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Subject:- Financial Accounting

Topic

Hire Purchase System



"Nothing is more important than Education"

Journal Entries in the Books of both Parties

Problem 4

A firm of coal merchants purchased a wagon on Hire Purchase System over a period of four years. ₹ 6,000 was payable on delivery (1st January, 2013) and the balance by annual instalment of ₹ 6,000 each with interest on 31st December. The vendor charged 5% per annum interest on the yearly balances. The cash price of the wagon on delivery was ₹ 27,300. Depreciation at 10% on the diminishing balance was written off each year. Pass the necessary Journal entries in the books of both the parties.

Solution

Caluclation of Interest

Year	Cash value	Interest	Instalment
	₹	₹	₹
I	Cash Value 27,300 (-) On Delivery 6,000 <u>21,300</u>	$\frac{21,300 \times 5}{100} = 1,065$	6,000 <u>-1,065</u> Interest <u>4,935</u> Wagon
II	(-) 4,935 <u>16,365</u> due	$\frac{16,365 \times 5}{100} = 818.25$ $= 818$ (approx.)	6,000 <u>- 818</u> Interest <u>5,182</u> Wagon
III	(-) 5,182 <u>11,183</u> due	$\frac{11,183 \times 5}{100} = 559.15$ $= 559$ (approx.)	6,000 <u>- 559</u> Interest <u>5,441</u> Wagon
IV	(-) 5,441 <u>5,742</u> due	$6,000 - 5,742 = 258$	

Calculation of Depreciation

Cash Value		₹ 27,300
Less : Depreciation	$27,300 \times \frac{10}{100}$	2,730 for 2013
Balance		<u>24,570</u>

Less : Depreciation	$24,570 \times \frac{10}{100}$	2,457 for 2014
	Balance	<u>22,113</u>
Less : Depreciation	$22,113 \times \frac{10}{100}$	2,211 for 2015
	Balance	<u>19,902</u>
Less : Depreciation	$19,902 \times \frac{10}{100}$	1,990 for 2016
	Balance	<u><u>17,912</u></u>

IN THE BOOKS OF COAL MERCHANT (BUYER)
Journal Entries

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
2013 Jan. 1	Wagon A/c To Cash A/c (Being cash paid on the date of delivery)	Dr.	₹ 6,000	₹ 6,000
Dec. 31	Wagon A/c Interest A/c To Hire Vendor's A/c (Being instalment due)	Dr. Dr.	4,935 1,065	6,000
Dec. 31	Hire Vendor's A/c To Cash A/c (Being payment of instalment)	Dr.	6,000	6,000
Dec. 31	Depreciation A/c To Wagon A/c (Being depreciation charged on ₹ 27,300 @ 10 p.a.)	Dr.	2,730	2,730
Dec. 31	P. & L. A/c To Interest A/c To Depreciation A/c (Being transfer of Interest and Depreciation to P. & L. A/c)	Dr.	3,795	1,065 2,730
2014 Dec. 31	Wagon A/c Interest A/c To Hire Vendor's A/c (Being instalment due)	Dr. Dr.	5,182 818	6,000
Dec. 31	Hire Vendor A/c To Cash A/c (Being payment of instalment)	Dr.	6,000	6,000
Dec. 31	Depreciation A/c To Wagon A/c (Being depreciation charged on ₹ 24,570 @ 10% p.a.)	Dr.	2,457	2,457
Dec. 31	P. & L. A/c To Interest A/c To Depreciation A/c (Being transfer of Interest and Depreciation to P. & L. A/c)	Dr.	3,275	818 2,457
2015 Dec. 31	Wagon A/c Interest A/c To Hire Vendor's (Being instalment due)	Dr. Dr.	5,441 559	6,000

Financial Accounting				
Dec. 31	Hire Vendor To Cash A/c (Being payment of instalment)	Dr.	6,000	6,000
Dec. 31	Depreciation A/c To Wagon A/c (Being depreciation charged on ₹ 22,113 @ 10% p.a.)	Dr.	2,211	2,211
Dec. 31	P. & L. A/c To Interest A/c To Depreciation A/c (Transfer of Interest and Depreciation to P. & L. A/c)	Dr.	2,770	559 2,211
2016 Dec. 31	Wagon A/c Interest A/c To Hire Vendor's A/c (Being instalment due)	Dr. Dr.	5,742 258	6,000
Dec. 31	Hire Vendor's A/c To Cash A/c. (Being payment of instalment)	Dr.	6,000	6,000
Dec. 31	Depreciation A/c To Wagon A/c (Being depreciation charged on ₹ 19,902 @ 10% p.a.)	Dr.	1,990	1,990
Dec. 31	P. & L. A/c To Interest A/c To Depreciation A/c (Being transfer of depreciation and interest to P. & L. A/c)	Dr.	2,248	258 1,990

**In the Books of Hire Vendor
Journal Entries**

Date	Particulars	L.F.	Dr.	Cr.
			Amount	Amount
2013			₹	₹
Jan. 1	Hire Purchaser's A/c (Coal Merchant) To Hire Sales A/c (Being wagon sold on H.P. System)	Dr.	27,300	27,300
Jan. 1	Cash A/c To Hire Purchaser's A/c (Being cash received on delivery)	Dr.	6,000	6,000
Dec. 31	Hire Purchaser's A/c To Interest A/c (Being interest due)	Dr.	1,065	1,065
Dec. 31	Cash A/c To Hire Purchaser's A/c (Being instalment received)	Dr.	6,000	6,000
Dec. 31	Interest A/c To P. & L. A/c (Being transfer of interest into P. & L. A/c)	Dr.	1,065	1,065
Dec. 31	Hire Sales A/c To Trading A/c (Being transfer of Hire Sales to Trading A/c)	Dr.	27,300	27,300

2014 Dec. 31	Hire Purchaser's A/c To Interest A/c (Being interest due)	Dr.	818	818
Dec. 31	Cash A/c To Hire Purchaser's A/c (Being instalment received)	Dr.	6,000	6,000
Dec. 31	Interest A/c To P. & L. A/c (Being transfer of interest into P. & L. A/c)	Dr.	818	818
2015 Dec. 31	Hire Purchaser's A/c To Interest A/c (Being interest due)	Dr.	559	559
Dec. 31	Cash A/c To Hire Purchaser's A/c (Being instalment received)	Dr.	6,000	6,000
Dec. 31	Interest A/c To P. & L. A/c (Being transfer of interest to P. & L. A/c)	Dr.	559	559
2016 Dec. 31	Hire Purchaser's To Interest A/c (Being interest due)	Dr.	258	258
Dec. 31	Cash A/c To Hire Purchaser's (Being instalment received)	Dr.	6,000	6,000
Dec. 31	Interest A/c To P. & L. A/c (Being transfer of interest and depreciatoin to P. & L. A/c)	Dr.	258	258