payable Ac Noting Charges A/c To S (Being the bill for ₹ 20,000 dishonoured, noting charges ₹ 500)	...Dr. ...Dr.	20,000 500	20,500
Sept. 4	Bills Payable A/c Noting Charges A/c To S (Being the bill for ₹ 10,000 dishonoured, noting charges ₹ 500)	...Dr. ...Dr.	10,000 500	10,500
Sept. 5	Interest A/c To S (WN) (Being the interest payable for the extended period)	...Dr.	1,419	1,419
Sept. 5	S To Bills Payable A/c (Being the acceptance of a new bill for the balance <i>plus</i> , noting charges)	...Dr.	32,419	32,419
Dec. 8	Bills Payable A/c To S (Being the bill dishonoured at maturity)	...Dr.	32,419	32,419
Dec. 8	S To Bank A/c To Deficiency or Profit and Loss A/c (Being ₹ 19,451 paid to S and the balance amount not paid due to insolvency)	...Dr.	32,419	19,451* 12,968*

Working Note: Calculation of Interest for the extended period (Ignoring days):

₹ 20,500 for 4 months @ 15% p.a. (₹ 20,500 × 4/12 × 15/100)

₹ 10,500 for 3 months @ 15% p.a. (₹ 10,500 × 3/12 × 15/100)

₹

1,025

394 (Approx.)

1,419

*Approximately.

Illustration 12.

A sold goods to B for ₹ 30,000 on 1st January, 2019. A drew upon him a three months bill for the amount. B accepted the bill and returned it to A who discounted the bill @ 10% p.a with a bank on 4th January. On the due date, the bill is dishonoured by B, the noting charges being ₹ 100. On 4th April, 2019, B makes an offer to A to pay him ₹ 10,000 by current date cheque on account and to settle the balance by agreeing to accept one bill of exchange for ₹ 12,000 at one month, and the other for the balance at three months—the latter including interest @ 8% p.a. for both the bills. B accepts the arrangement. The first bill is met on the due date. But before the maturity of the second bill, B becomes insolvent and a dividend of 50 paise in the rupee is realised from his estate on 4th July, 2019.

Pass Journal entries in respect of the above in the books of A and B.

Solution:

In the Books of A
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 Jan. 1	<i>B</i> ...Dr. To Sales A/c (Being the sale of goods to <i>B</i>)		30,000	30,000
Jan. 1	Bills Receivable A/c ...Dr. To <i>B</i> (Being the acceptance received)		30,000	30,000
Jan. 4	Bank A/c ...Dr. Discounting Charges A/c ...Dr. To Bills Receivables A/c (Being the bill discounted with bank @ 10% p.a.)		29,250 750	30,000
April 4	<i>B</i> ...Dr. To Bank A/c (Being the bill dishonoured at maturity, noting charges ₹ 100)		30,100	30,100
April 4	Bank A/c ...Dr. To <i>B</i> (Being the part payment received from <i>B</i>)		10,000	10,000
April 4	<i>B</i> ...Dr. To Interest A/c (WN 1) (Being the interest charged for renewing the bill)		242	242
April 4	Bills Receivable A/c ...Dr. To <i>B</i> (Being the fresh bill drawn on <i>B</i> for 1 month and accepted by him)		12,000	12,000
April 4	Bills Receivable A/c (WN 2) ...Dr. To <i>B</i> (Being the another bill drawn on <i>B</i> for the balance along with interest for both the bills)		8,342	8,342
May 7	Bank A/c ...Dr. To Bills Receivable A/c (Being the first bill honoured at maturity)		12,000	12,000
May 7	<i>B</i> ...Dr. To Bills Receivable A/c (Being the second bill dishonoured at maturity)		8,342	8,342
July 4	Bank A/c ...Dr. Bad Debts A/c ...Dr. To <i>B</i> (Being 50% of the amount due from <i>B</i> received in full settlement)		4,171 4,171	8,342

Working Notes:

- | | |
|--|------------|
| 1. Interest on ₹ 12,000 @ 8% p.a. for 1 month ($₹ 12,000 \times 8/100 \times 1/12$) | ₹
80 |
| Add: Interest on ₹ 8,100 @ 8% p.a. for 3 months ($₹ 8,100 \times 8/100 \times 3/12$) | 162 |
| Total | <u>242</u> |
2. ₹ 30,000 – (₹ 10,000 + ₹ 12,000) + ₹ 100 (Noting Charges) + ₹ 242 (Interest) = ₹ 8,342.

