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Subject:- Financial Accounting
Topic

Hire Purchase System



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

Opening Ledger Accounts in the Books of both Parties

Problem 5

On 1st January, 2014 A purchased a Motor Car from B Limited on Hire Purchase system. The cash price of the motor car was ₹ 7,450. The payment was to be made ₹ 2,000 on the date of contract and the balance in three instalments by ₹ 2,000 each on 31st December each year. B Company limited decided to charge interest at 5% per annum on 31st December each year.

Show ledger accounts in the books of both parties assuming that accounts are closed on 31st December and depreciation at 10% p.a. is written off on the original cost.

Solution

In the Books of A (Hire Buyer)

B's A/c (Hire Vendor)

2014		₹	2014		₹
1 Jan.	To Cash A/c	2,000	1 Jan.	By Motor Car A/c	7,450
31 Dec.	To Cash A/c	2,000	31 Dec.	By Interest	273
"	To Balance c/d	3,723			
		<u>7,723</u>			<u>7,723</u>

2015			2015		
31 Dec.	To Cash A/c	2,000	1 Jan.	By Balance b/d	3,723
"	To Balance c/d	1,909	31 Dec.	By Interest	186
		<u>3,909</u>			<u>3,909</u>
2016			2016		
31 Dec.	To Cash A/c	2,000	1 Jan.	By Balance b/d	1,909
		<u>2,000</u>	31 Dec.	By Interest	91
					<u>2,000</u>

Motor Car Account

2014		₹	2014		₹
1 Jan.	To B's A/c	7,450	31 Dec.	By Depreciation A/c	745
		<u>7,450</u>		By Balance c/d	6,705
					<u>7,450</u>
2015			2015		
31 Dec.	To Balance b/d	6,705	31 Dec.	By Depreciation	745
		<u>6,705</u>		By Balance c/d	5,960
					<u>6,705</u>
2016			2016		
31 Dec.	To Balance b/d	5,960	31 Dec.	By Depreciation	745
		<u>5,960</u>	31 Dec.	By Balance c/d	5,215
					<u>5,960</u>

In the Books of B (Hire Vendor) A's Account (Hire Buyer)

2014		₹	2014		₹
1 Jan.	To Motor Car A/c	7,450	1 Jan.	By Cash A/c	2,000
31 Dec.	To Interest A/c	273	31 Dec.	By Cash A/c	2,000
		<u>7,723</u>		By Balance c/d	3,723
					<u>7,723</u>
2015			2015		
1 Jan.	To Balance b/d	3,723	31 Dec.	By Cash A/c	2,000
31 Dec.	To Interest A/c	186		By Balance c/d	1,909
		<u>3,909</u>			<u>3,909</u>
2016			2016		
1 Jan.	To Balance b/d	1,909	31 Dec.	By Cash A/c	2,000
31 Dec.	To Interest A/c	91			<u>2,000</u>
		<u>2,000</u>			

Interest Account

2014		₹	2014		₹
31 Dec.	To P & L A/c	273	31 Dec.	By A's A/c	273
2015			2015		
31 Dec.	To P & L A/c	186	31 Dec.	By A's A/c	186
2016			2016		
31 Dec.	To P & L A/c	91	31 Dec.	By A's A/c	91
		<u>91</u>			<u>91</u>

Analysis Table

<i>S.No.</i>	<i>Instalment</i>	<i>Interest</i>	<i>Principal</i>	<i>Balance</i>
D.P.	2,000	—	2,000	5,450
1.	2,000	$5,450 \times \frac{5}{100} = 273$	1,727	3,723
2.	2,000	$3,723 \times \frac{5}{100} = 186$	1,814	1,909
3.	2,000	$2,000 - 1,909 = 91$	1,909	—