

Instalment System

Additional Interest to be added in Instalment

Q: → On the 1st January 2007 a printing company purchased machinery on the instalment payment system. The cash price of the machine is Rs 4000. Rs 800 paid on delivery and four annual instalments of Rs 800 each are paid on 31st December. In addition interest is to be charged at 6% per annum on yearly balances.

Show the vendor's Account in the books of the printing company for the period of the agreement, assuming that all payments were duly made.

Solution -

In the books of printing company
Vendor's Account

Dr			Cr		
Date	Particulars	Amount	Date	Particulars	Amount
2007			2007		
Jan 1	To Bank A/c	800	Jan 1	By Machinery A/c	4000
Dec 31	To Bank A/c	992		By Interest suspense A/c	480
	To Balance c/d	2688			
		<u>4480</u>			<u>4480</u>
2008			2008		
Dec 31	To Bank	944	Jan 1	By Balance b/d	2688
	To Balance c/d	1744			
		<u>2688</u>			<u>2688</u>
2009			2009		
Dec 31	To Bank A/c	896	Jan 1	By Balance b/d	1744
	To Balance c/d	848			
		<u>1744</u>			<u>1744</u>
2010			2010		
Dec 31	To Bank A/c	848	Jan 1	By Balance b/d	848
		<u>848</u>			<u>848</u>

Cash Price - 4000 - 800 = 3200 $\times \frac{6}{100} = 192$ Interest Instalment 992
 3200 - 800 = 2400 $\times \frac{6}{100} = 144$ = 800 + 144 = 944 Instalment
 2400 - 800 = 1600 $\times \frac{6}{100} = 96$, 800 + 96 = 896 = Instalment
 1600 - 800 = 800 $\times \frac{6}{100} = 48$, 800 + 48 = 848 = Instalment

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