

HIRE PURCHASE TRANSACTIONS

Question 1: Explain Hire Purchase transaction.

Answer: Hire Purchase transaction is a special business transaction where the purchaser (**Hirer**) pays the entire amount in staggered way viz, monthly, quarterly, half yearly or yearly with some interest. Under this system the goods are sold with the following conditions:

- (i) **Possession of goods is delivered to a hirer but the title to the goods (Ownership) is transferred only when the agreed sum (Hire Purchase price) is paid by the hirer.**
- (ii) **Since the amount is paid in Instalments, the seller also charges interest for the balance due and therefore the total amount paid by the hirer is certainly higher than the cash down price of the asset because of interest charges.**
- (iii) Such hirer has a right to terminate the agreement at any time before the property (ownership) so passes. It means he has the option to return the goods in which case he need not pay Instalments falling due thereafter. However, the hirer cannot recover the sums already paid, as such sums legally represent hire charges of the goods used.
- (iv) The hire-purchaser, during the period of possession of goods, cannot damage, destroy, pledge or sell such goods. He is supposed to take all such care of goods as a prudent person does for his own goods.

Under hire purchase agreement, both the parties gain as purchaser gets the right to immediate use of the asset without making immediate payment for the asset and seller derives the benefit by way of increased sale and earning by way of interest income.

Depreciation shall be allowed to the hire purchaser

Basic Terms used in Hire Purchase

1. **Hire Vendor:** Hire vendor is a person who delivers the goods under a hire purchase agreement.
2. **Hire Purchaser:** Hire purchaser is a person who obtain the goods and rights to use the same under a hire purchase agreement.
3. **Cash Price:** Cash price is the amount to be paid by the buyer if he makes the total payment immediately.
4. **Down Payment:** Down payment is the initial payment made to the hire vendor by the hire purchaser at the time of entering into a hire purchase agreement.
5. **Hire Purchase Instalment:** Hire purchase Instalment is the amount which the hire purchaser has to pay after a regular interval upto certain period as specified in the agreement to obtain the ownership of the asset purchased under a hire purchase agreement. It comprises of principal amount and the interest on the unpaid amount.
6. **Hire purchase price:** It means the total sum payable by the hire purchaser to obtain the ownership of the asset purchased under hire purchase agreement. It comprises of cash price and interest amount.

Question 2: Explain Accounting treatments in the books of Hire Vendor.

Answer: The following methods are followed:

- (1) Sales Method
- (2) Interest Suspense Method

(1) **Sales Method:** A business that sells relatively large items on hire purchase may adopt this method. Under this method, hire purchase sale is treated as a credit sale. The profit on sale is realized in the year of sale and interest income is recognized over a period of time. Generally, a special Sales Day Book is maintained for recording all sales under hire purchase agreement. The amount due from the hire purchaser at the end of the year is shown in the Balance sheet on the assets side as Hire Purchase Debtors.

Journal entries in the book of hire vendor

	Particulars	Debit (₹)	Credit (₹)
1.	Hire Purchaser A/c Dr. To H.P. Sales [Cash price] (Being goods sold on hire purchase)	xxxx	xxxx
2.	Bank A/c Dr. To Hire Purchaser A/c [Down payment] (Being down payment received)	xxxx	xxxx
3.	Hire Purchaser A/c Dr. To Interest A/c (Being interest due for the year)	xxxx	xxxx
4.	Bank A/c Dr. To Hire Purchaser A/c [Instalment + Interest] (Being installment amount received)	xxxx	xxxx
5.	Interest A/c Dr. To Profit and loss A/c (Being interest transferred to profit and loss account)	xxxx	xxxx
6.	H.P. Sales A/c Dr. To Trading A/c (Being HP Sales transferred to Trading account)	xxxx	xxxx

Point to remember:

1. The entire profit on sale under hire purchase agreement is credited to the Profit and Loss account of the year in which the sale has taken place.
2. Interest pertaining to each accounting period is credited to the Profit and Loss account of that year.

Disclosure in Balance Sheet

Current assets:

Hire purchase Debtors xxx

(2) Interest Suspense Method:

	Particulars		Debit (₹)	Credit (₹)
1.	Hire Purchaser A/c [Cash Price + total interest] Dr. To H.P. sales A/c [Cash price price] To Interest Suspense A/c [Total Interest] (Being goods sold on hire purchase)		xxxx	xxxx xxxx
2.	Bank A/c Dr. To Hire Purchaser [Down payment] (Being down payment received)		xxxx	xxxx
3.	Interest Suspense A/c Dr. To Interest A/c (Being interest for the period transferred)		xxxx	xxxx
4.	Bank A/c Dr. To Hire Purchaser [Instalment + Interest] (Being installment received)		xxxx	xxxx
5.	Interest A/c Dr. To Profit and loss A/c (Being interest transferred to Profit and loss account)		xxxx	xxxx
6.	H.P. Sales A/c Dr. To Trading A/c (Being HP Sales transferred to Trading account)		xxxx	xxxx

Disclosure in the Balance Sheet

Current assets:

Hire purchase Debtors xxx
 Less: Balance in interest suspense a/c (xxx) xxx

Question 3: Explain Accounting treatments in the books of Hire Purchaser.

Answer: The following methods are adopted by the Hire Purchaser:

- (1) Cash Price Method
- (2) Interest Suspense Method

(1) Cash Price Method: Under this method, the asset and hire vendor account are opened with cash price. Interest amount is credited to vendor account at the end of the year and payments are made as and when Instalment is due.

Journal entries in the book of hire purchaser

	Particulars	Debit (₹)	Credit (₹)
1.	Asset A/c Dr. To Hire Vendor A/c [Cash price] (Being Asset purchased on hire purchase)	xxxx	xxxx
2.	Hire Vendor A/c Dr. To Bank A/c [Down payment] (Being Down Payment made)	xxxx	xxxx
3.	Interest A/c Dr. To Hire Vendor A/c (Being interest due)	xxxx	xxxx
4.	Hire Vendor A/c Dr. To Bank A/c [Instalment + interest] (Being Installment paid)	xxxx	xxxx
5.	Depreciation A/c Dr. To Asset A/c (Being depreciation charged)	xxxx	xxxx
6.	Profit and loss A/c Dr. To Interest A/c To Depreciation A/c (Being Interest and depreciation transferred to profit and loss account)	xxxx	xxxx xxxx

Disclosure in the Balance Sheet:

It is **necessary to disclose the fact that asset has been purchased under Hire Purchase.**

Accordingly, the asset purchased is classified as "Asset on Hire Purchase". The amount due to the hire vendor should also be shown as liability classified as "Hire purchase creditors" with additional such classification of amount of the hire purchase Instalment due and amount of hire purchase Instalment not yet due.

Disclosure in Balance Sheet

Assets:

Plant, Property, Equipment:

Asset on hire Purchase (Net of Depreciation) xxx

Creditors:

Balance in Hire vendor's account

Instalment due xxx

Instalment not yet due xxx

(2) Interest Suspense Method : Under this method, the asset account is opened with cash price but hire vendor account is opened with full hire purchase price, the difference (interest) is transferred to Interest suspense account. Payments are made as and when Instalment is due and interest suspense account is reduced by the interest amount to be charged to profit and loss amount of the particular year.

	Particulars	Debit (₹)	Credit (₹)
1.	Asset A/c [Cash Price] Dr. Interest Suspense A/c [Total Interest] Dr. To Hire Vendor A/c [H.P price] (Being Asset purchased on hire purchase)	xxxx xxxx	xxxx
2.	Hire Vendor A/c Dr. To Bank A/c [Down payment] (Being Down Payment made)	xxxx	xxxx
3.	Interest A/c Dr. To Interest Suspense A/c (Being interest transferred from interest suspense)	xxxx	Xxxx
4.	Hire Vendor A/c Dr. To Bank A/c [Instalment amount + Interest] (Being instalment paid)	xxxx	Xxxx
5.	Depreciation A/c Dr. To Asset A/c (Being depreciation charged)	xxxx	xxxx
6.	Profit and loss A/c Dr. To Interest A/c To Depreciation A/c (Being Interest and depreciation charged to profit and loss account)	xxxx	xxxx xxxx

Disclosure in Balance Sheet

Assets:

Plant, Property, Equipment:

Asset on hire Purchase (Net of Depreciation) xxx

Creditors:

Balance in Hire vendor's account

Instalment due	xxx	
Instalment not yet due	xxx	
Less: Balance in Interest Suspense A/c (if any)	<u>(xxx)</u>	xxx

Illustration 1

Mr. X purchased 3 vehicle on 01.04.2019 from ABC limited under hire purchase agreement and cash price of each vehicle is ₹ 4,00,000 and interest is 10% per annum. Down payment is ₹ 1,00,000 per vehicle and remaining amount has been paid in three annual instalments of ₹1,00,000 each alongwith interest. Compute Hire purchase price and total interest payable. Also pass journal entries and make ledger account in the books of hire vendor and hire purchaser under both methods. Rate of depreciation @ 10% per annum on WDV basis. Also show the items in balance sheet at the end of each year.

Solution:

Interest payable at the end of 1 st year $3,00,000 \times 3 \times 10\%$	= ₹ 90,000
Installment payable at the end of 1 st year = $3,00,000 + 90,000$	= ₹ 3,90,000
Interest payable at the end of 2 nd year $2,00,000 \times 3 \times 10\%$	= ₹ 60,000
Installment payable at the end of 2 nd year = $3,00,000 + 60,000$	= ₹ 3,60,000
Interest payable at the end of 3 rd year $1,00,000 \times 3 \times 10\%$	= ₹ 30,000
Installment payable at the end of 3 rd year = $3,00,000 + 30,000$	= ₹ 3,30,000
Total interest payable = $90,000 + 60,000 + 30,000$	= ₹ 1,80,000
HP price of each vehicle = ₹ 4,60,000	

HIRE VENDOR

(1) Sales Method :

Journal entries in the book of hire vendor - ABC Limited

	Particulars	Debit (₹)	Credit (₹)
01.04.2019	Hire Purchaser (Mr. X) A/c Dr. To H.P. Sales [Cash price] (Being goods sold on Hire purchase)	12,00,000	12,00,000

01.04.2019	Bank A/c To Hire Purchaser (Mr. X) A/c [Down payment] (Being Down Payment received)	Dr.	3,00,000	3,00,000
31.03.2020	Hire Purchaser (Mr. X) A/c To Interest A/c (Being Interest due)	Dr.	90,000	90,000
31.03.2020	Bank A/c To Hire Purchaser A/c (Mr. X) [Instalment + Interest] (Being installment amount received)	Dr.	3,90,000	3,90,000
31.03.2020	Interest A/c To Profit and loss A/c (Being Interest transferred to P&L A/c)	Dr.	90,000	90,000
31.03.2020	H.P. Sales A/c To Trading A/c (Being HP Sales transferred to Trading A/c)	Dr.	12,00,000	12,00,000
31.03.2021	Hire Purchaser (Mr. X) A/c To Interest A/c (Being Interest due)	Dr.	60,000	60,000
31.03.2021	Bank A/c To A/c Hire Purchaser (Mr. X) [Instalment + Interest] (Being installment amount received)	Dr.	3,60,000	3,60,000
31.03.2021	Interest A/c To Profit and loss A/c (Being Interest transferred to P&L A/c)	Dr.	60,000	60,000
31.03.2022	Hire Purchaser (Mr. X) A/c To Interest A/c (Being Interest due)	Dr.	30,000	30,000
31.03.2022	Bank A/c To A/c Hire Purchaser (Mr. X) [Instalment + Interest] (Being installment amount received)	Dr.	3,30,000	3,30,000
31.03.2022	Interest A/c To Profit and loss A/c (Being Interest transferred to P&L A/c)	Dr.	30,000	30,000

