

Calculation of cash price

II. Annuity method

When cash price of the asset is not given but the instalment payable (instalment amount in this case must be equal instalments) the rate of interest, and the annuity table are given, cash price of the asset shall be calculated as under:

$$\text{CASH PRICE} = [\text{PRESENT VALUE OF RUPEE} \times \text{AMOUNT OF ANNUAL INSTALMENT}] + \text{DOWN PAYMENT}$$

Illustration: From the following information calculate the cash price of the machine bought on 1st April 2013.

Hire purchase price: Rs.50,000

Down payment: Rs.10,000

4 annual instalments of Rs.10,000 each

Rate of Interest: 5%

Present value of annuity of Re.1 p.a.: Rs.3.5460.

Solution:

CASH PRICE = [present value of rupee x amount of annual instalment] + down payment

$$\text{Cash price} = [3.5460 \times 10,000] + 10,000 = 35,460 + 10,000 = \text{Rs.45,460}$$