

# Bill of Exchange



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1. **A Bill of Exchange must contain which of the following mandatory elements, as per its definition?**

**A** A conditional promise to pay

**B** An unconditional order to pay

**C** An unconditional request to pay

**D** A conditional order to pay

### **Solution**

- The core legal requirement for a Bill of Exchange is that it must contain an "unconditional order" to pay.
- The instrument is an order (a command) from the drawer to the drawee.
- The order must be unconditional; if the order is made contingent on the fulfillment of any other act, the instrument ceases to be a valid Bill of Exchange.
- A "promise to pay" is the essential element of a Promissory Note, not a Bill of Exchange.
- An order to pay out of a particular fund is generally considered a conditional order and, therefore, invalidates the bill.

2. In a typical Bill of Exchange transaction involving a seller (who draws the bill) and a buyer (who is ordered to pay), the buyer is referred to as the:

**A** Payee

**B** Drawer

**C** Drawee

**D** Holder

### Solution

- Drawer: The person who draws or makes the bill (the seller/creditor).
- Drawee: The person on whom the bill is drawn and is ordered to pay (the buyer/debtor).
- Payee: The person to whom the payment is to be made (can be the drawer or a third party).
- Once the drawee signs the bill, giving assent to the order, the drawee is then called the Acceptor.

3. For a Bill of Exchange payable 'after sight' (time bill), the number of 'Days of Grace' generally allowed in India to calculate the date of maturity is:

A Two days

**B Three days**

C Seven days

D Thirty days

### Solution

- Under the Negotiable Instruments Act, 1881, instruments payable at a specified period after date, or after sight, are entitled to three days of grace.
- These three days are added to the day on which the bill or note is expressed to be due to arrive at the legal date of maturity.
- This rule applies to all time instruments, including Bills of Exchange and Promissory Notes, but not to instruments payable 'on demand' (sight instruments).
- If the date of maturity falls on a public holiday (e.g., Sunday), the instrument is due on the preceding business day.
- If a sudden, unexpected holiday is declared by the Government (emergency holiday), the bill matures on the next succeeding

business day.

#### 4. What is the role of a 'Drawee in Case of Need' in a Bill of Exchange?

**A** The person who guarantees the bill's payment to the drawee.

**B**

**An alternative drawee named by the drawer who is to accept/pay the bill if the original drawee dishonours it.**

**C** The legal representative of the original drawee in case of his death.

**D** A person who accepts the bill for the honour of the drawer or endorser.

#### **Solution**

- Drawee in Case of Need is a person named in the bill by the drawer (or any endorser) who is to be approached for acceptance or payment only if the original drawee dishonours the bill.
- This provision provides an additional layer of security for the holder of the bill.
- The bill is not deemed dishonoured until it has been presented to the drawee in case of need and dishonoured by them as well (Section 115).
- The main drawee's refusal is only the first step; the holder must then present it to the 'Drawee in Case of Need'.
- The party accepting the bill upon its dishonour is called an 'Acceptor for Honour', which is different from a 'Drawee in Case of Need'.

5. **When the drawee accepts a Bill of Exchange subject to a condition, such as "Accepted payable only when the consignee sells the goods," this type of acceptance is known as:**

**A** General Acceptance

**B** Bank Acceptance

**C** Qualified Acceptance

**D** Acceptance for Honour

### **Solution**

- Qualified Acceptance (or Conditional Acceptance) is one where the drawee accepts the bill subject to a condition, limitation, or qualification in the form of amount, time, place, or event.
- The example provided is a qualification as to the event (selling the goods).
- A General Acceptance is an unconditional agreement to the order of the drawer.
- The holder is not bound to take a Qualified Acceptance; if the holder refuses it, the bill is deemed to be dishonoured by non-acceptance.
- Acceptance for Honour occurs after the original drawee has already refused and the bill is noted/protected.

6. A Bill of Exchange is drawn in Mumbai on a person residing in Delhi and is payable in Chennai. This bill is classified as:

A Foreign Bill

B Inland Bill

C Documentary Bill

D Accommodation Bill

### Solution

- An Inland Bill is one which is (a) drawn and payable within India, OR (b) drawn in India upon any person resident in India.
- In this case, the bill is both drawn in India (Mumbai) and drawn upon a person resident in India (Delhi), fulfilling the criteria for an Inland Bill. The place of payment (Chennai) is also in India.
- A Foreign Bill is one which is not an Inland Bill (e.g., drawn in India and payable outside India, or drawn outside India and payable in India).

