

Q1. Name any two types of commonly used negotiable instruments.

Solution:

Cheques and Bills of exchange are the commonly used negotiable instruments.

Q2. Write two points of distinction between bills of exchange and promissory note.

Solution:

Bills of Exchange	Promissory Note
A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker directing a certain person to pay a certain amount of money only to, or to the order of a certain person or to the bearer of the instrument.	A promissory note is an instrument in writing 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.
There are three parties involved, namely drawer, drawee and payee.	There are two parties involved, namely maker and payee.

Q3. State any four essential features of bill of exchange.

Solution:

Essential features of bills of exchange are as follows:

1. A bill of exchange is a written order to make payment.
2. It is an unconditional order to make payment by a person i.e. drawee.
3. The amount of bill of exchange and the date of payment are certain.
4. It is signed by the drawer of the bill.
5. It is accepted by the drawee by signing on it.
6. The amount specified in the bill of exchange is payable either on demand or on the expiry of a fixed period.
7. The amount specified in the bill is payable either to a certain person or to his order or to the bearer of the bill.
8. It is stamped as per legal requirements.

Q4. State the three parties involved in a bill of exchange.

Solution:

There are three parties in a bill of exchange:

1. Drawer is the person who makes the bill of exchange. She/he is a person who has granted credit to the person on whom the bill of exchange is drawn. The drawer is entitled to receive money from the drawee (acceptor).
2. Drawee is the person on whom the bill of exchange is drawn for acceptance and to whom credit has been granted by the drawer. He/she is liable to pay money to the creditor/drawer.
3. Payee is the person who receives the payment from the drawee. Usually the drawer and the payee are the same person.

Q5. What is meant by maturity of a bill of exchange?**Solution:**

The date calculated after adding 3 days of grace to the due date of a bill is called the date of maturity of a bill. It is to be noted that when a bill is to be payable on demand/at sight, then days of grace is not applicable. When the period of a bill is mentioned in days, the maturity of bill is calculated in days. Similarly, when the period of a bill is mentioned in months, the maturity of bill is calculated in months. In certain cases, when the maturity date of any bill falls on a public holiday, then the maturity date of the bill will be the previous business day.

Q6. What is meant by dishonour of a bill of exchange?**Solution:**

When the drawee of the bill fails to make the payment on the maturity date of the bill, then the bill is said to have been dishonoured. Hence, liability of the acceptor is restored. Entries made for recording dishonour of the bill of exchange are as follows:

In the books of drawer

Drawee's A/c	Dr.
To Bills Receivable A/c	
(Being bill dishonoured)	

In the books of drawee

Bills Payable A/c	Dr.
To Drawer's A/c	
(Being bill dishonoured)	



Q7. Name the parties to a promissory note**Solution:**

There are two parties to a promissory note:

1. Maker- The person who makes the note and undertakes to pay the amount.
2. Payee- The person who receives the payment.

Q8. What is meant by acceptance of a bill of exchange?**Solution:**

A bill of exchange is a written instrument which contains an unconditional order directing a person to pay a certain amount on an agreed date. In other words, it is drawn by the creditor on her/his debtors to make a payment of a certain amount on the mentioned date. Such a bill comes into existence after the consent of both the parties. A bill cannot come into existence without the acceptance of a debtor. Hence, the debtor of the bill has to accept the terms of the bill, sign the same and make it a legal document.

Q9. What is noting of a bill of exchange?**Solution:**

When the drawee of the bill fails to make the payment on the maturity date of the bill, then the bill is said to have been dishonoured. To have a legal proof of the dishonour, the bill gets noted by the notary public who is approved by the central/state government. The notary public charges fees called the noting charges for noting and protesting the bill of exchange of its dishonour.

Q10. What is meant by renewal of a bill of exchange?**Solution:**

When the drawee does not have enough funds to make the payment, he may approach the drawer and ask for an extension of time for the payment. If the drawer agrees, then a new bill is drawn which is known as renewal of bill. The new bill may include interest for the extended period.

Q13. What is retirement of a bill of exchange?**Solution:**

When the drawee of the bill pays off the amount of the bill before the maturity of the bill it is called retirement of the bill. Holder of the bill may give discount for such earlier payment which is called 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	

(Being bill amount received before maturity and rebate allowed for retirement of the bill)

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

Bills Payable A/c	Dr.
To Cash A/c	
To Rebate A/c	

(Being bill paid and rebate received on retirement of the bill)

Q14. Give the meaning of rebate.**Solution:**

If the drawee wishes to pay the bill before the due date of the bill to the holder and the holder accepts such request, then due to the early payment, the holder may give some discount to the drawee. Such a discount is termed as rebate.

Q15. Give the performa of a Bill of Exchange.**Solution:**

Performa of a Bill of exchange is given below.

BILL OF EXCHANGE

₹60,000	Delhi, 10th January, 2016	
<table border="1"> <tr> <td style="text-align: center;">Stamp</td> </tr> </table>	Stamp	3 Months after the date pay Mrs. Sridevi Iyer or order the sum of sixty thousand rupees only, value received.
Stamp		
To Shri. Aloknath New Delhi	Shashikant Tambe	