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**Subject:- Financial Accounting**

**Topic**

**Hire Purchase System**



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

### Problem 7

On 1st January, 2013, National Transport Limited purchased from Jupiter Motors Ltd. one truck under Hire Purchase System. ₹ 25,000 being paid on delivery and the balance in five instalments of ₹ 37,500 each, payable annually on 31st December. The vendor charges 5% per annum interest on yearly balances. The cash price of the truck was ₹ 1,87,500.

Show Truck Account and Vendor's A/c in the books of National Transport Ltd. If National Transport Ltd. writes off depreciation at 10% per annum on written down value.

**Solution**

#### Calculation of Interest (Nearest Rupee)

Year	Cash Value	Interest	Instalment
2013	₹ 1,87,500 (-) 25,000 (Paid) <u>1,62,500 (due)</u>	₹ $\frac{1,62,500 \times 5}{100}$ = 8,125	₹ 37,500 (-) 8,125 Int. <u>29,375 Trucks</u>
2014	(-) 29,375 (Paid) <u>1,33,125 (due)</u>	$\frac{1,33,125 \times 5}{100}$ = 6,656	37,500 (-) 6,656 Int. <u>30,844 Trucks</u>

2015	(-)30,844 (Paid) 1,02,281 (due)	1,02,281 × 5 100	= 5,114	37,500 (-) 5,114 <u>32,386</u> Trucks 37,500 (-) 3,495 <u>34,005</u> Trucks
2016	(-)32,386 (Paid) 69,895 (due)	69,895 × 5 100	= 3,495	
2017	(-)34,005 (Paid) 35,890 (due)	37,500 - 35,890 Total Interest	= 1,610 <u>25,000</u>	

### Calculation of Depreciation

		₹
2013	Cash Value	1,87,500
	Less : Dep. @ 10%	18,750
	Balance	<u>1,68,750</u>
2014		
	Less : Dep. @ 10%	16,875
	Balance	<u>1,51,875</u>
2015		
	Less : Dep. @ 10%	15,188
	Balance	<u>1,36,687</u>
2016		
	Less : Dep. @ 10%	13,669
	Balance	<u>1,23,018</u>
2017		
	Less : Dep. @ 10%	12,302
	Balance	<u>1,10,716</u>

### In the Books of The National Transport Ltd. (purchaser) Truck Account

Date	Particulars	Amount	Date	Particulars	Amount
2013		₹	2013		₹
Jan. 1	To Jupiter Motors Ltd.	25,000	Jan. 1	By Depreciation A/c	18,750
Dec. 31	To Jupiter Motors Ltd.	29,375	Dec. 31	By Balance c/d	35,625
		<u>54,375</u>			<u>54,375</u>
2014			2014		
Jan. 1	To Balance b/d	35,625	Jan. 1	By Depreciation A/c	16,875
Dec. 31	To Jupiter Motors Ltd.	30,844	Dec. 31	By Balance c/d	49,594
		<u>66,469</u>			66,469
2015			2015		
Jan. 1	To Balance b/d	49,594	Jan. 1	By Depreciation A/c	15,188
Dec. 31	To Jupiter Motors Ltd.	32,386	Dec. 31	By Balance c/d	66,792
		<u>81,980</u>			81,980
2016			2016		
Jan. 1	To Balance b/d	66,792	Jan. 1	By Depreciation A/c	13,669
Dec. 31	To Jupiter Motors Ltd.	34,005	Dec. 31	By Balance c/d	87,128
		<u>1,00,797</u>			1,00,797
2017			2017		
Jan. 1	To Balance b/d	87,128	Jan. 1	By Depreciation A/c	12,302
Dec. 31	To Jupiter Motors Ltd.	35,890	Dec. 31	By Balance c/d	1,10,716
		<u>1,23,018</u>			<u>1,23,018</u>

Date	Particulars	Amount	Date	Particulars	Amount
2013 Jan. 1	To Bank A/c	₹ 25,000	2013 Jan. 1	By Truck A/c	₹ 25,000
2013 Dec. 31	To Bank A/c	37,500	2013 Dec. 31	By Truck A/c	29,375
				By Interest A/c	8,125
		<u>62,500</u>			62,500
2014 Dec. 31	To Bank A/c	37,500	2014 Dec. 31	By Truck A/c	30,844
				By Interest A/c	6,656
		<u>37,500</u>			<u>37,500</u>
2015 Dec. 31	To Bank A/c	37,500	2015 Dec. 31	By Truck A/c	32,386
				By Interest A/c	5,114
		<u>37,500</u>			37,500
2016 Dec. 31	To Bank A/c	37,500	2016 Dec. 31	By Truck A/c	34,005
				By Interest A/c	3,495
		<u>37,500</u>			37,500
2017 Dec. 31	To Bank A/c	37,500	2017 Dec. 31	By Truck A/c	35,890
				By Interest A/c	1,610
		<u>37,500</u>			37,500