In the Books of B
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019				
Jan. 1	Purchases A/c ...Dr. To A (Being the purchase of goods from A)		30,000	30,000
Jan. 1	A ...Dr. To Bills Payable A/c (Being the acceptance of the bill given to A)		30,000	30,000
April 4	Bills Payable A/c ...Dr. Noting Charges A/c ...Dr. To A (Being the bill dishonoured by us at maturity and noting charges payable)		30,000 100	30,100
April 4	A ...Dr. To Bank A/c (Being the part payment made)		10,000	10,000
April 4	Interest A/c ...Dr. To A (Being the interest payable to A for renewing the bill)		242	242
April 4	A ...Dr. To Bills Payable A/c (Being the acceptance of a bill for one month)		12,000	12,000
April 4	A ...Dr. To Bills Payable A/c (Being the acceptance of another bill for 3 months for the balance amount with interest)		8,342	8,342
May 7	Bills Payable A/c ...Dr. To Bank A/c (Being the first bill discharged)		12,000	12,000
May 7	Bills Payable A/c ...Dr. To A (Being the bill for 3 months dishonoured due to insolvency)		8,342	8,342
July 4	A ...Dr. To Bank A/c To Deficiency or Profit and Loss A/c (Being 50% of the amount due paid in full settlement and the balance in A's Account transferred to Deficiency or Profit and Loss Account)		8,342	4,171 4,171

Unsolved Questions

1. On 15th March, 2019, X draws on Y two bills of exchange for ₹ 15,000 and ₹ 10,000 payable at 3 months. On 20th March, 2019, X endorses the first bill to his creditor A. On 1st April, 2019, A endorses the same bill to B. The second bill is retained by X till maturity. On due date, those two bills are dishonoured, noting charges for first and second bill being ₹ 300 and ₹ 200 respectively. Y then makes an offer to X to pay him ₹ 5,500 cash on account and to settle the balance plus interest @ 9% p.a. by agreeing to accept a bill of exchange payable at 4 months. X accepts the arrangement. But this bill is also dishonoured due to insolvency of Y and first and final dividend of 20% is received from Y's estate.
Show Journal entries in the books of X and Y.
2. On 1st January, 2019, X received from Y three bills of exchange for ₹ 6,000, ₹ 8,000 and ₹ 10,000 for 6 months, 4 months and 3 months respectively. On 3rd January, the first bill was discounted by X with his bank at a discount of 5% p.a. On 1st February, 2019, the 3rd bill was endorsed in favour of a creditor Z. The second bill was retained till the due date. On due dates all the three bills were dishonoured.
Show necessary Journal entries in the books of X and Y.
3. B, being unable to meet his acceptance for ₹ 2,000 due on 15th June, approaches the drawer A (who is in possession of the bill) on 30th June, with request to receive ₹ 800 in cash and draw a new bill on him for the balance plus ₹ 15 for interest at 3 months' date and cancel the old bill for ₹ 2,000. A agrees to this.
Pass entries in the books of A and B.
4. On 15th June, 2019, Mohan sold goods to Sohan valued at ₹ 20,000. He drew a 3 months bill for the amount and discounted the same with his bank for ₹ 19,500. On due date, the bill was dishonoured and Mohan paid the bank the amount due plus the noting charges of ₹ 500.
Draft Journal entries in the books of all the parties.
5. On 1st June, 2019, A sold goods to B for ₹ 25,000. B gave to A his acceptance payable 1 month after date. Before maturity B requests A to renew it, which A does adding ₹ 1,000 to the new bill for interest.
Pass necessary Journal entries to record these transactions in the books of both A and B.
6. A sold goods to B on 1st September, 2019 for ₹ 16,000. B immediately accepted a 3 months bill for the amount. On due date, B requested that the bill be renewed for a further period of 2 months. A agreed provided interest at 9% p.a. was paid immediately in cash. To this B agreed. The second bill was met on due date.
Give Journal entries in the books of A.
7. Amar sells goods to Bhola for ₹ 10,000. He draws upon Bhola a bill for the amount payable 3 months after date. The bill is accepted by Bhola. Amar discounts the bill with his bank at a discount of ₹ 150 inclusive of all charges. Bhola fails to meet this bill on maturity. Amar pays off his bank and his expenses amounting to ₹ 100. Bhola gives a fresh bill of 2 months' date to Amar for ₹ 10,250, which he meets at maturity.
Show necessary Journal entries in Amar's books.

GUIDE TO ANSWER

1. Interest on new bill—₹ 600; Bad Debts—₹ 16,480.