**7. What happens when the holder of a Bill of Exchange gets it discounted from a bank?**

**A** The holder has simply transferred the ownership to the bank.

**B**

**The bank becomes the Holder-in-Due Course, and the holder of the bill becomes contingently liable to the bank.**

**C** The bank becomes the Drawee of the bill.

**D** The bank becomes the Payee and is fully discharged from all liability.

**Solution**

- Discounting means cashing a bill before its maturity date, with the bank deducting a small amount (discount charges).
- The bank, upon receiving the bill for value and before maturity, becomes the Holder-in-Due Course (HDC).
- The original holder (the person who discounted the bill) becomes an endorser and remains contingently liable to the bank.
- If the bill is dishonoured by the drawee on the due date, the bank can recover the amount from the endorser (the former holder).
- The bank does not become the drawee; the drawee remains the same person who is ordered to pay.

## 8. What is the liability of the Drawer of a Bill of Exchange?

- A** Primary and unconditional liability to pay.
- B** Secondary and conditional liability to pay.
- C** No liability at all, as the drawee is liable.
- D** Liability only if the bill is payable to a third party.

### Solution

- The Drawer's liability is secondary (after the drawee/acceptor) and conditional (contingent upon the bill being dishonoured by the drawee/acceptor).
- The Drawee/Acceptor has the primary and unconditional liability to pay (assuming they accepted the bill).
- The Drawer's liability is activated only when the bill is presented to the drawee for acceptance/payment and is dishonoured, and proper notice of dishonour is given to the drawer.
- By drawing the bill, the drawer essentially contracts with the holder that the bill will be duly accepted and paid according to its tenor.

9. 'Noting' and 'Protest' are procedures that a Bill of Exchange must undergo primarily when it is dishonoured by:

**A** Non-Acceptance or Non-Payment of a Foreign Bill.

**B** Non-Acceptance or Non-Payment of an Inland Bill.

**C** Non-Acceptance of any bill, but not non-payment.

**D** Non-Payment of a Cheque.

### Solution

- Noting (Section 99) and Protest (Section 100) are formal steps taken to legally certify the fact of dishonour (by non-acceptance or non-payment).
- These procedures are compulsory (mandatory) for a Foreign Bill to bind the drawer or endorsers.
- For an Inland Bill, noting and protesting are optional, though advisable as the protest is conclusive proof of dishonour in a court of law.
- Cheques are typically subject to different legal recourse upon dishonour (e.g., proceedings under Section 138 of the NI Act).

10. As per the Negotiable Instruments Act, 1881, if a Bill of Exchange is accepted, but the acceptance date is not specified on the bill, it is presumed to have been accepted:

A On the date of the bill.

B On the date of maturity.

C Within a reasonable time after its date and before its maturity.

D At least 30 days after the date of the bill.

### Solution

- This is a legal presumption under the NI Act (Section 119/118, depending on the specific legal text version and interpretation of 'before maturity' vs 'due date').
- If the date of a bill is unknown, it's presumed to be the time it was drawn. However, for acceptance, the law presumes acceptance occurred within a reasonable time of its issue and, crucially, before it became overdue (maturity).
- This presumption is important for fixing the rights and liabilities of the parties, especially for bills payable 'after sight', where the time of acceptance fixes the due date.
- This is a rebuttable presumption, meaning evidence can be presented to prove a different date of acceptance.



11. **If the payee named in a Bill of Exchange is a fictitious or non-existing person, the bill is deemed to be:**

**A** Void

**B** Payable to the Drawer

**C** Payable to the Bearer

**D** Invalid and unenforceable

### **Solution**

- This is a specific rule in the Negotiable Instruments Act. If the payee is a fictitious or non-existing person, the instrument is treated as being payable to the bearer.
- A bearer instrument is payable to the person who possesses it, without the need for endorsement.
- This allows the instrument to remain negotiable and prevents the drawee or acceptor from escaping liability on a technicality of the payee's existence.
- The drawer is generally estopped from denying the payee is a real person.

12. A bill of exchange is considered payable on demand if:

A It is expressed to be payable 'at sight'.

B No time for payment is specified in the bill.

C It is expressed to be payable 'on presentment'.

D All of the above.

### Solution

- A bill of exchange is payable 'on demand' if:
- It is expressed to be payable 'at sight' or 'on presentment'.
- No time for payment is specified.
- It is payable 'on a certain future event' which is sure to happen but whose time of happening is uncertain (though this falls more under a 'time bill' logic, in practice, if no specific date is given, it defaults to on-demand).
- Instruments payable on demand do not get the benefit of Days of Grace.
- In all the options (A, B, and C), the instrument's payment is due immediately upon being shown to the drawee/debtor.

