

Principles of Accounting - ICOM Part 1 Principles of Accounting Chapter 6 Short Question Preparation

Q1. Define endorsement.

Ans 1: If the drawer or holder of the bill exchange transfers it to his creditor or third party it is known as endorsement .

Q2. Write two benefits of bills of exchange.

Ans 1:

1. Bills of exchange is a negotiable instrument and can be transferred for the settlement of one debts without difficulty.
2. It is an easy means of transmitting money from one place to another.

Q3. Define bills of exchange.

Ans 1: A bill of exchange is an unconditional order in writing to pay on demand or at a future date,a certain sum in money to the bearer of the bill.

Q4. What is meant by discounting of bill of exchange?

Ans 1: If the drawer of the bill is in need of money ,he may sell the bill to his banker or any other financial institution,it is called discounting of the bill.On receipt of bill the bank pay cash to the drawer after deducting some percentage of the discount.

Q5. What is renewal of bill?

Ans 1: When drawee is not in position to meet the original bill at maturity,he may request to the drawer to draw a new bill for the extended period,The acceptor in this case would of course have to pay interest for the extension of time is called renewal of bill.

Q6. Define acceptance of the bill.

Ans 1: Acceptance is an induction on part drawee that he is willing to accept the liability under the bill.It is given by putting the signature across the face of the bill together with the place and date.

Q7. What is meant by dishonoring of bill?

Ans 1: A bill of exchange is said to be dishonored ,if the drawee refuses to make the payment of the bill,to the holder of it at its maturity.

Q8. How many parties are involved in bill of exchange?

Ans 1: There are three parties involved in bill of exchange

Drawer: The person who draws the bill of exchange is known as drawer.

Drawee: The person who signs the bill of exchange and thereby accepts to pay the money on demand is known as drawee.

Payee: Sometimes the bill of exchange is endorsed or transferred to other person in exchange of a payment.

Q9. Name parties involved in a bill of exchange.

Ans 1: 1. Drawer

2. Drawee

3. Payee

Q10. What are grace days?

Ans 1: It is customary to allow three days to the drawee to pay the amount of the in case of term bill, These three days are known as days of grace, It is difference between tenor and maturity.
