DR. UTTAM KUMAR

DEPARTMENT OF COMMERCE

Class -UG First Semester
Session -2025-29
Paper -MJC-1
Subject -Financial Accounting

Mob -8210561032

"Education is the power for being a good human being"

Calculation of Amount of Annual Instalment when Cash P

Problem 18

Shri P. Chaudhary purchased a plant on Hire Purchase Syst & Co. on 1.4.2020. The cash price of the plant was ₹ 20,000. The paid as ₹ 6,384 down and the balance in 3 equal annual instalme from 31.3.2021 at 5% interest per annum. ₹ 1 can buy an annuity 5% per annum.

Show Journal entries in the books of both buyer and seller ass books are closed on 31st March each year and depreciation is char on reducing instalment method.

Solution

The Present Value of Annuity of ₹ 1 paid for 3 year @ 5% p.a.

Hence, the Present Value of Annuity of ₹ 20,000 – ₹ 6,384 = ₹

$$= 13{,}616 \times 0.367215 = 4999.99440$$

$$= ₹\ 5{,}000 \text{ (approx.)}$$

Calculation of Interest

Cash Value	*Interest*		*Inst*
20,000 (–) 6,384 13,616	$\frac{13{,}616 \times 5}{100}$	= ₹ 680.80 = ₹ 681 (approx.)	
(–) 4,319 9,297	$\frac{9{,}297 \times 5}{100}$	= ₹ 464.85 = ₹ 465 (approx.)	
(–) 4,535 4,762	5,000 – 4,762	= ₹ 238	

Calculation of Depreciation

Cash Value	Calculation		Instalment
		₹	₹
I	$\frac{20,000\times10}{100}$	= 2,000	20,000
		Balance	(–)2,000
			18,000
II	$\frac{18,000\times10}{100}$	= 1,800	(–)1,800
		Balance	16,200
III	$\frac{16,200\times10}{100}$	= 1,620	(–)1,620
		Balance	14,580

Journal Entries in the Books of P. Chaudhary (Buyer)

Date	Particulars		L.F.	Amount	Amount
				₹	₹
1.4.20	Machinery A/c	Dr.		6,384	
	To Cash A/c				6,384
	(Being payment of signing amount)				
31.3.21	Machinery A/c	Dr.		4,319	
	Interest A/c	Dr.		681	
	To Bansal & Co. A/c				5,000
	(Being instalment due)				
31.3.21	Bansal & Co. A/c	Dr.		5,000	
	To Cash A/c				5,000
	(Being payment of instalment)				
	Depreciation A/c	Dr.		2,000	
	To Machinery A/c				2,000
	(Being depreciation made at 10% on ₹ 20,000)				
31.3.21	Profit & Loss A/c	Dr.		2,681	
	To Interest A/c				681
	To Depreciation A/c				2,000
	(Being balance of Interest and Depreciation transferred to P. & L. A/c)				
31.3.22	Machinery A/c	Dr.		4,535	
	Interest A/c	Dr.		465	
	To Bansal & Co. A/c				5,000
	(Being instalment due)				
31.3.22	Bansal & Co. A/c	Dr.		5,000	
	To Cash A/c				5,000
	(Being instalment part)				
31.3.22	Depreciation A/c	Dr.		1,800	
	To Machinery A/c				1,800
	(Being dep. made at 10% on ₹ 18,000)				
31.3.22	Profit & Loss A/c	Dr.		2,265	
	To Interest A/c				465
	To Depreciation A/c				1,800
	(Being balance of Interest and Depreciation transferred to P. & L. A/c)				