13. **Who is the person who accepts a Bill of Exchange for the honour of the drawer or any endorser after the bill has been protested for non-acceptance?**

**A** Drawee in Case of Need

**B** **Acceptor for Honour**

**C** Holder in Due Course

**D** Indemnifier

### **Solution**

- An Acceptor for Honour (Section 108) is a person who steps in to accept a bill that has been protested for non-acceptance or for better security, on behalf of the drawer or any endorser.
- The purpose is to save the honour and credit of the party for whom the acceptance is made.
- The person accepting the bill for honour must not be a party already liable on the bill.
- This acceptance is made in writing on the bill, with the consent of the holder.
- Their liability is secondary and only arises if the original drawee fails to pay upon maturity, and the bill is presented to the Acceptor for Honour on the day next after the maturity date.



14. Which of the following conditions is **NOT** mandatory for a 'Holder' of a Bill of Exchange to become a 'Holder in Due Course' (HDC)?

**A** The instrument was transferred for a consideration (value).

**B** The holder must become the possessor before maturity.

**C** The holder must obtain the instrument in good faith.

**D** The holder must be the Drawer of the bill.

### Solution

- The status of a Holder in Due Course (HDC) is achieved by satisfying three conditions: Consideration (for value), Good Faith (without notice of defect in title), and Before Maturity (date of payment).
- The HDC status provides superior rights, such as immunity from certain defences available against previous parties.
- The Drawer is a party to the bill but is not required to be the HDC. The HDC can be the payee or any subsequent endorsee/holder.
- A person who is merely a 'Holder' is only a person entitled in their own name to the possession of the bill and to receive payment, which can be achieved without all three HDC conditions being met.

15. After the Drawee has 'accepted' the bill, which of the following statements correctly describes their position?

**A** They become the Drawer, and their liability is conditional.

**B** They become the Acceptor, and their liability is primary and absolute.

**C** They are discharged from all liability, as the bill is now accepted.

**D** They remain the Drawee and are only liable to the Drawer, not the Holder.

### Solution

- By accepting the bill (signing their assent), the Drawee converts into the Acceptor (Section 7).
- The Acceptor is the principal debtor and is primarily and absolutely liable to the holder.
- Their promise to pay becomes unconditional, and they cannot plead against the holder that they had no funds from the drawer.
- The drawer's liability remains secondary, as they can only be sued after the Acceptor has dishonoured the bill.

**16. Presentment of a Bill of Exchange for acceptance is compulsory (necessary) in which of the following cases?**

**A** When the bill is payable on demand.

**B** When the bill is payable 'after date'.

**C** When the bill is payable 'after sight'.

**D** When the bill is a 'Trade Bill'.

### **Solution**

- Presentment for acceptance means showing the bill to the drawee for their signature of assent.
- It is mandatory only for a bill payable 'after sight' because the maturity date (and thus the due date for payment) cannot be fixed until the drawee sees and accepts the bill.
- Bills payable 'after date' have a fixed maturity date that can be calculated from the date of drawing, so acceptance is optional (though commercially advisable).
- Bills payable 'on demand' are presented directly for payment, not acceptance, as they are payable immediately.

17. A Bill of Exchange that is payable after a fixed period of time (e.g., 60 days after date) is also known as a:

**A** Sight Bill

**B** Usance Bill or Time Bill

**C** Demand Bill

**D** Clean Bill

### Solution

- A Usance Bill (or Time Bill) is payable after the expiry of a stipulated period, which is why it requires calculation of a maturity date and is entitled to three days of grace.
- The word 'Usance' refers to the period of time fixed by custom or tradition for the payment of the bill.
- A Sight Bill (or Demand Bill) is payable immediately upon presentation.
- A Clean Bill is a type of documentary classification, referring to a bill that is not accompanied by any shipping or trade documents.

### 18. When is a Bill of Exchange said to be discharged?

**A** When all the parties liable on the bill are discharged from their liability.

**B** When the bill is paid by the Acceptor in due course.

**C** When the bill becomes non-negotiable by special endorsement.

**D** When the holder transfers the bill back to the Drawer.

### Solution

- A negotiable instrument, including a Bill of Exchange, is said to be discharged when all the rights under it are extinguished, and the instrument ceases to be a legal contract enforceable by anyone against anyone else.
- The most common way is by Payment in Due Course (Section 82) by the principal debtor (the Acceptor).
- A Discharge of Parties (e.g., cancellation of an endorser's name) only frees that specific party from liability, but the instrument itself remains in force.
- Once the principal debtor pays, the contract is fulfilled, and the bill is fully discharged.