HP Sales Account

	Particulars	₹		Particulars	₹
31.03.2020	To Trading A/c	12,00,000	01.04.2019	By Hire Purchaser (Mr. X) A/c	12,00,000
		12,00,000			12,00,000

Hire Purchaser (Mr. X) Account

	Particulars	₹		Particulars	₹
01.04.2019	To H.P. Sales	12,00,000	01.04.2019	By Bank A/c	3,00,000
31.03.2020	To Interest A/c	90,000	31.03.2020	By Bank A/c	3,90,000
			31.03.2020	By Balance c/d	6,00,000
		12,90,000			12,90,000
01.04.2020	To Balance b/d	6,00,000	31.03.2021	By Bank A/c	3,60,000
31.03.2021	To Interest A/c	60,000	31.03.2021	By Balance c/d	3,00,000
		6,60,000			6,60,000
01.04.2021	To Balance b/d	3,00,000	31.03.2022	By Bank A/c	3,30,000
31.03.2022	To Interest A/c	30,000	31.03.2022	By Balance c/d	Nil
		3,30,000			3,30,000

Extract Balance Sheet as at the end of 31.03.2020

Liabilities	₹	Assets	₹
		Current assets:	
		Hire purchase Debtors (Mr. X)	6,00,000

Extract Balance Sheet as at the end of 31.03.2021

Liabilities	₹	Assets	₹
		Current assets:	
		Hire purchase Debtor (Mr. X)	3,00,000

Extract Balance Sheet as at the end of 31.03.2022

Liabilities	₹	Assets	₹
		Current assets:	
		Hire purchase Debtors (Mr. X)	Nil

(2) Interest Suspense Method:

	Particulars	Debit (₹)	Credit (₹)
01.04.2019	Hire Purchaser A/c (Mr. X) [Cash Price + total interest] Dr. To H.P. sales A/c [Cash price price] To Interest Suspense A/c [Total Interest] (Being goods sold on hire purchase)	13,80,000	12,00,000 1,80,000
01.04.2019	Bank A/c Dr. To Hire Purchaser (Mr. X) [Down payment] (Being down payment received)	3,00,000	3,00,000
31.03.2020	Interest Suspense A/c Dr. To Interest A/c (Being interest suspense transferred to interest for the period)	90,000	90,000
31.03.2020	Bank A/c Dr. To Hire Purchaser (Mr. X) [instalment + interest] (Being instalment amount received)	3,90,000	3,90,000
31.03.2020	Interest A/c Dr. To Profit and loss A/c (Being interest transferred to profit and loss account)	90,000	90,000
31.03.2020	H.P. Sales A/c Dr. To Trading A/c (Being HP sales account transferred to trading account)	12,00,000	12,00,000
31.03.2021	Interest Suspense A/c Dr. To Interest A/c (Being interest suspense transferred to interest for the period)	60,000	60,000
31.03.2021	Bank A/c Dr. To Hire Purchaser (Mr. X) [instalment + interest] (Being instalment amount received)	3,60,000	3,60,000
31.03.2021	Interest A/c Dr. To Profit and loss A/c (Being interest transferred to profit and loss account)	60,000	60,000
31.03.2022	Interest Suspense A/c Dr. To Interest A/c (Being interest suspense transferred to interest)	30,000	30,000

31.03.2022	Bank A/c Dr. To Hire Purchaser (Mr. X) [instalment + interest] (Being instalment amount received)	3,30,000	3,30,000
31.03.2022	Interest A/c Dr. To Profit and loss A/c (Being interest transferred to profit and loss account)	30,000	30,000

Hire purchaser (Mr. X) A/c

	Particulars	₹		Particulars	₹
01.04.2019	To H.P. Sales A/c	12,00,000	01.04.2019	By Bank A/c (Down Payment)	3,00,000
31.03.2020	To Interest suspense A/c	1,80,000	31.03.2020	By Bank A/c (1 st Instalment)	3,90,000
			31.03.2020	By Balance c/d	6,90,000
		13,80,000			13,80,000
01.04.2020	To Balance B/d	6,90,000	31.03.2021	By Bank A/c (2 nd Instalment)	3,60,000
			31.03.2021	By Balance c/d	3,30,000
		6,90,000			6,90,000
01.04.2021	To Balance b/d	3,30,000	31.03.2022	By Bank A/c (3 rd Instalment)	3,30,000
			31.03.2022	By Balance c/d	Nil
		3,30,000			3,30,000

Interest suspense account

		₹			₹
31.03.2020	To Interest A/c	90,000	01.04.2019	By Hire purchaser (Mr. X) A/c	1,80,000
31.03.2020	To Balance c/d	90,000			
		1,80,000			1,80,000
31.03.2021	To interest A/c	60,000	01.04.2020	By Balance b/d	90,000
31.03.2021	To Balance c/d	30,000			
		90,000			90,000
31.03.2022	To Interest A/c	30,000	01.04.2021	By Balance b/d	30,000
		30,000			30,000

Extract Balance Sheet as at the end of 31.03.2020

Liabilities	₹	Assets		₹
		Current assets:		
		Hire purchase Debtors (Mr.X)	6,90,000	
		Less: Balance in Interest suspense a/c	(90,000)	6,00,000

Extract Balance Sheet as at the end of 31.03.2021

Liabilities	₹	Assets		₹
		Current assets:		
		Hire purchase Debtors (Mr.X)	3,30,000	
		Less: Balance in Interest suspense a/c	(30,000)	3,00,000

Extract Balance Sheet as at the end of 31.03.2022

Liabilities	₹	₹	Assets		₹
			Current assets:		
			Hire purchase Debtors (Mr. X)	Nil	
			Less: Balance in Interest suspense a/c	Nil	Nil

HIRE PURCHASER**(1) Cash Price Method:****Journal entries in the book of hire purchaser - Mr. X**

	Particulars	Debit (₹)	Credit (₹)
01.04.2019	Vehicle A/c Dr. To Hire Vendor A/c (ABC Ltd.) [Cash price] (Asset purchase on hire purchase)	12,00,000	12,00,000
01.04.2019	Hire Vendor A/c (ABC Ltd.) Dr. To Bank A/c [Down payment] (Being Down Payment made)	3,00,000	3,00,000
31.03.2020	Interest A/c Dr. To Hire Vendor A/c (ABC Ltd.) (Being interest due)	90,000	90,000
31.03.2020	Hire Vendor A/c (ABC Ltd.) Dr. To Bank A/c [Instalment + interest] (Being instalment payment made)	3,90,000	3,90,000
31.03.2020	Depreciation A/c Dr. To vehicle A/c (Being depreciation charged)	1,20,000	1,20,000
31.03.2020	Profit and loss A/c Dr. To Interest A/c To Depreciation A/c (Being interest and depreciation transferred to profit and loss account)	2,10,000	90,000 1,20,000
31.03.2021	Interest A/c Dr. To Hire Vendor (ABC Ltd.) A/c (Being interest due)	60,000	60,000
31.03.2021	Hire Vendor A/c (ABC Ltd.) Dr. To Bank A/c [Instalment + interest] (Being installment payment made)	3,60,000	3,60,000

31.03.2021	Depreciation A/c To Vehicle A/c (Being depreciation charged)	Dr.	1,08,000	1,08,000
31.03.2021	Profit and loss A/c To Interest A/c To Depreciation A/c (Being interest and depreciation transferred to profit and loss account)	Dr.	1,68,000	60,000 1,08,000
31.03.2022	Interest A/c To Hire Vendor A/c (ABC Ltd.) (Being interest due)	Dr.	30,000	30,000
31.03.2022	Hire Vendor A/c (ABC Ltd.) To Bank A/c [Instalment + interest] (Being installment payment made)	Dr.	3,30,000	3,30,000
31.03.2022	Depreciation A/c To Vehicle A/c (Being depreciation charged)	Dr.	97,200	97,200
31.03.2022	Profit and loss A/c To Interest A/c To Depreciation A/c (Being interest and depreciation transferred to profit and loss account)	Dr.	1,27,200	30,000 97,200

Vehicle Account

	Particulars	₹		Particulars	₹
01.04.2019	To Hire Vendor (ABC Ltd.) A/c (W.N.)	12,00,000	31.03.2020	By Depreciation A/c	1,20,000
			31.03.2020	By Balance c/d	10,80,000
		12,00,000			12,00,000
01.04.2020	To Balance b/d	10,80,000	31.03.2021	By Depreciation A/c	1,08,000
			31.03.2021	By Balance c/d	9,72,000
		10,80,000			10,80,000
01.04.2021	To Balance b/d	9,72,000	31.03.2022	By Depreciation A/c	97,200
			31.03.2022	By Balance c/d	8,74,800
		9,72,000			9,72,000

Hire Vendor (ABC Ltd.) Account

	Particulars	₹		Particulars	₹
01.04.2019	To Bank A/c (DP)	3,00,000	01.04.2019	By Vehicle A/c	12,00,000
31.03.2020	To Bank A/c	3,90,000	31.03.2020	By Interest A/c	90,000
31.03.2020	To Balance c/d	6,00,000			
		12,90,000			12,90,000
31.03.2021	To Bank A/c	3,60,000	01.04.2020	By Balance b/d	6,00,000

31.03.2021	To Balance c/d	3,00,000	31.03.2021	By Interest A/c	60,000
		6,60,000			6,60,000
31.03.2022	To Bank A/c	3,30,000	01.04.2021	By Balance b/d	3,00,000
			31.03.2022	By Interest A/c	30,000
		3,30,000			6,60,000

Balance Sheet as at the end of 31.03.2020

Liabilities	₹	Assets	₹
Hire Purchase Creditors: Hire vendor (ABC Ltd.)	6,00,000	Property, Plant & Equipment Asset on hire purchase Vehicle	10,80,000

Balance Sheet as at the end of 31.03.2021

Liabilities	₹	Assets	₹
Hire Purchase Creditors: Hire Vendor (ABC Ltd.)	3,00,000	Property, Plant & Equipment Asset on hire purchase Vehicle	9,72,000

Balance Sheet as at the end of 31.03.2022

Liabilities	₹	Assets	₹
Hire Purchase Creditors: Hire vendor (ABC Ltd.)	Nil	Property, Plant & Equipment Vehicle	8,74,800

(2) Interest Suspense Method:

