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**Subject- Financial Accounting**

**Topic**

**Hire Purchase System**



**"Nothing is more important than Education"**

## Half Yearly Payment

### Problem 3

Mr. A purchased a machine on hire-purchase system over a term of two years starting from 1st Jan. 2015. The instalments of ₹ 4,000 each are payable half-yearly. The present cash value of the Machine is ₹ 14,870 and the hire-vendor charges interest at the rate of 6% p.a. working on half-yearly basis. Depreciation is charged at 15% p.a. on written down value. Give the necessary Journal entries to record the above transactions in the books of A who closes his books on 31st December each year.

### Solution

#### Calculation of Interest

Cash Price	Calculation of Interest		Instalment
₹	₹	₹	
I. 14,870	(A) $14,870 \times \frac{6}{100} \times \frac{6}{12} = 446.10 = 446$	4,000	
(-) 3,554		- 446	For Interest
<u>11,316</u>		<u>3,554</u>	For Machine
(-) 3,661	(B) $11,316 \times \frac{6}{100} \times \frac{6}{12} = 339.48 = 339$	4,000	
		- 339	For Interest
		<u>3,661</u>	For Wagons
II. 7,655		4,000	
- 3,770	(C) $7,655 \times \frac{6}{100} \times \frac{6}{12} = 229.65 = 230$	- 230	For Interest
<u>3,885.00</u>		<u>3,770.00</u>	For Wagons
	(D) ₹ 4,000 - ₹ 3,885 = ₹ 115		

## Calculation of Depreciation

1st Year : Cash Value		₹
		14,870
Depreciation	$= \frac{14,870 \times 15}{100} = (2,230.50)$	(2,231)
Balance		<u>12,639</u>
2nd Year : Depreciation	$= \frac{12,639 \times 15}{100} = (1,895.85)$	(1,896)
Balance		<u><u>10,743</u></u>

Note : Calculation has been made nearest rupee.

1. ₹ 446 + 339 = 785      2. ₹ 230 + ₹ 115 = ₹ 345.

### Colliery Company's Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2015 June 1	Machine A/c <span style="float: right;">Dr.</span> Interest A/c To Hire-Vendor's A/c (Being the instalment due including interest @ 6% per annum on ₹ 14,870 for 6 months)		₹ 3,554 446	₹  4,000
June 30	Hire-Vendor's A/c <span style="float: right;">Dr.</span> To Cash A/c (Being payment made in Cash)		4,000	4,000
Dec. 31	Machine A/c <span style="float: right;">Dr.</span> Interest A/c <span style="float: right;">Dr.</span> To Hire-Vendor's A/c (Being the instalment due including interest @ 6% per annum on ₹ 11,316.10 for 6 months)		3,661 339	4,000
Dec. 31	Hire-Vendor's A/c <span style="float: right;">Dr.</span> To Cash A/c (Being payment made in Cash)		4,000	4,000
Dec. 31	Depreciation A/c <span style="float: right;">Dr.</span> To Machine A/c (Being depreciation charged on ₹ 14,870 @ 15% p.a.)		2,231	2,231
Dec. 31	Profit & Loss A/c <span style="float: right;">Dr.</span> To Interest A/c To Depreciation A/c (Being the balance of Interest and Depreciation Account transferred to Profit and Loss A/c.)		3,016	785 <sup>1</sup> 2,231
2016 June 30	Machine A/c <span style="float: right;">Dr.</span> Interest A/c <span style="float: right;">Dr.</span> To Hire-Vendor's A/c (Being the instalment due including interest @ 6% per annum on ₹ 7,655.58 for 6 months)		3,770 230	4,000
June 30	Hire-Vendor's A/c <span style="float: right;">Dr.</span> To Cash A/c (Being payment made in Cash)		4,000	4,000

Dec. 31	Machine A/c Interest A/c To Hire-Vendor's A/c (Being final instalment due including interest)	Dr. Dr.	3,885 115	4,000
Dec. 31	Hire-Vendor's A/c To Cash A/c (Being payment made in cash)	Dr.	4,000	4,000
Dec. 31	Depreciation A/c To Machine A/c (Being depreciation charged and ₹ 12,639 @ 15%)	Dr.	1,896	1,896
Dec. 31	Profit & Loss A/c To Interest A/c To Depreciation A/c (Being the balance of Interest & Depreciation Account transferred to Profit & Loss A/c)	Dr.	2,241	345 <sup>2</sup> 1,896

**Journal Entries in the Books of both Parties**