19. **If the drawee of a Bill of Exchange is a fictitious person, what is the consequence?**

**A** The bill is rendered void, and no one is liable.

**B** The Drawer is discharged from all liability.

**C** **The Drawer is liable to the holder without the need for acceptance or presentment to the drawee.**

**D** The bill is automatically converted into a Promissory Note.

### **Solution**

- If the drawee is fictitious, presentment for acceptance or payment becomes impossible.
- In such a case, the law treats the Bill of Exchange as being equivalent to a Promissory Note made by the drawer, and the drawer's liability to the holder becomes primary (Section 10 and 118).
- This means the drawer cannot escape liability by claiming the bill was not presented to the non-existent drawee.
- The drawer is legally estopped from denying the existence and capacity to contract of the drawee, even if the drawee is fictitious.

20. **When a Bill of Exchange is drawn in sets (e.g., "First, Second, and Third"), what is the legal effect of paying one part of the set?**

**A** The payment discharges all other parts of the set.

**B**

The payment only discharges the party making the payment on that specific part.

**C**

All parties remain liable until all parts are paid.

**D**

The bill is deemed dishonoured, as all parts must be presented together.

### **Solution**

- A Bill in a Set (Section 132) is common in international trade where bills are drawn in duplicate or triplicate for safety during transmission.
- Each part is numbered and contains a clause stating that it shall be payable only if the other parts remain unpaid.
- Once a party pays the bill on one part in due course, they are discharged, and the whole bill is discharged, regardless of who holds the other parts.
- However, if a drawee accepts more than one part, they may be liable on each accepted part to any person who holds them as a Holder in Due Course (except if they are the holder of the part first accepted).

21. **If a Bill of Exchange is endorsed by the holder signing his name only on the back, without mentioning the name of the endorsee, it is called a(n):**

**A** Restrictive Endorsement

**B** Endorsement in Full

**C** Sans Recours Endorsement

**D** Endorsement in Blank

### **Solution**

- An Endorsement in Blank (or general endorsement) is created when the endorser signs their name only, thereby converting the instrument into a bearer instrument.
- The bill can then be negotiated by mere delivery until it is converted back by an endorsement in full.
- An Endorsement in Full (or special endorsement) names the person to whom the instrument is payable (the endorsee).
- Restrictive Endorsement prohibits further negotiation.
- Sans Recours Endorsement (without recourse) exempts the endorser from liability upon dishonour.

22. **The liability of an endorser of a Bill of Exchange, to a subsequent holder, is typically that of a:**

**A** Principal Debtor.

**B** Surety or Guarantor.

**C** Principal Creditor.

**D** Holder in Due Course.

### **Solution**

- Every endorser (Section 35, NI Act) stands in the position of a surety to all subsequent parties for the due payment of the instrument.
- The endorser guarantees to the subsequent holder that the bill will be honoured.
- Their liability is secondary and conditional upon the bill being dishonoured by the primary party (the acceptor/drawee).
- The holder can sue the endorser if the acceptor defaults, but the endorser can then turn to the previous parties (including the drawer or prior endorsers) to recover the amount.
- The Acceptor is the party with the liability of the principal debtor.

23. Which of the following alterations to a Bill of Exchange is considered a Material Alteration that typically voids the instrument against parties who did not consent to it?

A Correction of a purely grammatical error.

**B Altering the date of the bill.**

C Conversion of an endorsement in blank to an endorsement in full.

D

Crossing a cheque (not a bill, but often used as an example of non-material change).

### Solution

- A Material Alteration (Section 87, NI Act) is any alteration that changes the legal effect of the instrument, such as the sum payable, the time or place of payment, the date, or the relationship of the parties.
- Changing the date of the bill materially changes the date of maturity, thus changing the legal liability, and is a material alteration.
- A material alteration made without the consent of the parties discharges all parties who were liable at the time of the alteration and did not assent to it.
- Conversion of an endorsement in blank to an endorsement in full is not a material alteration, as it does not change the tenor of the

instrument.

- Correction of clerical errors is also generally permitted

24. In a Bill of Exchange, which combination of parties is legally NOT possible?

A Drawer and Payee are the same person.

B Drawee and Acceptor are the same person.

**C Drawee and Payee are the same person.**

D Drawer and Drawee are the same person.

### Solution

- A Bill of Exchange is an order from the Drawer to the Drawee to pay the Payee.
- If the Drawee (the person ordered to pay) and the Payee (the person to be paid) are the same, the instrument becomes an order to pay themselves, defeating the purpose of a Bill of Exchange.
- A Drawer can be the Payee (A draws a bill on B, payable to A).
- A Drawer can be the Drawee (A draws a bill on himself, which, after acceptance, functions like a Promissory Note).
- The Drawee becomes the Acceptor upon signing, so this combination is definite.