Hire-Purchaser - Mr. X

	Particulars		Debit (₹)	Credit (₹)
01.04.2019	vehicle A/c [Cash Price] Dr.		12,00,000	
	Interest Suspense A/c [Total Interest] Dr.		1,80,000	
	To Hire Vendor (ABC Ltd.) A/c [H.P price] (being asset purchase on hire purchase)			13,80,000
01.04.2019	Hire Vendor (ABC Ltd.) A/c Dr.		3,00,000	
	To Bank A/c [Down payment] (being down payment made)			3,00,000
31.03.2020	Interest A/c Dr.		90,000	
	To Interest Suspense A/c (being interest due)			90,000
31.03.2020	Hire Vendor (ABC Ltd.) A/c Dr.		3,90,000	
	To Bank A/c [Instalment amount + interest] (Being installment paid)			3,90,000
31.03.2020	Depreciation A/c Dr.		1,20,000	
	To Vehicle A/c (Being depreciation charged)			1,20,000

31.03.2020	Profit and loss A/c To Interest A/c To Depreciation A/c (being interest and depreciation transferred to profit and loss)	Dr.	2,10,000	90,000 1,20,000
31.03.2021	Interest A/c To Interest Suspense A/c (being interest due)	Dr.	60,000	60,000
31.03.2021	Hire Vendor (ABC Ltd.) A/c To Bank A/c [Instalment amount + interest] (Being installment paid)	Dr.	3,60,000	3,60,000
31.03.2021	Depreciation A/c To Vehicle A/c (Being depreciation charged)	Dr.	1,08,000	1,08,000
31.03.2021	Profit and loss A/c To Interest A/c To Depreciation A/c (being interest and depreciation transferred to profit and loss)	Dr.	1,68,000	60,000 1,08,000
31.03.2022	Interest A/c To Interest Suspense A/c (being interest due)	Dr.	30,000	30,000
31.03.2022	Hire Vendor (ABC Ltd.) A/c To Bank A/c [Instalment amount + interest] (Being 1 st installment paid)	Dr.	3,30,000	3,30,000
31.03.2022	Depreciation A/c To Vehicle A/c (Being depreciation charged)	Dr.	97,200	97,200
31.03.2022	Profit and loss A/c To Interest A/c To Depreciation A/c (being interest and depreciation transferred to profit and loss)	Dr.	1,27,200	30,000 97,200

Vehicle Account

	Particulars	₹		Particulars	₹
01.04.2019	To Hire Vendor A/c (ABC Ltd.) (W.N.)	12,00,000	31.03.2020	By Depreciation A/c	1,20,000
			31.03.2020	By Balance c/d	10,80,000
		12,00,000			12,00,000
01.04.2020	To Balance b/d	10,80,000	31.03.2021	By Depreciation A/c	1,08,000
			31.03.2021	By Balance c/d	9,72,000
		10,80,000			10,80,000

01.04.2020	To Balance b/d	9,72,000	31.03.2022	By Depreciation A/c	97,200
			31.03.2022	By Balance c/d	8,74,800
		9,72,000			9,72,000

Hire Vendor (ABC Ltd.) Account

Particulars		₹	Particulars		₹
01.04.2019	To Bank A/c (DP)	3,00,000	01.04.2019	By Vehicle A/c	12,00,000
31.03.2020	To Bank A/c	3,90,000	01.04.2019	By Interest suspense A/c	1,80,000
31.03.2020	To Balance c/d	6,90,000			
		12,90,000			13,80,000
31.03.2021	To Bank A/c	3,60,000	01.04.2020	By Balance b/d	6,90,000
31.03.2021	To Balance c/d	3,30,000			
		6,90,000			6,90,000
31.03.2022	To Bank A/c	3,30,000	01.04.2021	By Balance b/d	3,30,000
31.03.2022	To Balance c/d	Nil			
		3,30,000			3,30,000

Interest Suspense Account

Date	Particulars	₹	Date	Particulars	₹
01.04.2019	To Hire Vendor A/c (ABC Ltd.)	1,80,000	31.03.2020	By Interest A/c	90,000
				By Balance c/d	90,000
		1,80,000			1,80,000
01.04.2020	To Balance b/d	90,000	31.03.2021	By Interest A/c	60,000
				By Balance c/d	30,000
		90,000			90,000
01.04.2021	To Balance b/d	30,000	31.03.2022	By Interest A/c	30,000
		30,000			30,000

Interest Account

Date	Particulars	₹	Date	Particulars	₹
31.03.2020	To Interest suspense A/c	90,000	31.03.2020	By Profit and loss A/c	90,000
		90,000			90,000
31.03.2021	To Interest suspense A/c	60,000	31.03.2021	By Profit and loss A/c	60,000
		60,000			60,000
31.03.2022	To Interest suspense A/c	30,000	31.03.2022	By Interest A/c	30,000
		30,000			30,000

Balance Sheet as at the end of 31.03.2020

Liabilities		₹	Assets		₹
Hire Purchase Creditors:			Property, Plant & Equipment		
Hire vendor (ABC Ltd.)	6,00,000		Asset on hire purchase		
Less: Balance in Interest	(90,000)	5,10,000	Vehicle		10,80,000
suspense A/c					

Balance Sheet as at the end of 31.03.2021

Liabilities		₹	Assets		₹
Hire Purchase Creditors: Hire vendor (ABC Ltd.)	3,00,000		Property, Plant & Equipment Asset on hire purchase		
Less: Balance in Interest suspense a/c	(60,000)	2,40,000	Vehicle		9,72,000

Balance Sheet as at the end of 31.03.2022

Liabilities		₹	Assets		₹
Hire Purchase Creditors: Hire vendor (ABC Ltd.)	Nil		Property, Plant & Equipment Vehicle		8,74,800
Less: Balance in Interest suspense a/c	Nil	Nil			

Illustration 2:

Mr. X purchased 3 vehicles on 01.04.2019 from ABC limited under hire purchase and installment payable alongwith interest is as given below:

Down payment ₹ 1,00,000 each

1st Installment on 31.03.2020 = ₹ 4,20,000

2nd Installment on 31.03.2021 = ₹ 3,90,000

3rd Installment on 31.03.2022 = ₹ 3,60,000

4th Installment on 31.03.2023 = ₹ 3,30,000

Rate of interest 10% per annum

Compute cash price, Hire Purchase price and amount of interest.

Solution:**Statement showing cash value of the vehicle acquired on hire-purchase basis**

	₹
4 th Instalment (31.03.2023)	3,30,000
Less: Interest (3,30,000 x 10/110)	30,000
Principal Amount	3,00,000
3 rd Instalment (31.03.2022)	3,60,000
Less: Interest (3,00,000 + 3,60,000) x 10/110	60,000
Principal Amount	3,00,000
2 nd Instalment (31.03.2021)	3,90,000
Less: Interest (3,00,000+3,00,000+3,90,000) x 10/110	90,000
Principal Amount	3,00,000
1 st Instalment (31.03.2020)	4,20,000
Less: Interest (3,00,000+3,00,000+3,00,000+4,20,000) x 10/110	1,20,000
Principal Amount	3,00,000
Total Interest (30,000 + 60,000 +90,000+1,20,000)	3,00,000
Hire purchase price of 3 vehicles (15,00,000 +1,00,000 x 3)	18,00,000
Cash price (HP Price – Interest)	15,00,000

Question 4: Explain Accounting treatment in case of Default and Repossession.**Answer:****DEFAULT AND REPOSSESSION**

When hirer is in default in making payments in time, the owner takes back the possession of goods. There are two possibilities:

(a) Complete Repossession**(b) Partial Repossession****(a) Complete repossession: When Hire Vendor takes back the possession of complete goods.**

In this case, the hire vendor takes back all the assets given on hire purchase without any refund or credit of the earlier payments made.

Accounting treatment in this case is as follows:

Books of Hire Vendor

1. All entries are passed as usual up to the date of default.
2. Hire Vendor closes purchaser's account by transferring the balance to a new account i.e. "goods repossessed account".
3. Goods repossessed account, as opened, is further debited with expenses incurred on repair of the goods and credited with actual resale price. Any balance in this account, being profit or loss on resale, is transferred to profit and loss account.

Books of Hire Purchaser

1. All entries are passed as usual up to the date of default.
2. Hire Purchaser closes the hire vendor account by transferring the balance of hire vendor account to hire purchase asset account.
3. Any balance left in asset account is closed by transferring to profit and loss account as profit or loss on repossession.

(b) Partial Repossession- When Hire Vendor takes possession of only part of the total assets sold to Hire Purchaser.

In this case accounting entries in the books of both the parties are similar to those done in the first case.

The additional precautions to be taken are as follows:

- (i) Both buyer and seller do not close seller's and buyer's account in their respective books. The entry is passed with the agreed value of the asset which is taken away by the seller. (The basis for finding out the value of asset taken away is given in the question.)

31.03.2021	Bank A/c To Hire Purchaser (Mr. X) A/c [Instalment + interest] (being installment amount received)	Dr.	3,90,000	3,90,000
31.03.2021	Interest A/c To Profit and loss A/c (being interest transferred to profit and loss account)	Dr.	90,000	90,000
31.03.2022	Hire Purchaser (Mr. X) A/c To Interest A/c (being interest due for the year)	Dr.	60,000	60,000
31.03.2022	Bank A/c To Hire Purchaser (Mr. X) A/c [Instalment + interest] (being installment amount received)	Dr.	3,60,000	3,60,000
31.03.2022	Interest A/c To Profit and loss A/c (being interest transferred to profit and loss account)	Dr.	60,000	60,000
31.03.2023	Hire Purchaser (Mr. X) A/c To Interest A/c (being interest due for the year)	Dr.	30,000	30,000
31.03.2023	Goods Repossessed A/c To Hire Purchaser (Mr. X) A/c (being goods taken back)	Dr.	3,30,000	3,30,000
31.03.2023	Interest A/c To Profit and loss A/c (being interest transferred)	Dr.	30,000	30,000

(2) Interest Suspense Method:

	Particulars		Debit (₹)	Credit (₹)
01.04.2019	Hire Purchaser (Mr. X) A/c [Cash Price + total interest] To H.P. sales A/c [Cash price price] To Interest Suspense A/c [Total Interest] (being goods sold on hire purchase)	Dr.	18,00,000	15,00,000 3,00,000
01.04.2019	Bank A/c To Hire Purchaser (Mr. X) A/c [Down payment] (being down payment received)	Dr.	3,00,000	3,00,000

31.03.2020	Interest Suspense A/c To Interest A/c (being interest for the year transferred)	Dr.	1,20,000	1,20,000
31.03.2020	Bank A/c To Hire Purchaser (Mr. X) [Instalment + Interest] (being installment amount received)	Dr.	4,20,000	4,20,000
31.03.2020	Interest A/c To Profit and loss A/c (being interest transferred to profit and loss account)	Dr.	1,20,000	1,20,000
31.03.2020	H.P. Sales A/c To Trading A/c (being HP Sales transferred to trading account)	Dr.	15,00,000	15,00,000
31.03.2021	Interest Suspense A/c To Interest A/c (being interest for the year transferred)	Dr.	90,000	90,000
31.03.2021	Bank A/c To Hire Purchaser (Mr. X) [Instalment + Interest] (being installment amount received)	Dr.	3,90,000	3,90,000
31.03.2021	Interest A/c To Profit and loss A/c (being interest transferred to profit and loss account)	Dr.	90,000	90,000
31.03.2022	Interest Suspense A/c To Interest A/c (being interest for the year transferred)	Dr.	60,000	60,000
31.03.2022	Bank A/c To Hire Purchaser (Mr. X) [Instalment + Interest] (being installment amount received)	Dr.	3,60,000	3,60,000
31.03.2022	Interest A/c To Profit and loss A/c (being interest transferred to profit and loss account)	Dr.	60,000	60,000
31.03.2023	Interest Suspense A/c To Interest A/c (being interest transferred)	Dr.	30,000	30,000
31.03.2023	Interest A/c To Profit and loss A/c (being interest transferred to profit and loss account)	Dr.	60,000	30,000

