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Subject- Financial Accounting

Topic

Hire Purchase System



"Nothing is more important than Education"

Problem 8

The Patliputra Transport Company purchased a machine from Bombay Motor Company on Hire Purchase agreement on 1st January, 2015 paying cash ₹ 37,250 and agreeing to pay three further instalments of ₹ 1,20,000 each on 31st December off every year. The cash price of the machine is ₹ 3,37,250 and Bombay Motor Company charges interest at 10% per annum. The Madras Company writes off 10 percent every year of cash value of the machine on the reducing balancing system. Open the necessary accounts in the books of both the companies.

Note : Calculations are to be made to the nearest rupee.

Solution Calculation of Interest and Cash Value Included in Instalment

Year	O/S Cash Value	Interest @ 10% p.a.		Instalment	Cash Value (5 - 4)
		Calculation	Amount		
(1)	(2)	(3)	(4)	(5)	(6)
	₹		₹	₹	₹
1.1.2015	3,37,250				
1.1.2015	(-) 37,250			37,250	37,250
31.12.2015	3,00,000	$3,00,000 \times 10/100$	30,000	1,20,000	90,000
	(-) 90,000				
31.12.2016	2,10,000	$2,10,000 \times 10/100$	21,000	1,20,000	99,000
	(-) 99,000				
	1,11,000	$1,20,000 - 1,11,000$	9,000	1,20,000	1,11,000
	- 1,11,000				
Total	×		60,000	3,97,250	3,37,250

In the Books of Hire-Buyer (Patliputra Transport Company)

Machinery Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
1.1.2015	To Bombay Motor Co.	3,37,250	31.12.2015	By Depreciation A/c 10% on 3,37,500	33,725
				By Balance c/d	3,03,525
		<u>3,37,250</u>			<u>3,37,250</u>
1.1.2016	To Balance b/d	3,03,525	31.12.2016	By Depreciation A/c (10% on 3,03,750)	30,353
				By Balance c/d	2,73,172
		<u>3,03,525</u>			<u>3,03,525</u>
1.1.2017	To Balance b/d	2,73,172	31.12.2017	By Depreciation A/c	27,317
				By Balance c/d	2,45,855
		<u>2,73,172</u>			<u>2,73,172</u>

Bombay Motor Company's Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
1.1.2015	To Bank A/c	37,250	1.1.2015	By Machinery A/c	3,37,250
31.12.2015	To Bank A/c	1,20,000		By Interest A/c	30,000
	To Balance c/d	2,10,000			
		<u>3,67,250</u>			<u>3,67,250</u>
31.12.2016	To Bank A/c	1,20,000	1.1.2016	By Balance b/d	2,10,000
	To Balance c/d	1,11,000	31.12.2016	By Interest A/c	21,000
		<u>2,31,000</u>			<u>2,31,000</u>
31.12.2017	To Bank A/c	1,20,000	1.1.2017	By Balance b/d	1,11,000
		<u>1,20,000</u>	31.12.2017	By Interest A/c	9,000
					<u>1,20,000</u>

Interest Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
31.12.2015	To Bombay Motor Co.	30,000	31.12.2015	By Statement of P/L	30,000
31.12.2016	To Bombay Motor Co.	21,000	31.12.2016	By Statement of P/L	21,000
31.12.2017	To Bombay Motor Co.	9,000	31.12.2017	By Statement of P/L	9,000

Depreciation Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
31.12.2015	To Machinery A/c	33,725	31.12.2015	By Statement of P/L	33,725
31.12.2016	To Machinery A/c	30,353	31.12.2016	By Statement of P/L	30,353
31.12.2017	To Machinery A/c	27,317	31.12.2017	By Statement of P/L	27,317

In the Books of Vendor (Bombay Motor Company)

Patliputra Transport Company

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
1.1.2015	To Hire-sales A/c	3,37,250	1.1.2015	By Bank A/c	37,250

31.12.2015	To Interest A/c	30,000	31.12.2015	By Bank A/c	1,20,000
				By Balance c/d	2,10,000
		<u>3,67,250</u>			<u>3,67,250</u>
1.1.2016	To Balance b/d	2,10,000	31.12.2016	By Bank A/c	1,20,000
31.12.2016	To Interest A/c	21,000		By Balance c/d	1,11,000
		<u>2,31,000</u>			<u>2,31,000</u>
1.1.2017	To Balance b/d	1,11,000	31.12.2017	By Bank A/c	1,20,000
31.12.2017	To Interest A/c	9,000			
		<u>1,20,000</u>			<u>1,20,000</u>

Interest Account					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
31.12.2015	To Statement of P & L	30,000	31.12.2015	By Patliputra Transport Co.	30,000
31.12.2016	To Statement of P & L	21,000	31.12.2016	By Patliputra Transport Co.	21,000
31.12.2017	To Statement of P & L	9,000	31.12.2017	By Patliputra Transport Co.	9,000

Hire-Sales Account					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
31.12.2015	To Trading A/c	3,37,250	1.1.2015	By Patliputra Transport Co.	3,37,250

(B) Additional Interest