

# FINANCIAL ACCOUNTING

## SUBJECT CODE: 20UCO2CC3

- ▶ Dr. P. JARINA BEGAM,
  - ▶ ASSISTANT PROFESSOR,
  - ▶ DEPARTMENT OF COMMERCE (SF-WOMEN),
  - ▶ JAMAL MOHAMED COLLEGE (AUTONOMOUS),
    - ▶ TRICHY.

# HIRE PURCHASES SYSTEM

- ▶ Mr. Purchased a Machine on Hire Purchase system Rs.3,000 being paid on delivery and the balance in five instalments of Rs.6,000 each, payable annually on 31<sup>st</sup> December. The cash price of the machine was Rs.30,000. Calculate the amount of interest for each year.

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## ► Solution

►	Rs.
► 1 <sup>st</sup> year = Amount outstanding for interest after down payment	30,000
► 2 <sup>nd</sup> year = Amount outstanding for interest after 1 <sup>st</sup> instalment	24,000
► 3 <sup>rd</sup> year = Amount outstanding for interest after 1 <sup>st</sup> instalment	18,000
► 4 <sup>th</sup> year = Amount outstanding for interest after 1 <sup>st</sup> instalment	12,000
► 5 <sup>th</sup> year = Amount outstanding for interest after 1 <sup>st</sup> instalment	6,000

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▶ **Instalment Outstanding Ratio =**

▶ 30,000 : 24,000 : 18,000 : 12,000 : 6,000

▶ 5: 4: 3: 2: 1

▶ Total interest = Hire purchases - Cash price

▶ = 33,000 – 30,000

▶ = 3,000

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## Table showing calculation of interest

Instalments	No. of outstanding instalments	Ratio of Interest	Interest Rs.
1st instalment	5	5/15	$3,000 \times 5/15 = 1,000$
2nd instalment	4	4/15	$3,000 \times 4/15 = 800$
3rd instalment	3	3/15	$3,000 \times 3/15 = 600$
4th instalment	2	2/15	$3,000 \times 2/15 = 400$
5th instalment	1	1/15	$3,000 \times 1/15 = 200$
	15		Total interest 3,000