31.3.23	Goods repossessed A/c To Hire Purchaser (Mr. X) A/c (being goods taken back)	Dr.	3,30,000	3,30,000
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In the Books of the Hire-Purchaser (Mr. X)

(1) Cash Price Method:

Journal entries

	Particulars		Debit (₹)	Credit (₹)
01.04.2019	Vehicle A/c To Hire Vendor (ABC Ltd.) A/c [Cash price] (being asset purchased on hire purchase)	Dr.	15,00,000	15,00,000
01.04.2019	Hire Vendor (ABC Ltd.) A/c To Bank A/c [Down payment] (being down payment made)	Dr.	3,00,000	3,00,000
31.03.2020	Interest A/c To Hire Vendor (ABC Ltd.) A/c (being interest due)	Dr.	1,20,000	1,20,000
31.03.2020	Hire Vendor (ABC Ltd.) A/c To Bank A/c [Instalment + interest] (being installment paid)	Dr.	4,20,000	4,20,000
31.03.2020	Depreciation A/c To Vehicle A/c (being depreciation charged)	Dr.	1,50,000	1,50,000
31.03.2020	Profit and loss A/c To Interest A/c To Depreciation A/c (Being interest & depreciation charged to profit & loss account)	Dr.	2,70,000	1,20,000 1,50,000
31.03.2021	Interest A/c To Hire Vendor (ABC Ltd.) A/c (being interest due)	Dr.	90,000	90,000
31.03.2021	Hire Vendor (ABC Ltd.) A/c To Bank A/c [Instalment + interest] (being installment paid)	Dr.	3,90,000	3,90,000
31.03.2021	Depreciation A/c To Vehicle A/c (being depreciation charged)	Dr.	1,35,000	1,35,000

31.03.2021	Profit and loss A/c To Interest A/c To Depreciation A/c (Being interest and depreciation transferred to profit and loss account)	Dr.	2,25,000	90,000 1,35,000
31.03.2022	Interest A/c To Hire Vendor (ABC Ltd.) A/c (being interest due)	Dr.	60,000	60,000
31.03.2022	Hire Vendor (ABC Ltd.) A/c To Bank A/c [Instalment + interest] (being installment paid)	Dr.	3,60,000	3,60,000
31.03.2022	Depreciation A/c To Vehicle A/c (being depreciation charged)	Dr.	1,21,500	1,21,500
31.03.2022	Profit and loss A/c To Interest A/c To Depreciation A/c (Being interest and depreciation transferred to profit and loss account)	Dr.	1,81,500	60,000 1,21,500
31.03.2023	Interest A/c To Hire Vendor (ABC Ltd.) A/c (being interest due)	Dr.	30,000	30,000
31.03.2023	Depreciation A/c To Vehicle A/c (being depreciation charged)	Dr.	1,09,350	1,09,350
31.03.2023	Profit and loss A/c To Interest A/c To Depreciation A/c (Being interest and depreciation transferred to profit and loss account)	Dr.	1,39,350	30,000 1,09,350
31.03.2023	Hire Vendor (ABC Ltd.) A/c Profit and loss account A/c (loss on surrender) To Vehicle A/c [repossession of asset] (being goods taken back by hire vendor)	Dr. Dr.	3,30,000 6,54,150	9,84,150

Vehicle Account

	Particulars	₹		Particulars	₹
01.04.2019	To Hire Vendor (ABC Ltd.) A/c (W.N.)	15,00,000	31.03.2020	By Depreciation A/c	1,50,000
			31.03.2020	By Balance c/d	13,50,000
		15,00,000			15,00,000
01.04.2020	To Balance b/d	13,50,000	31.03.2021	By Depreciation A/c	1,35,000
			31.03.2021	By Balance c/d	12,15,000
		13,50,000			13,50,000
01.04.2021	To Balance b/d	12,15,000	31.03.2022	By Depreciation A/c	1,21,500
			31.03.2022	By Balance c/d	10,93,500
		12,15,000			12,15,000
01.04.2022	To Balance b/d	10,93,500	31.03.2023	By Depreciation A/c	1,09,350
			31.03.2023	By Hire Vendor (ABC Ltd.)	3,30,000
			31.03.2023	By Profit & Loss A/c (Loss on Surrender)(bal.fig.)	6,54,150

Hire Vendor (ABC Ltd.) Account

	Particulars	₹		Particulars	₹
01.04.2019	To Bank A/c (Down Payment)	3,00,000	01.04.2019	By Vehicle A/c	15,00,000
31.03.2020	To Bank A/c	4,20,000	31.03.2020	By Interest A/c	1,20,000
31.03.2020	To Balance c/d	9,00,000			
		16,20,000			16,20,000
31.03.2021	To Bank A/c	3,90,000	01.04.2020	By Balance b/d	9,00,000
31.03.2021	To Balance c/d	6,00,000	31.03.2021	By Interest A/c	90,000
		9,90,000			9,90,000
31.03.2022	To Bank A/c	3,60,000	01.04.2021	By Balance b/d	6,00,000
31.03.2022	To Balance c/d	3,00,000	31.03.2022	By Interest A/c	60,000
		6,60,000			6,60,000
31.03.2023	To vehicle A/c	3,30,000	01.04.2022	By Balance b/d	3,00,000
			31.03.2023	By Interest A/c	30,000
		3,30,000			3,30,000

Illustration 4

Presume in Illustration 2 hire purchaser defaulted in 4th installment (31.03.2023) whereupon the hire vendor repossessed 2 vehicles and left one vehicle. 2 vehicles were valued on the basis of 30% depreciation annually on WDV basis. Mr. X settled hire vendor dues after 3 months. The purchaser provides depreciation @ 10% on WDV basis. Pass journal entries and prepare ledger accounts.

Solution:

(1) Sales Method:

Journal entries in the book of hire vendor (ABC Ltd.)

	Particulars		Debit (₹)	Credit (₹)
01.04.2019	Hire Purchaser (Mr. X) A/c To H.P. Sales [Cash price]	Dr.	15,00,000	15,00,000

	(being goods sold on hire purchase)		
01.04.2019	Bank A/c To Hire Purchaser (Mr. X) A/c [Down payment] (being down payment received)	Dr. 	3,00,000 3,00,000
31.03.2020	Hire Purchaser (Mr. X) A/c To Interest A/c (being interest due)	Dr. 	1,20,000 1,20,000
31.03.2020	Bank A/c To Hire Purchaser (Mr. X) A/c [Instalment + interest] (being installment amount received)	Dr. 	4,20,000 4,20,000
31.03.2020	Interest A/c To Profit and loss A/c (being interest transferred)	Dr. 	1,20,000 1,20,000
31.03.2020	H.P. Sales A/c To Trading A/c (being hp sales transferred to trading account)	Dr. 	15,00,000 15,00,000
31.03.2021	Hire Purchaser (Mr. X) A/c To Interest A/c (being interest due)	Dr. 	90,000 90,000
31.03.2021	Bank A/c To Hire Purchaser (Mr. X) A/c [Instalment + interest] (being installment amount received)	Dr. 	3,90,000 3,90,000
31.03.2021	Interest A/c To Profit and loss A/c (being interest transferred)	Dr. 	90,000 90,000
31.03.2022	Hire Purchaser (Mr. X) A/c To Interest A/c (being interest due)	Dr. 	60,000 60,000
31.03.2022	Bank A/c To Hire Purchaser (Mr. X) A/c [Instalment + interest] (being installment amount received)	Dr. 	3,60,000 3,60,000
31.03.2022	Interest A/c To Profit and loss A/c (being interest transferred)	Dr. 	60,000 60,000

31.03.2023	Hire Purchaser (Mr. X) A/c To Interest A/c (being interest due)	Dr.	30,000	30,000
31.03.2023	Interest A/c To Profit and loss A/c (interest transferred to profit and loss account)	Dr.	30,000	30,000
31.03.2023	Goods Repossessed A/c To Hire Purchaser (Mr. X) A/c (being goods repossessed) (15,00,000 – 30% - 30% - 30% - 30%) x 2/3	Dr.	2,40,100	2,40,100
30.06.2023	Hire Purchaser (Mr. X) A/c To Interest A/c (3,30,000-2,40,100) x 10% x 3/12 (being interest due on balance for 3 months)	Dr.	2,247	2,247
30.06.2023	Bank A/c To Hire purchaser (Mr. X) A/c (being amount received)	Dr.	92,147	92,147

(2) Interest Suspense Method:

	Particulars		Debit (₹)	Credit (₹)
01.04.2019	Hire Purchaser (Mr. X) A/c [Cash Price + total interest] Dr. To H.P. sales A/c [Cash price price] To Interest Suspense A/c [Total Interest] (being goods sold on hire purchase)		18,00,000	15,00,000 3,00,000
01.04.2019	Bank A/c To Hire Purchaser (Mr. X) [Down payment] (being down payment received)	Dr.	3,00,000	3,00,000
31.03.2020	Interest Suspense A/c To Interest A/c (being interest due)	Dr.	1,20,000	1,20,000
31.03.2020	Bank A/c To Hire Purchaser (Mr. X) [Instalment + Interest] (being installment received)	Dr.	4,20,000	4,20,000

31.03.2020	Interest A/c To Profit and loss A/c (being interest transferred)	Dr.	1,20,000	1,20,000
31.03.2020	H.P. Sales A/c To Trading A/c (being HP sales transferred to trading account)	Dr.	15,00,000	15,00,000
31.03.2021	Interest Suspense A/c To Interest A/c (being interest due)	Dr.	90,000	90,000
31.03.2021	Bank A/c To Hire Purchaser (Mr. X) [Instalment + Interest] (being installment received)	Dr.	3,90,000	3,90,000
31.03.2021	Interest A/c To Profit and loss A/c (being interest transferred)	Dr.	90,000	90,000
31.03.2022	Interest Suspense A/c To Interest A/c (being interest due)	Dr.	60,000	60,000
31.03.2022	Bank A/c To Hire Purchaser (Mr. X) [Instalment + Interest] (being installment received)	Dr.	3,60,000	3,60,000
31.03.2022	Interest A/c To Profit and loss A/c (being interest transferred)	Dr.	60,000	60,000
31.03.2023	Interest Suspense A/c To Interest A/c (being interest due)	Dr.	30,000	30,000
31.03.2023	Interest A/c To Profit and loss A/c (being interest transferred)	Dr.	30,000	30,000
31.03.2023	Goods repossessed A/c To Hire Purchaser (Mr. X) A/c (being goods repossessed)	Dr.	2,40,100	2,40,100
30.06.2023	Hire Purchaser (Mr. X) A/c To Interest A/c ($3,30,000 - 2,40,100 \times 10\% \times 3/12$) (being interest due on balance for 3 months)	Dr.	2,247	2,247
30.06.2023	Bank A/c To Hire purchaser (Mr. X) A/c (being amount received)	Dr.	92,147	92,147

