Dr.Uttam Kumar SRAP College, Barachakia 8210561032 **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. \notin 6,000 was payable on delivery (1st January, 2013) and the balance by annual instalment of \notin 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 \notin 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

Year	Cash value	Interest	Instalment
- 1. J.	,	ŧ	ŧ
I	Cash Value 27,300 (-) On Delivery <u>6,000</u> 21,300	$\frac{21,300\times5}{100} = 1,065$	6,000 -1,065 Interes 4,935 Wagon
п	(-) 4,935 16,365 due	$\frac{16,365\times5}{100} = 818.25$ = 818 (approx.)	6,000 - 818 Interest 5,182 Wagon
ш	(-) 5,182 11,183 due	$\frac{11,183\times5}{100} = 559.15$ = 559 (approx.)	6,000 - 559 Interest 5,441 Wagon
IV	(-) 5,441 5,742 due	6,000 - 5,742 = 258	

Caluclation of Interest

Calculation	of D	epreciation
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Cash Value	2 4 4 A 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4 4	27,300	
Less : Depreciation	$27,300 imes rac{10}{100}$	2,730 for 2013	
	Balance	24,570	8:33 AM

Less : Depreciation	$\begin{array}{c} 24,570\times\frac{10}{100}\\ \text{Balance} \end{array}$	2,457 for 2014
Less : Depreciation	$22,113 imes rac{10}{100}$	22,113 2,211 for 2015
Less : Depreciation	$\frac{\text{Balance}}{19,902 \times \frac{10}{100}}$	19,902 1,990 for 2016
	Balance	17,912

IN THE BOOKS OF COAL MERCHANT (BUYER) Journal Entries

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

Dec 3		nanciai n	accounting	/
Dec. 0	31 Hire Vendor	Dr.		-
	10 Cash A/c		6,000	1
Dec 2	(Being payment of instalment)		Sec. 1	6,000
Dec. 0	1 Depreciation A/c	Dr.	0.000	2000
	10 Wagon A/c	* * *	2,211	
Dec 0	(Being depreciation charged on ₹ 22,113 @ 10% p.a.)			2,211
Dec. 3	L. A/C			int
	10 Interest A/c	Dr.	2,770	
	To Depreciation A/c			
812 - A 2000 - A	(Transfer of Interest and Depreciation to P & L A/a)			559
2016		_	10 100	2,211
Dec. 31	Wagon A/c	-		
	Interest A/c	Dr.	5,742	
	To Hire Vendor's A/c	Dr.	258	
	(Being instalment due)			6,000
Dec. 31	Hire Vender's Al	-		0,000
	To Cash A/c.	Dr.	6,000	
	(Being payment of instalment)			6,000
Dag 21				0,000
Dec. 31	Depreciation A/c	Dr.	1,990	
	16 Wagon A/c		1,000	
ales.	(Being depreciation charged on ₹ 19,902 @ 10% p.a.)			1,990
Dec. 31	P&I A/a			
13.21.67	To Interest A/c	Dr.	2,248	
	To Depreciation A/c			258
ALL OF	(Reing transfer of domeniation and interest to D. C.			. 1,990
	(Being transfer of depreciation and interest to P. & L.	A/c)		-

In the Books of Hire Vendor

Journal Entries

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Journal Entries			Dr.	Cr.
Particulars		L.F.	Amount	Amount
	-	1	Ŧ	7
Hire Purchaser's A/c (Coal Merchant) To Hire Sales A/c (Being wagon sold on H.P. System)	Dr.		27,300	27,30
Cash A/c To Hire Purchaser's A/c (Being cash received on delivery)	Dr.		6,000	6,00
Hire Purchaser's A/c To Interest A/c (Being interest due)	Dr.		1,065	1,06
Cash A/c To Hire Purchaser's A/c (Being instalment received)	Dr.		6,000	6,00
Interest A/c To P. & L. A/c (Being transfer of interest into P. & L. A/c)	Dr.		1,065	1,06
Hire Sales A/c To Trading A/c (Being transfer of Hire Sales to Trading A/c)	Dr.		27,300	27,30
	Particulars Hire Purchaser's A/c (Coal Merchant) To Hire Sales A/c (Being wagon sold on H.P. System) Cash A/c To Hire Purchaser's A/c (Being cash received on delivery) Hire Purchaser's A/c To Interest A/c (Being interest due) Cash A/c To Hire Purchaser's A/c (Being interest due) Cash A/c To Hire Purchaser's A/c (Being instalment received) Interest A/c To P. & L. A/c (Being transfer of interest into P. & L. A/c) Hire Sales A/c To Trading A/c	ParticularsHire Purchaser's A/c (Coal Merchant) To Hire Sales A/c (Being wagon sold on H.P. System)Dr.Cash A/c To Hire Purchaser's A/c (Being cash received on delivery)Dr.Hire Purchaser's A/c To Interest A/c (Being interest due)Dr.Cash A/c To Hire Purchaser's A/c (Being interest due)Dr.Cash A/c To Hire Purchaser's A/c (Being instalment received)Dr.Interest A/c (Being transfer of interest into P. & L. A/c)Dr.Hire Sales A/c To Trading A/cDr.	ParticularsL.F.Hire Purchaser's A/c (Coal Merchant) To Hire Sales A/c (Being wagon sold on H.P. System)Dr.Cash A/c To Hire Purchaser's A/c (Being cash received on delivery)Dr.Hire Purchaser's A/c (Being interest A/c (Being interest due)Dr.Cash A/c To Hire Purchaser's A/c (Being interest due)Dr.Cash A/c (Being instalment received)Dr.Interest A/c (Being transfer of interest into P. & L. A/c)Dr.Hire Sales A/c To Trading A/cDr.	ParticularsDr.ParticularsL.F.AmountHire Purchaser's A/c (Coal Merchant) To Hire Sales A/c (Being wagon sold on H.P. System)Dr.27,300Cash A/c (Being cash received on delivery)Dr.6,000Hire Purchaser's A/c (Being interest A/c (Being interest due)Dr.6,000Cash A/c (Being interest due)Dr.1,065Cash A/c (Being instalment received)Dr.1,065Interest A/c (Being transfer of interest into P. & L. A/c)Dr.1,065Hire Sales A/c To Trading A/cDr.27,300

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