25. **The unconditional order in a Bill of Exchange directs the drawee to pay:**

- A A sum of money, which may be uncertain.
- B A certain sum of money only, and nothing else.
- C A certain sum of money or goods of equivalent value.
- D A certain sum of money, provided he has funds.

### **Solution**

- The order must be to pay a certain sum of money only (Section 5, NI Act).
- The phrase "money only" means the instrument cannot contain an order to do anything else in addition to or in lieu of paying money.
- The sum is deemed "certain" even if it includes future interest or is payable at an indicated rate of exchange.
- The direction to pay must be unconditional (ruling out option D).
- Option A is incorrect as the sum must be certain.

26. The doctrine of "Acceptor's Estoppel" means that the acceptor of a Bill of Exchange cannot deny:

**A** The genuineness of the drawer's signature.

**B** The payee's right to endorse the bill.

**C** That the bill was paid in due course.

**D** The relationship between the drawer and the payee.

### Solution

- Acceptor's Estoppel (Section 121, NI Act) provides that by accepting the bill, the acceptor is estopped (prevented) from denying to any Holder in Due Course the drawer's capacity to draw the bill and the genuineness of their signature.
- The acceptor's signature implies an acceptance of the drawer's order as valid.
- This principle provides protection to the HDC, who relies on the fact that the drawee has accepted the instrument.
- However, the acceptor is not estopped from denying the genuineness of the endorsement of the drawer or any subsequent endorser

27. An endorsement that is written as: "Pay to A only" is a classic example of a:

A Sans Recours Endorsement

B Conditional Endorsement

C Restrictive Endorsement

D Facultative Endorsement

### Solution

- A Restrictive Endorsement (Section 50, NI Act) is one that prohibits or restricts the further negotiation of the instrument.
- By stating "Pay to A only," the endorser prevents A from transferring (negotiating) the bill to a third party.
- A's right is limited to receiving payment of the bill.
- A Conditional Endorsement makes the payment to A dependent upon a future event.
- A Sans Recours Endorsement (without recourse) exempts the endorser from their liability.

28. Which of the following acts by the holder will result in the discharge of the drawer and prior endorsers?

A Transferring the bill for consideration.

**B Failure to give the drawer and endorsers notice of dishonour.**

C Presenting the bill for payment after the date of maturity.

D Getting the bill noted by a Notary Public.

### Solution

- The liability of the drawer and endorsers is conditional upon them receiving due notice of dishonour (Section 93, NI Act).
- If the holder fails to give such notice, the drawer and the endorsers are discharged from their liability to the holder, as they are deprived of the opportunity to arrange for payment or seek recourse against prior parties.
- The acceptor's (or maker's) liability, being primary, is not affected by the lack of notice of dishonour.
- Getting the bill noted/protested is generally for proof, not a cause for discharge

29. **When a Bill of Exchange is dishonoured by non-acceptance, the holder:**

**A** Must wait until the original maturity date to take legal action.

**B** Must present it to the Drawee in Case of Need first.

**C** **Acquires an immediate right of recourse against the drawer and endorsers.**

**D** Is discharged from all subsequent liabilities.

### **Solution**

- Dishonour by non-acceptance occurs before maturity.
- Upon dishonour, the liability of the drawer and endorsers, which was contingent, immediately becomes absolute and fixed.
- The holder has the right to sue the drawer and all previous endorsers immediately (Section 93, NI Act) without waiting for the bill to become due for payment.
- The drawee in case of need must be presented before the bill is treated as finally dishonoured, but the right to sue is immediate once that process is complete

30. **If a Bill of Exchange (not payable on demand) is drawn but is not properly stamped as per the Indian Stamp Act, 1899, it is generally considered:**

**A** Void.

**B** Voidable at the option of the drawee.

**C** Admissible in court after payment of penalty and duty.

**D** **Totally inadmissible as evidence in court.**

### **Solution**

- The Indian Stamp Act, 1899, governs the stamping of negotiable instruments.
- A Bill of Exchange not payable on demand must be stamped when it is made.
- An unstamped or insufficiently stamped Bill of Exchange (other than a Bill Payable on Demand) is inadmissible in evidence in any court of law (Section 35, Stamp Act).
- For a Bill not payable on demand, the defect of non-stamping cannot be cured later by paying a penalty. This is a critical point of law for competitive exams.



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