IN THE BOOKS OF THE HIRE-PURCHASER (Mr.X)

(1) Cash Price Method:

Journal entries

	Particulars		Debit (₹)	Credit (₹)
01.04.2019	Asset A/c To Hire Vendor (ABC Ltd.) A/c [Cash price] (being asset purchase on hire purchase)	Dr.	15,00,000	15,00,000
01.04.2019	Hire Vendor (ABC Ltd.) A/c To Bank A/c [Down payment] (being down payment made)	Dr.	3,00,000	3,00,000
31.03.2020	Interest A/c To Hire Vendor (ABC Ltd.) A/c (being interest due)	Dr.	1,20,000	1,20,000
31.03.2020	Hire Vendor (ABC Ltd.) A/c To Bank A/c [Instalment + interest] (being installment amount paid)	Dr.	4,20,000	4,20,000
31.03.2020	Depreciation A/c To Vehicle A/c (Being depreciation charged)	Dr.	1,50,000	1,50,000
31.03.2020	Profit and loss A/c To Interest A/c To Depreciation A/c (being interest and depreciation transferred)	Dr.	2,70,000	1,20,000 1,50,000
31.03.2021	Interest A/c To Hire Vendor (ABC Ltd.) A/c (being interest due)	Dr.	90,000	90,000
31.03.2021	Hire Vendor (ABC Ltd.) A/c To Bank A/c [Instalment + interest] (being installment amount paid)	Dr.	3,90,000	3,90,000
31.03.2021	Depreciation A/c To Vehicle A/c (Being depreciation charged)	Dr.	1,35,000	1,35,000
31.03.2021	Profit and loss A/c To Interest A/c To Depreciation A/c (being interest and depreciation transferred)	Dr.	2,25,000	90,000 1,35,000

31.03.2022	Interest A/c To Hire Vendor (ABC Ltd.) A/c (being interest due)	Dr.	60,000	60,000
31.03.2022	Hire Vendor (ABC Ltd.) A/c To Bank A/c [Instalment + interest] (being installment amount paid)	Dr.	3,60,000	3,60,000
31.03.2022	Depreciation A/c To Vehicle A/c (Being depreciation charged)	Dr.	1,21,500	1,21,500
31.03.2022	Profit and loss A/c To Interest A/c To Depreciation A/c (being interest and depreciation transferred)	Dr.	1,81,500	60,000 1,21,500
31.03.2023	Interest A/c To Hire Vendor (ABC Ltd.) A/c (being interest due)	Dr.	30,000	30,000
31.03.2023	Depreciation A/c To Vehicle A/c (Being depreciation charged)	Dr.	1,09,350	1,09,350
31.03.2023	Profit and loss A/c To Interest A/c To Depreciation A/c (being interest and depreciation transferred)	Dr.	1,39,350	30,000 1,09,350
31.03.2023	Hire Vendor (ABC Ltd.) A/c Profit and loss account A/c (loss on surrender) To Asset A/c [repossession of asset] (being asset repossessed by hire vendor) Book Value : (15,00,000 – 10% - 10% - 10% - 10%) x 2/3 Agreed Value : (15,00,000 – 30% - 30% - 30% - 30%) x 2/3	Dr. Dr.	2,40,100 4,16,000	6,56,100
30.06.2023	Interest A/c To Hire Vendor (ABC Ltd.) A/c (89,900 x 3/12 x 10%) (being interest due)	Dr.	2,247	2,247
30.06.2023	Hire Vendor (ABC Ltd.) A/c To Bank A/c (being amount paid)	Dr.	92,147	92,147
31.03.2024	Profit and loss A/c To Interest A/c (interest transferred)	Dr.	2,247	2,247

Vehicle Account

	Particulars	₹		Particulars	₹
01.04.2019	To Hire Vendor (ABC Ltd.) A/c (W.N.)	15,00,000	31.03.2020	By Depreciation A/c	1,50,000
			31.03.2020	By Balance c/d	13,50,000
		15,00,000			15,00,000
01.04.2020	To Balance b/d	13,50,000	31.03.2021	By Depreciation A/c	1,35,000
			31.03.2021	By Balance c/d	12,15,000
		13,50,000			13,50,000
01.04.2021	To Balance b/d	12,15,000	31.03.2022	By Depreciation A/c	1,21,500
			31.03.2022	By Balance c/d	10,93,500
		12,15,000			12,15,000
01.04.2022	To Balance b/d	10,93,500	31.03.2023	By Depreciation A/c	1,09,350
			31.03.2023	By Hire Vendor (ABC Ltd.)	2,40,100
			31.03.2023	By Profit & Loss A/c (Loss on Surrender)(bal.fig.)	4,16,000
			31.03.2023	By Bal. c/d	3,28,050
		10,93,500			10,93,500

Hire Vendor (ABC Ltd.) Account

	Particulars	₹		Particulars	₹
01.04.2019	To Bank A/c (DP)	3,00,000	01.04.2019	By Machinery A/c	15,00,000
31.03.2020	To Bank A/c	4,20,000	31.03.2020	By Interest A/c	1,20,000
31.03.2020	To Balance c/d	9,00,000			
		16,20,000			16,20,000
31.03.2021	To Bank A/c	3,90,000	01.04.2020	By Balance b/d	9,00,000
31.03.2021	To Balance c/d	6,00,000	31.03.2021	By Interest A/c	90,000
		9,90,000			9,90,000
31.03.2022	To Bank A/c	3,60,000	01.04.2021	By Balance b/d	6,00,000
31.03.2022	To Balance c/d	3,00,000	31.03.2022	By Interest A/c	60,000
		6,60,000			6,60,000
31.03.2023	To vehicle A/c	2,40,100	01.04.2022	By Balance b/d	3,00,000
31.03.2023	To Balance c/d	89,900	31.03.2023	By Interest A/c	30,000
		3,30,000			3,30,000
30.06.2023	To Bank A/c	92,147	01.04.2023	By Balance b/d	89,900
			30.06.2023	By Interest A/c	2,247
		92,147			92,147

Illustration 5

Suresh purchased a truck on hire purchase system. As per terms he is required to pay ₹ 70,000 as down payment, ₹ 53,000 at the end of first year, ₹ 49,000 at the end of second year and ₹ 55,000 at the end of third year. Interest is charged @ 10% p.a.

You are required to calculate the total cash price of the truck and the interest paid with each instalment.

Solution:**Statement showing cash value of the vehicle acquired on hire-purchase basis**

	₹
3 rd Instalment	55,000
Less: Interest (55,000 x 10/110)	5,000
Principal Amount	50,000
2 nd Instalment	49,000
Less: Interest (50,000 + 49,000)x10/110)	9,000
Principal Amount	40,000
1 st Instalment	53,000
Less: Interest (50,000 +40,000+ 53,000)x10/110)	13,000
Principal Amount	40,000
Total Interest (5,000 + 9,000 + 13,000)	27,000
HP Price (70,000 + 53,000 + 49,000 + 55,000)	2,27,000
Cash Price (HP Price – Interest)	2,00,000

Illustration 6

Om Ltd. purchased a machine on hire purchase basis from Kumar Machinery Co. Ltd. on the following terms:

(a) Cash price ₹ 80,000

(b) Down payment at the time of signing the agreement on 01.01.2019 ₹ 21,622.

(c) 5 annual instalments of ₹ 15,400, the first to commence at the end of twelve months from the date of down payment.

(d) Rate of interest is 10% p.a.

You are required to calculate the total interest and interest included in cash instalment.

Solution:**Statement showing calculation of interest**

$$\begin{aligned} \text{Total Interest} &= \text{Hire Purchase price} - \text{cash price} \\ &= 15,400 \times 5 + 21,622 - 80,000 = ₹ 18,622 \end{aligned}$$

	₹
5th Instalment	15,400
Less: Interest (15,400) x 10/110	1,400
Principal Amount	14,000
4 th Instalment	15,400
Less: Interest (14,000+15,400) x 10/110	2,672
Principal Amount	12,728
3rd Instalment	15,400
Less: Interest (14,000+12,728+15,400) x 10/110	3,830
Principal Amount	11,570
2nd Instalment	15,400
Less: Interest (14,000+12,728+11,570+15,400) x 10/110	4,882
Principal Amount	10,518
1 st Instalment	15,400
Less: Interest (14,000+12,728+11,570+10518+15,400) x 10/110	5,838
Principal Amount	9,562

Illustration 7

On January 1, 2017 ABC Ltd. acquired a Pick-up Van on hire purchase from XYZ Ltd. The terms of the contract were as follows:

1. The cash price of the van was ₹ 1,00,000.
2. ₹ 40,000 were to be paid on signing of the contract.
3. The balance was to be paid in annual instalments of ₹ 20,000 plus interest.
4. Interest chargeable on the outstanding balance was 6% p.a.
5. Depreciation at 10% p.a. is to be written-off using the straight-line method.

You are required to:

- (a) Give Journal Entries and show the relevant accounts in the books of ABC Ltd. from January 1, 2017 to December 31, 2019; and
- (b) Show the relevant items in the Balance Sheet of the purchaser as on December 31, 2017 to 2019.

Solution:**In the books of ABC Ltd.****Journal Entries**

Date	Particulars		Dr. ₹	Cr. ₹
2017 Jan. 1	Pick-up Van A/c To XYZ Ltd. A/c (Being the purchase of a pick-up van on hire purchase from XYZ Ltd.)	Dr.	1,00,000	1,00,000
“	XYZ Ltd. A/c To Bank A/c (Being the amount paid on signing the H.P. contract)	Dr.	40,000	40,000
Dec. 31	Interest A/c To XYZ Ltd. A/c (Being the interest payable @ 6% on ₹ 60,000)	Dr.	3,600	3,600
“	XYZ Ltd. A/c (₹ 20,000+₹ 3,600) To Bank A/c (Being the payment of 1st instalment along with interest)	Dr.	23,600	23,600
“	Depreciation A/c To Pick-up Van A/c (Being the depreciation charged @ 10% p.a. on ₹ 1,00,000)	Dr.	10,000	10,000
“	Profit & Loss A/c To Depreciation A/c To Interest A/c (Being depreciation & interest charged to Profit & Loss Account)	Dr.	13,600	10,000 3,600
2018 Dec. 31	Interest A/c To XYZ Ltd. A/c (Being the interest payable @ 6% on ₹ 40,000)	Dr.	2,400	2,400
	XYZ Ltd. A/c (₹ 20,000 + ₹ 2,400) To Bank A/c (Being the payment of 2 nd instalment along with interest)	Dr.	22,400	22,400
	Depreciation A/c To Pick-up Van A/c (Being the depreciation charged @ 10% p.a.)	Dr.	10,000	10,000

2019 Dec. 31	Profit & Loss A/c To Depreciation A/c To Interest A/c (Being depreciation and interest charged to Profit and Loss Account)	Dr.	12,400	10,000 2,400
	Interest A/c To XYZ Ltd. A/c (Being the interest payable @ 6% on ₹ 20,000)	Dr.	1,200	1,200
	XYZ Ltd. A/c (₹ 20,000 + ₹ 1,200) To Bank A/c (Being the payment of final instalment along with interest)	Dr.	21,200	21,200
	Depreciation A/c To Pick-up Van A/c (Being the depreciation charged @ 10% p.a. on ₹ 1,00,000)	Dr.	10,000	10,000
	Profit & Loss A/c To Depreciation A/c To Interest A/c (Being interest and depreciation charged to Profit and Loss Account)	Dr.	11,200	10,000 1,200

Ledgers in the books of ABC Ltd.

