**Practice 6**

On 1 January Year 6, Modern Traders Bhd purchased a machine on a hire purchase basis from TW Machinery Bhd.

The terms of the hire purchase contract were as follows:

1. Cash price: RM 38,000;
2. Deposit: RM 4,000;
3. Payments: 8 quarterly instalments, commencing on 31 March Year 6;
4. Interest was charged at 10% per annum on the balance of cash price outstanding at the beginning of Year 6.

On 1 August Year 7, a fire occurred and the machine was seriously destroyed. The insurance company agreed to compensate RM 30,000 for the loss suffered by Modern Traders Bhd. KW Machinery Bhd received a lump sum of RM 4,500 from Modern Traders Bhd as final settlement to terminate the agreement.

The depreciation charged for machinery is 10% per annum using reducing balance method. The financial year of Modern Traders Bhd ends on 31 December each year.

In the books of Modern Traders Bhd, **you are required to prepare:**

1. the following Ledger accounts for Year 6 and Year 7:
2. Machinery;
3. Hire Purchase Vendor - KW Machinery Bhd;
4. Hire Purchase Interest Suspense;
5. Accumulated Depreciation of Machinery;
6. Disposal of Machinery;
7. Profit and Loss.
8. the following financial statements (extract) for Year 6 and Year 7:
9. Income Statement;
10. Statement of Financial Position.