

Problem No. 2

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DATE: / /

Ajay Company Ltd. Purchased a machine from Rajesh Ltd. as on 1.1.2002 on Hire purchase basis. The Particulars are as follows.

- i) Cash price - 20,000/-
 - ii) Amount to be paid on 1.1.2002 Rs. 8000/-
 - iii) Balance to be paid in three yearly installment 4000 each + Interest
 - iv) Interest to be charged on outstanding Bal. at 7% P.A.
 - v) Depr. at 10% P.A. on Fixed Bal. method.
- Give Necessary Journal Entries in the Books of Ajay Co. Ltd. & show Machine A/c, Rajesh A/c, Interest A/c & Depreciation A/c.

Statement showing calculation of Interest.

Date	Outstanding Bal. of cash price.	Installment	7% Interest	Installment with Int.
1.1.2002	20,000			
1.1.2002	8,000	8000	-	8,000
alt. Bal. 31.12.2002	12,000			
31.12.2002	4,000	4000	840	4840
alt. Bal. 1.1.2003	8,000			
31.12.2003	4000	4000	560	4560
alt. 1.1.2004	4000			
31.12.2004	4000	4000	280	4280
		20,000	1680	21680
		Cash price	Interest	H.P.P.

Depreciation is fixed installment method.

10% on 20000 = 2000 for every year.

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Date	Particulars	Debit	Credit
1.1.2002	Machine A/c To Rajesh A/c (Vendor)	₹ 8,000	8,000
	(Being Machine purchased & Amount payable)		
1.1.2002	Rajesh A/c (Vendor) To Cash A/c	₹ 8,000	8,000
	(Being Agreement Amount paid)		
31.12.2002	Machine A/c Interest A/c To Rajesh A/c	₹ 4,000 ₹ 840	4,840
	(Being First Installment due with Interest)		
31.12.2002	Rajesh A/c To Cash A/c	₹ 4,840	4,840
	(Being First Installment paid with Interest)		
31.12.2002	Depreciation A/c To Machine A/c	₹ 2,000	2,000
	(Being Dep. charged on Machine @ 10%)		
31.12.2002	Profit & Loss A/c To Depreciation A/c To Interest A/c	₹ 2,840	2,000 840
	(Being Bal. of Dep. A/c & Interest A/c transferred to P&L A/c)		
1.12.2003	Machine A/c Interest A/c To Rajesh A/c (Vendor)	₹ 4,000 ₹ 560	4,560
	(Being Second Installment due with Interest)		

Date	Particulars	L.F.	Debit	Credit
31.12.2003	Rajesh Alc (Vendor) Dr To Cash Alc (Being second installment paid with interest)		4,560	4,560
31.12.2003	Depreciation Alc Dr To Machine Alc (Being Depreciation charged @ 10% p.f. I.M.)		2,000	2,000
31.12.2003	Profit & Loss Alc Dr To Depreciation Alc To Interest Alc (Being bal. of Dep. alc and Int. alc trd. to P & L Alc)		2,560	2,000 560
31.12.2004	Machine Alc Dr Interest Alc Dr To Rajesh Alc (Vendor) (Being Third Installment due with interest)		4,000 280	4,280
31.12.2004	Rajesh Alc Dr To Cash Alc (Being Third Installment money paid with interest)		4,280	4,280
31.12.2004	Depreciation Alc Dr To Machine Alc (Being Dep. charged on Machine on F.I.M.)		2,000	2,000
31.12.2004	Profit & Loss Alc Dr To Depreciation Alc To Interest Alc (Being bal. of Depreciation Alc and Interest Alc trd. to P & L Alc)		2,280	2,000 280

Ledger A/c's

Dr.		Machine A/c				Cr.	
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
1.1.2002	To Rajesh A/c		8,000	31.12.2002	By Depreciation A/c		2,000
31.12.2002	To Rajesh A/c		4,000	31.12.2002	By Balance c/d		10,000
			<u>12,000</u>				<u>12,000</u>
1.1.2003	To Balance b/d		10,000	31.12.2003	By Depreciation A/c		2,000
31.12.2003	To Rajesh A/c		4,000	31.12.2003	By Balance c/d		12,000
			<u>14,000</u>				<u>14,000</u>
1.1.2004	To Balance b/d		12,000	31.12.2004	By Depreciation A/c		2,000
31.12.2004	To Rajesh A/c		4,000	31.12.2004	By Balance c/d		14,000
			<u>16,000</u>				<u>16,000</u>
1.1.2005	To Balance b/d		14,000				

Dr.		Rajesh A/c				Cr.	
1.1.2002	To cash A/c		8,000	1.1.2002	By Machine A/c		8,000
31.12.2002	To cash A/c		4,840	31.12.2002	By Machine A/c		4,000
				31.12.2002	By Interest A/c		840
			<u>12,840</u>				<u>12,840</u>
31.12.2003	To cash A/c		4,560	31.12.2003	By Machine A/c		4,000
				31.12.2003	By Interest A/c		560
			<u>4,560</u>				<u>4,560</u>
31.12.2004	To cash A/c		4,280	31.12.2004	By Machine A/c		4,000
				31.12.2004	By Interest A/c		280
			<u>4,280</u>				<u>4,280</u>

Dr.		Interest A/c				Cr.	
31.12.2002	To Rajesh A/c		840	31.12.2002	By Profit & Loss A/c		840
31.12.2003	To Rajesh A/c		560	31.12.2003	By Profit & Loss A/c		560
31.12.2004	To Rajesh A/c		280	31.12.2004	By Profit & Loss A/c		280

Dr.		Depreciation A/c				Cr.	
1.1.2002	To Machine A/c		2,000	31.12.2002	By Profit & Loss A/c		2,000
31.12.2003	To Machine A/c		2,000	31.12.2003	By Profit & Loss A/c		2,000
31.12.2004	To Machine A/c		2,000	31.12.2004	By Profit & Loss A/c		2,000

Thank u