Pick-up Van Account

Date	Particulars	₹	Date	Particulars	₹
01.01.2017	To XYZ Ltd. A/c	1,00,000	31.12.2017	By Depreciation A/c	10,000
			31.12.2017	By Balance c/d	90,000
		1,00,000			1,00,000
01.01.2018	To Balance b/d	90,000	31.12.2018	By Depreciation A/c	10,000
			31.12.2018	By Balance c/d	80,000
		90,000			90,000
01.01.2019	To Balance b/d	80,000	31.12.2019	By Depreciation A/c	10,000
			31.12.2019	By Balance c/d	70,000
		80,000			80,000

XYZ Ltd. Account

Date	Particulars	₹	Date	Particulars	₹
01.01.2017	To Bank A/c	40,000	01.01.2017	By Pick-up Van A/c	1,00,000
31.12.2017	To Bank A/c	23,600	31.12.2017	By Interest a/c	3,600
31.12.2017	To Balance c/d	40,000			
		1,03,600			1,03,600
31.12.2018	To Bank A/c	22,400	01.01.2018	By Balance b/d	40,000
31.12.2018	To Balance c/d	20,000	31.12.2018	By Interest A/c	2,400
		42,400			42,400
31.12.2019	To Bank A/c	21,200	01.01.2019	By Balance b/d	20,000
			31.12.2019	By Interest A/c	1,200
		21,200			21,200

Depreciation Account

Date	Particulars	₹	Date	Particulars	₹
31.12.2017	To Pick-up Van A/c	10,000	31.12.2017	By Profit & Loss A/c	10,000
		10,000			10,000
31.12.2018	To Pick-up Van A/c	10,000	31.12.2018	By Profit & Loss A/c	10,000
		10,000			10,000
31.12.2019	To Pick-up Van A/c	10,000	31.12.2019	By Profit & Loss A/c	10,000
		10,000			10,000

Interest Account

Date	Particulars	₹	Date	Particulars	₹
31.12.2017	To XYZ Ltd. A/c	3,600	31.12.2017	By Profit & Loss A/c	3,600
		3,600			3,600
31.12.2018	To XYZ Ltd. A/c	2,400	31.12.2018	By Profit & Loss A/c	2,400
		2,400			2,400
31.12.2019	To XYZ Ltd. A/c	1,200	31.12.2019	By Profit & Loss A/c	1,200
		1,200			1,200

Balance Sheet of ABC Ltd. as at 31st December, 2017

Liabilities	₹	Assets	₹
Hire Purchase creditors: XYZ Ltd.	40,000	Property, Plant & Equipment Asset on Hire Purchase Pick-up Van	90,000

Balance Sheet of ABC Ltd. as at 31st December, 2018

Liabilities	₹	Assets	₹
Hire Purchase creditors: XYZ Ltd.	20,000	Property, Plant & Equipment Asset on Hire Purchase Pick-up Van	80,000

Balance Sheet of ABC Ltd. as at 31st December, 2019

Liabilities	₹	Assets	₹
		Property, Plant & Equipment Pick-up Van	70,000

Illustration 8

In illustration 7 assume that the hire purchaser adopted the interest suspense method for recording his hire purchase transactions. On this basis, prepare Interest Suspense Account, Interest Account and XYZ Ltd. Accounts and Balance Sheets in the books of hire purchaser.

Solution :**Interest Suspense Account**

Date	Particulars	₹	Date	Particulars	₹
01.01.2017	To XYZ Ltd A/c (W.N.)	7,200	31.12.2017	By Interest A/c	3,600
			31.12.2017	By Balance c/d	3,600
		7,200			7,200
01.01.2018	To Balance b/d	3,600	31.12.2018	By Interest A/c	2,400
			31.12.2018	By Balance c/d	1,200
		3,600			3,600
01.01.2019	To Balance b/d	1,200	31.12.2019	By Interest A/c	1,200
		1,200			1,200

Interest Account

Date	Particulars	₹	Date	Particulars	₹
31.12.2017	To Interest Suspense A/c	3,600	31.12.2017	By Profit & Loss A/c	3,600
		3,600			3,600
31.12.2018	To Interest Suspense a/c	2,400	31.12.2018	By Profit & Loss A/c	2,400
		2,400			2,400
31.12.2019	To Interest Suspense A/c	1,200	31.12.2019	By Profit & Loss A/c	1,200
		1,200			1,200

XYZ Ltd. Account

Date	Particulars	₹	Date	Particulars	₹
01.01.2017	To Bank A/c	40,000	01.01.2017	By Pick-up Van A/c	1,00,000
31.12.2017	To Bank A/c	23,600	01.01.2017	By Interest Suspense A/c	7,200
31.12.2017	To Balance c/d	43,600			1,07,200
		1,07,200			1,07,200
31.12.2018	To Bank A/c	22,400	01.01.2018	By Balance b/d	43,600
31.12.2018	To Balance c/d	21,200			43,600
		43,600			43,600
31.12.2019	To Bank A/c	21,200	01.01.2019	By Balance b/d	21,200
		21,200			21,200

Balance Sheet of ABC Ltd. as at 31st December, 2017

Liabilities		₹	Assets		₹
Hire Purchase creditors:			Property, Plant & Equipment		
XYZ Ltd.	43,600		Assets on hire purchase		
Less: Interest Suspense	(3,600)	40,000	Pick-up Van		90,000

Balance Sheet of ABC Ltd. as at 31st December, 2018

Liabilities		₹	Assets		₹
Hire Purchase creditors:			Property, Plant & Equipment		
XYZ Ltd.	21,200	20,000	Assets on hire purchase		
Less: Interest Suspense	(1,200)		Pick-up Van		80,000

Balance Sheet of ABC Ltd. as at 31st December, 2019

Liabilities		₹	Assets		₹
			Property, Plant & Equipment		
			Pick-up Van		70,000

Working note:

Total Interest = ₹ 3,600 + ₹ 2,400 + ₹ 1,200 = ₹ 7,200.

Illustration 9

A machinery is sold on hire purchase. The terms of payment is Down payment of ₹9,467 and four annual instalments of ₹ 6,000 at the end of each year. Interest is charged @ 20% and is included in the annual payment of ₹ 6,000.

Show Machinery Account and Hire Vendor Account in the books of the purchaser who defaulted in the payment of the third yearly payment whereupon the vendor re-possessed the machinery. The purchaser writes off depreciation on the machinery @ 10% per annum on WDV basis. All workings should form part of your answers.

Solution:

Machinery Account

	Particulars	₹		Particulars	₹
I Yr.	To Hire Vendor A/c (W.N.)	25,000	I Yr.	By Depreciation A/c	2,500
				By Balance c/d	22,500
		25,000			25,000
II Yr.	To Balance b/d	22,500	II Yr.	By Depreciation A/c	2,250
				By Balance c/d	20,250
		22,500			22,500
III Yr.	To Balance b/d	20,250	III Yr.	By Depreciation A/c	2,025
				By Hire Vendor	11,000
				By Profit & Loss A/c	7,225
				(Loss on Surrender) (bal. fig.)	
		20,250			20,250

Hire Vendor Account

	Particulars	₹		Particulars	₹
I Yr.	To Bank A/c	9,467	I Yr.	By Machinery A/c	25,000
	To Bank A/c	6,000		By Interest A/c	3,106
	To Balance c/d	12,639			
		18,639			28,106
II Yr.	To Bank A/c	6,000	II Yr.	By Balance b/d	12,639
	To Balance c/d	9,167		By Interest A/c	2,528
		15,167			15,167
III Yr.	To Machinery A/c	11,000	III Yr.	By Balance b/d	9,167
				By Interest A/c	1,833
		11,000			11,000

Note: Alternatively, total interest could have been debited to Interest Suspense A/c and credited to Hire Vendor A/c with consequential changes.

Working Note:**Statement showing interest and principal amount**

	₹
4th Instalment	6,000
Less: Interest (6,000 x 20/120)	1,000
Principal Amount	5,000
3 rd Instalment	6,000
Less: Interest (11,000 x 20/120)	1,833
Principal Amount	4,167
2 nd Instalment	6,000
Less: Interest (15,167 x 20/120)	2,528
Principal Amount	3,472
1 st Instalment	6,000
Less: Interest (18,639 x 20/120)	3,106
Principal Amount	2,894
Total Interest (1,000 + 1,833 + 2,528 + 3,106)	8,467
Principal (5,000 + 4,167 + 3,472 + 2,894 + 9,467)	25,000

Illustration 10

X Ltd. purchased 3 milk vans from Super Motors costing ₹ 75,000 each on hire purchase system. Payment was to be made: ₹ 45,000 down and the remainder in 3 equal instalments together with interest @ 9%. X Ltd. writes off depreciation @ 20% on the diminishing balance. It paid the instalment at the end of the 1st year but could not pay the next. Super Motor agreed to leave one milk van with the purchaser, adjusting the value of the other two milk vans against the amount due. The milk vans were valued on the basis of 30% depreciation annually on written down value basis. X Ltd. settled the seller's dues after three months.

You are required to give necessary journal entries and the relevant accounts in the books of X Ltd.

