

Instalment system

Financing by financial corporation

Q. → On 1st January, 2009 Krishi Limited acquired a tractor of which the cash price was Rs 12900. The purchase of the tractor was financed by X Finance Corporation Ltd. On 1st January 2009 Rs 2000 was to be paid by Krishi Ltd and three instalments (including interest) of Rs 4000 on 31st December 2009, 2010 and 2011 respectively. The rate of interest was 5% per annum.

On 1st January, 2011 the tractor was sold for 10,000 and the debt of the X Finance Corporation Ltd. was discharged on that date.

Show the tractor Account, and the Account of X Finance Corporation Ltd. in the ledgers of Krishi Ltd. Writing of depreciation at 10% per annum on the diminishing balance.

Solution :- Calculation of Interest

Date		Amount Rs.
1.1.2009	Cash Price	12900
	Less cash down payment	2000
		10,900
31.12.2009	Add - Interest $(\frac{10,900 \times 5}{100}) = 545$	545
	Less First Instalment -	11,445
31.12.2010	Add - Interest $(\frac{7445 \times 5}{100}) = 372.25 = Rs 372$	4000
		7445
		372
	Less Second Instalment paid	7817
		4000
	Balance.	3817

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IN THE BOOKS OF KRISHI Ltd.

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## Trading Account

Date	Particulars	Amount	Date	Particulars	Amount
1.1.09	To X Finance Corp. Ltd	12,900	31.12.09	By Deprec All	1,290
			31.12.09	By Balance c/d	11,610
		<u>12,900</u>			<u>12,900</u>
1.1.10	To Balance b/d	11,610	31.12.10	By Deprec All	1,161
			31.12.10	By Balance c/d	10,449
		<u>11,610</u>			<u>11,610</u>
1.1.11	To Balance b/d	10,449	1.1.2011	By Cash	10,000
				By Profit & Loss A/c	449
				Loss on sale of tractor	
		<u>10,449</u>			<u>10,449</u>

Dr		X Finance Corporation Ltd.		Cr	
Date	Particulars	Amount	Date	Particulars	Amount
1.1.09	To Cash All	2,000	1.1.2009	By Tractor All	12,900
31.12.09	To Cash All	4,000	1.1.2009	By Interest Surplus All	1,100
31.12.09	To Balance c/d	8,000			
		<u>14,000</u>			<u>14,000</u>
31.12.2010	To Cash All	4,000	1.1.2010	By Balance b/d	8,000
31.12.2010	To Balance c/d	4,000			
		<u>8,000</u>			<u>8,000</u>
31.12.11	To Cash All	4,000	1.1.2011	By Balance b/d	4,000
		<u>4,000</u>			<u>4,000</u>

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 Date - 24/17/2020