

Question.

Mr A purchased a machine on Hire purchase system over a term of 2 years, starting from 1 Jan 2009. The instalment of 4000 each are payable half yearly. The present cash value of the machine is 14870 and the Hire vendor charging interest at the rate of 6% p.a. working on half yearly basis. Depreciation is charged at 15% p.a. on written down value. Give the necessary Journal entries to record the above transaction in the books of A who closes his books on 31 Dec each year.

Solution.

Cash Price
14870
3554

11316
3661

7655
3770

3885

I year Calculation of interest
 $\frac{14870 \times 6 \times 6}{100 \times 12} = 446.10$

 $\frac{11316 \times 6 \times 6}{100 \times 12} = 339$
II year
 $\frac{7655 \times 6 \times 6}{100 \times 12} = 229.65$
31 Dec
 $4000 - 3885 = 115$
Int

Passbook
I year.
30 Dec.
Inst 4000
(-) Int 446.10

CP 3554
31 Dec
4000 Int
339 - Int

2661 CP
II year
30 Dec
6000
3770

3770

Calculation of Depreciation

1 year cash value — 14870
 $\frac{14870 \times 15}{100} = 2230.50$
 $\frac{2231}{12} = 186.75$

11 year $\frac{12639 \times 15}{100} = 1896$
 $\frac{1896}{10} = 189.6$
 $\frac{1896}{10743}$

Journal entries in the books of Colliery Company

Date	Particulars	L.F	Dr Amount	Cr Amount
2009 17th	Machine A/c Dr To Hire vendor. (Buy instalment due including Int @ 6% P.A. on 14870 for 6 mths.)		3554 446	4000
30/4	Hire vendor A/c Dr To Cash (Buy Payment of instalment)		4000	4000
31 Dec	Machine A/c Dr To Hire vendor. (Buy instalment due including Int @ 6% P.A. on 11316.16 for 6 months)		3661 339	4000
31	Hire vendor A/c Dr To Cash (Buy Payment of instalment)		4000	4000
31 Dec	Depreciation A/c Dr To Machine. (Buy Depreciation charged on 14870 @ 15% P.A)		2231	2231
	P&L A/c Dr To Interest " Depreciation (Buy Int & Depreciation transfer to P&L)		3016	785 2231

P.T.O.

2010

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Machine A/c Dr 3770
 Interest A/c Dr 230
 To Hire vendor 4000

C Buy instalment due including
 Int @ 6% p.a on 7655.88
 for 6 months

July 30 Hire vendor A/c Dr 4000
 C Buy Payment of Instalment 4000

31 Dec 2010 Machine A/c Dr 3885
 Int A/c Dr 115
 To Hire vendor 4000

C Buy final instalment due
 including Int

Hire vendor A/c Dr 4000
 C Buy Payment of Instalment 4000

Depreciate A/c Dr 1896
 To Machine 1896
 C Buy Depreciate on Machine 2241

PL A/c Dr 345
 To Int & Depreciate 1896

~~C Buy Int & Depreciate~~
 transferred to PL

127000
 127000
 2. Assets -
 1. Current Assets - 127000