

Problem: When half yearly instalments are given/ when the cash price component in each instalment is not given

ONGC Ltd purchased an oil rig on hire purchase system over a term of 2 years starting Jan 1st 2016. Instalment of Rs.40,000 each is payable half- yearly. Present cash value of the rig is Rs.1,48,700 and interest payable at 6% p.a., working on half yearly rates. ONGC Ltd depreciates the machinery by 10% on original cost method.

Prepare ONGC Ltd a/cs and Hire Vendors a/c assuming the books are closed on 31st Dec every year.

Solution:

Depreciation on Original cost method @ 10% p.a – Rs. 1,48,700 x 10% = Rs.14,870

In the absence of any instruction, cash price method is used.

Calculation of Cash price component in each instalment:

Statement showing cash price and interest

Date	Cash price at the beginning	Interest @ 6% on opening balance of cash price	Half Yearly instalments	Cash price element in each instalment (instalment-interest)	Cash price due after instalment (op. bal of cash price- cash price element in each instalment)
2016 30/6 31/12	1,48,700 1,13,161	1,48,700x 6%x6/12 =4,461 1,13,161x 6%x6/12= 3,395	40,000 40,000	40,000-4,461= 35,539 40,000- 3,395= 36,605	1,48,700-35,539= 1,13,161 1,13,161-36,605=76,556
2017 30/6 31/12	76,556 38,853	76,556x6%x6/12= 2,297 40000-38,853=1,147	40,000 40,000	40,000-2,297= 37,703 40,000-1,147= 38,853	76,556- 37,703= 38,853 38,853-38,853= 0

Ledger accounts in the books of ONGC Ltd

Dr. Oil Rig a/c
Cr.

Year	Particulars	Rs.	Year	Particulars	Rs.
1/01/16	To Hire Vendor's a/c (CP)	1,48,700	31/12/16	By Depreciation a/c	14,870
			31/12/16	By Balance c/d	1,33,830
		1,48,700			1,48,700
1/01/17	To Balance b/d	1,33,830	31/12/17	By Depreciation a/c	14,870
			31/12/17	By Balance c/d	1,18,960
		1,33,830			1,33,830
1/01/18	To Balance b/d	1,18,960			

Dr. Hire Vendor's a/c
Cr.

Year	Particulars	Rs.	Year	Particulars	Rs.
30/6/16	To Bank a/c (Instalment)	40,000	1/01/16	By Oil Rig a/c	1,48,700
31/12/16	To Bank a/c (Instalment)	40,000	30/6/16	By Interest a/c	4,461
31/12/16	To Balance c/d	76,556	31/12/16	By Interest a/c	3,395
		1,56,556			1,56,556
30/6/17	To Bank a/c (Instalment)	40,000	1/01/17	By Balance b/d	76,556
31/12/17	To Bank a/c (Instalment)	40,000	30/6/17	By Interest a/c	2,297
			31/12/17	By Interest a/c	1,147
		1,68,000			1,68,000

