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