Solution :

In the Books of X Ltd.
Journal Entries

	Dr. (₹)	Cr. (₹)
I Year		
Milk Vans A/c Dr.	2,25,000	
To Super Motors A/c		2,25,000
(being asset purchased on hire purchase)		
Super Motors A/c Dr.	45,000	
To Bank		45,000
(Being down payment made)		
I Year end		
Interest A/c (₹ 1,80,000 @ 9%) Dr.	16,200	
To Super Motors A/c		16,200
(being interest due)		

Super Motors A/c To Bank A/c (60,000 + 16,200) (being instalment paid)	Dr.	76,200	76,200
Depreciation A/c To Milk Vans A/c (being depreciation charged on asset)	Dr.	45,000	45,000
Profit & Loss A/c To Depreciation To interest A/c (being depreciation transferred)	Dr.	61,200	45,000 16,200
II Year end			
Depreciation A/c To Milk Vans A/c (being depreciation charged)	Dr.	36,000	36,000
Interest A/c (1,20,000 @ 9%) To Super Motors A/c (being interest due)	Dr.	10,800	10,800
Super Motors A/c (75,000 x 2 – 30%-30%) Profit/Loss A/c (b.f.) To Milk Vans A/c [(75,000 x 2 – 20%-20%)] (being asset taken back by hire vendor)	Dr. Dr.	73,500 22,500	96,000
Profit & Loss A/c To Depreciation To interest A/c (being depreciation transferred)	Dr.	46,800	36,000 10,800
III Year			
Interest A/c To Super Motors a/c (57,300 x 9% x 3/12) (being interest for 3 months due)	Dr.	1,289	1,289
Super Motors A/c (1,20,000+10,800-73,500 + 1,289) To Bank (being amount paid)	Dr.	58,589	58,589
Depreciation A/c (48,000 x 20%) To Milk Vans A/c (being depreciation charged)	Dr.	9,600	9,600
Profit & Loss A/c To Depreciation To interest A/c (being depreciation transferred)	Dr.	10,889	9,600 1,289

Milk Vans Account

Year	Particulars	₹	Year	Particulars	₹
1	To Super Motors A/c	2,25,000	1	By Depreciation A/c By Balance c/d	45,000 1,80,000
		2,25,000			2,25,000
2	To Balance b/d	1,80,000	2	By Depreciation By Super Motors (value of 2 vans after depreciation for 2 years @ 30%) By P & L A/c (loss on surrender) By Balance c/d (one van less depreciation for 2 years) @ 20%	36,000 73,500 22,500 48,000
		1,80,000			1,80,000
		48,000			48,000
3	To Balance b/d	48,000	3	By Depreciation a/c By Balance c/d	9,600 38,400
		48,000			48,000

Super Motors Account

Year	Particulars	₹	Year	Particulars	₹
1	To Bank A/c	45,000	1	By Milk Vans A/c By Interest @ 9% on ₹1,80,000	2,25,000 16,200
	To Bank A/c	76,200			2,41,200
	To Balance c/d	1,20,000			
		2,41,200		2,41,200	
2	To Milk Van A/c	73,500	2	By Balance b/d By Interest A/c	1,20,000 10,800
	To Balance c/d	57,300			1,30,800
		1,30,800			
3	To Bank A/c	58,589	3	By Balance b/d By Interest (57,300 x 9% x 3/12)	57,300 1,289
		58,589			58,589
		58,589			58,589

Illustration 11

X Transport Ltd. purchased from Delhi Motors 3 Tempos costing ₹ 50,000 each on the hire purchase system on 1-1-2017. Payment was to be made ₹ 30,000 down and the remainder in 3 equal annual instalments payable on 31-12-2017, 31-12-2018 and 31-12-2019 together with interest @ 9%. X Transport Ltd. writes off depreciation at the rate of 20% on the diminishing balance. It paid the instalment due at the end of the first year i.e. 31-12-2017 but could not pay the next on 31-12-2018. Delhi Motors agreed to leave one Tempo with

the purchaser adjusting the value of the other 2 Tempos against the amount due on 31-12-2018. The Tempos were valued on the basis of 30% depreciation annually. Show the necessary accounts in the books of X Transport Ltd. for the years 2017, 2018 and 2019.

Solution:**In the books of X Transport Ltd.****Tempo Account**

	Particulars	₹		Particulars	₹
2017 Jan.1	To Delhi Motors	1,50,000	2017 Dec.31	By Depreciation A/c (20% on 1,50,000)	30,000
				By Balance c/d	1,20,000
		1,50,000			1,50,000
2018 Jan. 1	To Balance b/d	1,20,000	2018 Dec.31	By Depreciation A/c	24,000
				By Delhi Motors A/c (Value Of 2 tempos taken away)	49,000
				By Profit and Loss A/c [$((1,20,000-24,000) \times 2/3) - 49,000$]	15,000
				By Balance c/d (Value of one tempo left) (50,000-20%-20%)	32,000
		1,20,000			1,20,000
2019 Jan.1	To Balance b/d	32,000	2019 Dec.31	By Depreciation A/c	6,400
				By Balance c/d	25,600
		32,000			32,000

Delhi Motors Account

	Particulars	₹		Particulars	₹
2017 Jan.1	To Bank (Down Payment)	30,000	2017 Jan.1	By Tempos A/c	1,50,000
	To Bank	50,800	2017 Dec.31	By Interest (9% on ₹1,20,000)	10,800
	To Balance c/d	80,000			
		1,60,800			1,60,800
2018 Jan. 1	To Tempo (50,000x2-30%-30%)	49,000	2018 Jan. 1	By Balance b/d	80,000
2018 Dec.31	To Balance c/d	38,200	2018 Dec.31	By Interest (9% on ₹ 80,000)	7,200
		87,200			87,200
2019 Dec.31	To Bank	41,638	2019 Jan. 1	By Balance b/d	38,200
		41,638	2019 Dec.31	By Interest (9% on ₹ 38,200)	3,438
					41,638

Working Notes:**(1) Value of a Tempo left with the buyer:**

	₹
Cost	50,000
Depreciation @ 20% p.a. under WDV method for 2 years [i.e. ₹ 10,000 + ₹ 8,000]	(18,000)
Value of the Tempo left with the buyer at the end of 2 nd year	<u>32,000</u>

(2) Value of Tempos taken away by the seller:

No. of tempos Two

Cost ₹ 50,000 × 2 =	1,00,000
Depreciation @ 30%	
Under WDV method for 2 years [i.e. ₹ 30,000 + ₹ 21,000]	(51,000)
Value of tempos taken away at the end of 2 nd year	<u>49,000</u>

Illustration 12

A firm acquired two tractors under hire purchase agreements, details of which were as follows:

Date of purchase	Tractor A 1st April, 2017 (₹)	Tractor B 1st Oct., 2017 (₹)
Cash Price	14,000	19,000

Both agreements provided for payment to be made in twenty-four monthly instalments (of ₹ 600 each for Tractor A and ₹ 800 each for Tractor B), commencing on the last day of the month following purchase, all instalments being paid on due dates.

On 30th June, 2018, the firm decided to terminate the hire purchase contract for Tractor B. The tractor was valued at ₹15,000.

The firm prepared accounts annually to 31st December and provided depreciation on tractors on a straight-line basis at a rate of 20 per cent per annum, apportioned as from the date of purchase and up to the date of disposal.

You are required to record these transactions in the following accounts, carrying down the balances on 31st December, 2017 and 31st December, 2018:

- Tractors on hire purchase.
- Provision for depreciation of tractors.
- Disposal of tractors.

Solution :**Hire Purchase accounts in the buyer's books****(a) Tractors on Hire Purchase Account**

	Particulars	₹		Particulars	₹
2017			2017	Balance c/d	
April.1	To HP Co. Tractor A	14,000	Dec.31	Tractor A	14,000
Oct.1	To HP Co. Tractor B	19,000		Tractor B	19,000
		<u>33,000</u>			<u>33,000</u>

2018 Jan.1	To balance b/d Tractor A Tractor B	14,000 19,000	33,000	2018 June.30	By	Disposal of Tractor A/c	19,000
			33,000	Dec.31	By	Balance c/d	14,000
							33,000
2019 Jan.1	To Balance b/d	14,000					

(b) Provision for Depreciation of Tractors Account

	Particulars	₹		Particulars	₹
2017 Dec.31	To Balance c/d	3,050	2017 Dec.31	By P&L A/c: Tractor A : $14,000 \times 20\% \times 9/12 = 2,100$ Tractor B : $19,000 \times 20\% \times 3/12 = 950$	3,050
		3,050			3,050
2018 June30	To Disposal of Tractor account (950+ 1,900)	2,850	2018 Jan.1	By Balance b/d	3,050
Dec.31	To Balance c/d	4,900	Jun.30	By P & L A/c Tractor B : $19,000 \times 20\% \times 6/12$	1,900
		7,750	Dec.31	By P & L A/c Tractor A : $14,000 \times 20\%$	2,800
					7,750

(c) Disposal of Tractor Account

	Particulars	₹		Particulars	₹
2018 June30	To Tractors on hire purchase (Tractor B)	19,000	2018 June30	By Provision for Depn. of Tractors A/c	2,850
		19,000	July 10	By HP Co. a/c	15,000
			Dec.31	By P & L A/c : Loss (b.f.)	1,150
					19,000

Illustration 13

Happy Valley Florists Ltd. acquired a delivery van on hire purchase on 01.04.2017 from Ganesh Enterprises. The terms were as follows:

Particulars	Amount (₹)
Hire Purchase Price	1,80,000
Down payment	30,000
1 st installment payable after 1 year	50,000
2 nd installment payable after 2 year	50,000
3 rd installment payable after 3 year	30,000
4 th installment payable after 4 year	20,000

Cash price of van ₹ 150,000.

You are required to:

- Calculate Total Interest and Interest included in each installment
- Prepare Van A/c., Ganesh Enterprises A/c. in the books of Happy Valley Florists Ltd. up to 31.03.2021

Solution :

Calculation of total Interest and Interest included in each installment

Hire Purchase Price (HPP) = Down Payment + instalments

$$= 30,000 + 50,000 + 50,000 + 30,000 + 20,000 = 1,80,000$$

Total Interest = Hire Purchase Price – Cash Price

$$= 1,80,000 - 1,50,000 = 30,000$$

In order to compute rate of interest, we can assume any two rates, as given below:

Considering two guessed rates of 6% and 12%

Year	Cash Flow	DF @ 6%	PV	DF @ 12%	PV
0	30,000	1.00	30,000	1.00	30,000
1	50,000	0.94	47,000	0.89	44,500
2	50,000	0.89	44,500	0.80	40,000
3	30,000	0.84	25,200	0.71	21,300
4	20,000	0.79	15,800	0.64	12,800
		NPV	1,62,500	NPV	1,48,600

Computation of Interest rate by interpolation:

$$\text{Interest rate} = 6\% + \frac{1,62,500 - 1,50,000}{1,62,500 - 1,48,600} \times (12 - 6) = 11.39\%$$

Computation of Interest

Interest in first instalment 1,20,000 X 11.39%	=	13,668
Principal in first instalment 50,000 – 13,668	=	36,332
Interest in second instalment (1,20,000-36,332) X 11.39%	=	9,530
Principal in second instalment 50,000 – 9,530	=	40,470
Interest in third instalment (1,20,000-36,332-40,470) X 11.39%	=	4,920
Principal in third instalment 30,000 – 4,920	=	25,080
Interest in fourth instalment (1,20,000-36,332-40,470-25,080) X 11.39%	=	2,064
Principal in fourth instalment 30,000 – 4,920	=	25,080
Total Interest (13,668 + 9,530 + 4,920 + 2,064)	=	30,182*

*Difference is on account of approximation.

Ledger Accounts in the books of Happy Valley Florist Ltd.
Van Account

Date	Particulars	₹	Date	Particulars	₹
01.04.2017	To Ganesh Enterprises	1,50,000	31.03.2018	By Depreciation A/c	15,000
				By Balance c/d	1,35,000
		1,50,000			1,50,000
01.04.2018	To Balance b/d	1,35,000	31.03.2019	By Depreciation A/c	13,500
				By Balance c/d	1,21,500
		1,35,000			1,35,000
01.04.2019	To Balance b/d	1,21,500	31.03.2020	By Depreciation A/c	12,150
				By Balance c/d	1,09,350
		1,21,500			1,21,500
01.04.2020	To Balance b/d	1,09,350	31.03.2021	By Depreciation A/c	10,935
				By Balance c/d	98,415
		1,09,350			1,09,350

Ganesh Enterprises Account

Date	Particulars	₹	Date	Particulars	₹
01.04.2017	To Bank A/c	30,000	01.04.2017	By Van A/c	1,50,000
31.03.2018	To Bank A/c	50,000	31.03.2018	By Interest c/d	13,668
	To Balance c/d	83,668			1,63,668
		1,63,668			
31.03.2019	To Bank A/c	50,000	01.04.2018	By Balance b/d	83,668
	To Balance c/d	43,198	31.03.2019	By Interest A/c	9,530
		93,198			93,198
31.03.2020	To Bank A/c	30,000	01.04.2019	By Balance b/d	43,198
	To Balance c/d	18,118	31.03.2020	By Interest A/c	4,920
		48,118			48,118
31.03.2021	To Bank A/c	20,000	01.04.2021	By Balance b/d	18,118
			31.03.2021	By Interest A/c	1,882*
		20,000			20,000

*Balance due to approximation in interest calculations.

