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Subject- Financial Accounting

Topic

Hire Purchase System



"Nothing is more important than Education"

(B) Additional Interest

Opening Ledger A/cs in the Books of Purchaser and Depreciation on Fixed Method

Problem 9

Singh Coal Co. Ltd. agreed to purchase wagon on the Hire Purchase System for ₹ 4,600. ₹ 600 were paid when wagon was acquired on 1st January, 2013 and the balance was to be paid by annual instalments of ₹ 800 *plus* interest at 5% per annum. Open the necessary ledger accounts in the books of the Singh Coal Co. Ltd. Showing the details to the completion of this transaction. Singh Coal Co. Ltd. depreciates the wagon each year by 10% on the original cost.

Solution

Calculation of Interest

Year	Cash Price	Interest ₹	Instalment
I	4,600 -600 <hr/> 4,000	$\frac{4,000 \times 5}{100} = 200$	800 For Wagon + 200 For Interest <hr/> 1,000 Total Amount of Instalment.
II	-800 <hr/> 3,200	$\frac{3,200 \times 5}{100} = 160$	800 For Wagon + 160 For Interest <hr/> 960 Total Amount of Instalment.
III	-800 <hr/> 2,400	$\frac{2,400 \times 5}{100} = 120$	800 For Wagon + 120 For Interest <hr/> 920 Total Amount of Instalment.

IV	$\frac{-800}{1,600}$	$\frac{1,600 \times 5}{100} = 80$	$\frac{800}{+ 80}$ <u>880</u>	For wagon Total Amount of Instalment.
V	$\frac{-800}{800}$	$\frac{800 \times 5}{100} = 40$	$\frac{800}{+ 40}$ <u>840</u>	For Wagon Total Amount of Instalment.
Total Interest = 600				

Calculation of Depreciation

$$\frac{4,600 \times 10}{100} = ₹ 460 \text{ per year.}$$

In the Books of Singh Coal Company Ltd.

Wagon Account

Date	Particulars	Amount	Date	Particulars	Amount
2013		₹	2013		₹
Jan. 1	To Cash A/c	600	Dec. 31	By Depreciation A/c	460
Dec. 31	To Vendor's A/c	800		By Balance c/d	940
		<u>1,400</u>			<u>1,400</u>
2014			2014		
Jan. 1	To Balance b/d	940	Dec. 31	By Depreciation A/c	460
Dec. 31	To Vendor's A/c	800		By Balance c/d	1,280
		<u>1,740</u>			<u>1,740</u>
2015			2015		
Jan. 1	To Balance b/d	1,280	Dec. 31	By Depreciation A/c	460
	To Vendor's A/c	800		By Balance c/d	1,620
		<u>2,080</u>			<u>2,080</u>
2016			2016		
Jan. 1	To Balance b/d	1,620	Dec. 31	By Depreciation A/c	460
Dec. 31	To Vendor's A/c	800		By Balance c/d	1,960
		<u>2,420</u>			<u>2,420</u>
2017			2017		
Jan. 31	To Balance b/d	1,960	Dec. 31	By Depreciation A/c	460
Dec. 31	To Vendor's A/c	800	Dec. 31	By Balance c/d	2,300
		<u>2,760</u>			<u>2,760</u>

Vendors Account

Date	Particulars	Amount	Date	Particulars	Amount
2013		₹	2013		₹
Dec. 31	To Bank A/c	1,000	Dec. 31	By Wagon A/c	800
		<u>1,000</u>		By Interest A/c	200
					<u>1,000</u>
2014			2014		
Dec. 31	To Bank A/c	960	Dec. 31	By Wagon A/c	800
		<u>960</u>		By Interest A/c	160
					<u>960</u>
2015			2015		
Dec. 31	To Bank A/c	920	Dec. 31	By Wagon A/c	800
		<u>920</u>		By Interest A/c	120
					<u>920</u>

2016 Dec. 31	To Bank A/c	880	2016 Dec. 31	By Wagon A/c By Interest A/c	800 80
		<u>880</u>			<u>880</u>
2017 Dec. 31	To Bank A/c	840	2017 Dec. 31	By Wagon A/c By Interest A/c	800 40
		<u>840</u>			<u>840</u>

Interest Account

Date	Particulars	₹	Date	Particulars	₹
31.12.13	To Vendors A/c	200	31.12.13	By Statement P/L A/c	200
31.12.14	To Vendors A/c	160	31.12.14	By Statement P/L A/c	160
31.12.15	To Vendors A/c	120	31.12.15	By Statement P/L A/c	120
31.12.16	To Vendors A/c	80	31.12.16	By Statement P/L A/c	80
31.12.17	To Vendors A/c	40	31.12.17	By Statement P/L A/c	40

Depreciation Account

Date	Particulars	₹	Date	Particulars	₹
31.12.13	To Wagon A/c	460	31.12.13	By Statement P/L A/c	460
31.12.14	To Wagon A/c	460	31.12.14	By Statement P/L A/c	460
31.12.15	To Wagon A/c	460	31.12.15	By Statement P/L A/c	460
31.12.16	To Wagon A/c	460	31.12.16	By Statement P/L A/c	460
31.12.17	To Wagon A/c	460	31.12.17	By Statement P/L A/c	460