Illustration 14

On 1st April, 2017 a manufacturing company buys on Hire-purchase system a machinery for ₹ 90,000, payable by three equal annual instalments of Rs.30,000 combining principal and interest, the rate of interest was 5% per annum. Calculate the amount of cash price and interest. Assume that the present value of an annuity of one rupee for three years at 5% interest is ₹ 2.723.

Solution:

Given the amount of regular annuity of R.30,000 for three years

$$\text{Cash price} = 30,000 \times 2.723 = 81,690$$

$$\text{Interest} = 90,000 - 81,690 = 8,310$$

Question 5: Explain instalment sale.**Answer: Instalment Sale**

Instalment sale is similar to Hire purchase where the purchaser takes the delivery of goods and agrees to make the payment in Instalments. However, under this contract, the ownership is passes on the date of delivery, therefore in case of default by the purchaser, the seller loses the right to repossess the goods. His only legal remedy is to file a suit in the court for recovery of price.

Question 6: Explain Difference between Hire Purchase and Instalment system.

Answer:

Differences between Hire Purchase and Instalment System

	Basis of Distinction	Hire Purchase	Instalment System
1.	Governing Act	It is governed by Hire Purchase Act, 1972.	It is governed by the Sale of Goods Act, 1930.
2.	Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
3.	Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4.	Right to Return goods	The hirer may return goods without further payment except for accrued Instalments.	Unless seller defaults, goods are not returnable.
5.	Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods.
6.	Right of Disposal	Hirer cannot hire out, sell, pledge or assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose off the goods and give good title to the bona fide purchaser.
7.	Responsibility for Risk of Loss.	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
8.	Name of Parties involved	The parties involved are called Hirer and Hire vendor.	The parties involved are called buyer and seller.

MCQs

1. The amount paid at the time of entering the hire-purchase transaction for the goods purchased is known as
 - (a) Cash price
 - (b) Down payment
 - (c) First instalment
2. Total interest on hire purchased goods is the difference between
 - (a) Hire purchase price and cash price
 - (b) Hire purchase price and down payment
 - (c) Cash price and first instalment
3. Depreciation on hire purchased asset is claimed by
 - (a) Hire vendor
 - (b) Hire purchaser
 - (c) Either the hire vendor or the hire purchaser as per the agreement between them
4. Under instalment payment system, ownership of goods
 - (a) is transferred at the time of payment of last instalment
 - (b) is not transferred
 - (c) is transferred at the time of signing the contract.
5. The hire purchaser records the asset at its
 - (a) Hire purchase price
 - (b) Amount paid to the vendor till date
 - (c) Cash price
6. The ownership of goods purchased under hire purchase is transferred only when
 - (a) Down payment is paid
 - (b) Outstanding balance is paid in full.
 - (c) Cash price and first installment is paid
7. Hire purchase price is
 - (a) Cash price
 - (b) Interest on unpaid installments.
 - (c) Both (a) and (b).

Answer: 1. (b), 2. (a) 3. (b) 4. (c) 5. (c) 6. (b) 7. (c)

Theoretical Questions

Question 1 What is meant by Hire purchase transactions? What are the specific features of hire purchase transactions?

Answer:

Under the Hire Purchase System, the Hire Purchaser gets possession of the goods at the outset and can use it, while paying for it in instalments over a specified period of time as per the agreement. However, the ownership of the goods remains with the Hire Vendor until the hire purchaser has paid all the instalments.

Question 2 What are the differences between Hire Purchase and Instalment System?

Answer:

Hire Purchase is an agreement of hiring the asset whereas Instalment sale is an agreement of sale. The title to goods passes on last payment in the hire purchase transaction but the title to goods passes immediately in the case of instalment sale. The hirer may return goods without further payment except for accrued instalments in hire purchase transaction but in case of instalment sale, goods are not returnable unless seller defaults.

PRACTICE PROBLEMS

Problem 1

Mr. X purchased one vehicle from ABC limited under hire purchase agreement and cash price of vehicle is 15,00,000 and interest is 12% per annum. Down payment is 3,00,000 and remaining amount has been paid in annual instalments of 1,20,000 each alongwith interest. Compute Hire purchase price and total interest payable.

Problem 2

A acquired on 1st January, 2019 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of ₹ 6,000 each, the first instalment being due on 1st July, 2019. Assuming that the applicable rate of interest is 10 per cent per annum, calculate the cash value of the machine. All working should form part of the answer.

Problem 3

On 1st April, 2019, Fastrack Motors Co. sells a truck on hire purchase basis to Teja Transport Co. for a total hire purchase price of ₹ 9,00,000 payable as to ₹ 2,40,000 as down payment and the balance in three equal annual instalments of ₹ 2,20,000 each payable on 31st March 2020, 2021 and 2022. The hire vendor charges interest @ 10% per annum.

You are required to ascertain the cash price of the truck for Teja Transport Co. Calculations may be made to the nearest rupee.

Problem 4

Lucky bought 2 tractors from Happy on 01-10-2016 on the following terms:

Down payment	₹5,00,000
1st installment at the end of first year	₹2,65,000
2nd installment at the end of 2nd year	₹2,45,000
3rd installment at the end of 3rd year	₹2,75,000

Interest is charged at 10% p.a.

Lucky provides depreciation @ 20% on the diminishing balances.

On 30-09-2019 Lucky failed to pay the 3rd installment upon which Happy repossessed 1 tractor. Happy agreed to leave one tractor with Lucky and adjusted the value of the tractor against the amount due. The tractor taken over was valued on the basis of 30% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Lucky after 3 months with interest @ 18% p.a.

You are required to:

- (1) Calculate the cash price of the tractors and the interest paid with each installment.
- (2) Prepare Tractor Account and Happy Account in the books of Lucky assuming that books are closed on September 30 every year. Figures may be rounded off to the nearest rupee.

Problem 5 RTP Nov-2019 (New Course/Old Course)/May-2018 (Old Course)

Amandeep bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2016 on the following terms (for both cars):

₹

Down payment	6,00,000
1st Installment at the end of first year	4,20,000
2nd Installment at the end of 2nd year	4,90,000
3rd Installment at the end of 3rd year	5,50,000

Interest is charged at 10% p.a.

Amandeep provides depreciation @ 25% on the diminishing balances.

On 31.3.2019 Amandeep failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Amandeep agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Amandeep after 3 months with interest @ 20% p.a.

You are required to:

- (i) Calculate the cash price of the cars and the interest paid with each installment.
- (ii) Prepare Cars Account in the books of Amandeep assuming books are closed on March 31, every year. Figures may be rounded off to the nearest rupee.

Problem 6: RTP May-2019 (Old Course)/RTP Nov-2018 (Old Course)

The following particulars relate to hire purchase transactions:

- (a) X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000.
- (b) The hire purchaser charged depreciation @ 20% on diminishing balance method.
- (c) Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.
- (d) The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute:

- (i) Agreed value of two cars taken back by the hire vendor.
- (ii) Book value of car left with the hire purchaser.
- (iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.
- (iv) Profit or loss of cars repossessed, when sold by the hire vendor.

SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:

Down payment 3,00,000 each			₹
Installment at the end of the first year	=	1,20,000 + Interest 12,00,000 x 12%	= 1,44,000
Installment at the end of the second year	=	1,20,000 + Interest 10,80,000 x 12%	= 1,29,600
Installment at the end of the third year	=	1,20,000 + Interest 9,60,000 x 12%	= 1,15,200
Installment at the end of the fourth year	=	1,20,000 + Interest 8,40,000 x 12%	= 1,00,800
Installment at the end of the fifth year	=	1,20,000 + Interest 7,20,000 x 12%	= 86,400
Installment at the end of the sixth year	=	1,20,000 + Interest 6,00,000 x 12%	= 72,000
Installment at the end of the seventh year	=	1,20,000 + Interest 4,80,000 x 12%	= 57,600
Installment at the end of the eighth year	=	1,20,000 + Interest 3,60,000 x 12%	= 43,200
Installment at the end of the ninth year	=	1,20,000 + Interest 2,40,000 x 12%	= 28,800
Installment at the end of the tenth year	=	1,20,000 + Interest 1,20,000 x 12%	= 14,400
Total Interest			7,92,000
H.P. Price = 15,00,000 + 7,92,000 = 22,92,000			

Solution 2:

Statement showing cash value of the vehicle acquired on hire-purchase basis

		₹
5 th Instalment		6,000
Less: Interest (6,000 x 5/105)	286	
Principal Amount		5,714
4 th Instalment		6,000
Less: Interest (11,714 x 5/105)	558	
Principal Amount		5,442
3 rd Instalment		6,000
Less: Interest (17,156 x 5/105)	817	
Principal Amount		5,183
2 nd Instalment		6,000
Less: Interest (22,339 x 5/105)	1,064	
Principal Amount		4,936
1 st Instalment		6,000
Less: Interest (27,275 x 5/105)	1,299	
Principal Amount		4,701
Total Interest (286 + 558 + 817 + 1064 + 1299)		4,024
Hire purchase price of machinery (6,000 x 5)		30,000
Cash price (HP Price - Interest) (30,000 - 4,024)		25,976

Solution 3:

Ratio of interest amount due = Rate of Interest / 100 + Rate of Interest = 10/110 = 1/11

Statement showing calculation of interest and cash price

	₹
3 rd Instalment	2,20,000
Less: Interest (2,20,000 x 10/110)	20,000
Principal Amount	2,00,000
2 nd Instalment	2,20,000
Less: Interest (4,20,000 x 10/110)	38,182
Principal Amount	1,81,818
1 st Instalment	2,20,000
Less: Interest (6,01,818 x 10/110)	54,711
Principal Amount	1,65,289
Total Interest (20,000 + 38,182 + 54,711)	1,12,893
Hire purchase price of machinery (6,60,000+2,40,000)	9,00,000
Cash price (HP Price - Interest) (9,00,000-1,12,893)	7,87,107

Solution 4:**Statement showing calculation of interest and cash price**

	₹
3 rd Instalment	2,75,000
Less: Interest (2,75,000 x 10/110)	25,000
Principal Amount	2,50,000
2 nd Instalment	2,45,000
Less: Interest (4,95,000 x 10/110)	45,000
Principal Amount	2,00,000
1 st Instalment	2,65,000
Less: Interest (7,15,000 x 10/110)	65,000
Principal Amount	2,00,000
Total Interest (25,000 + 45,000 + 65,000)	1,35,000
Hire purchase price of machinery (5,00,000+2,65,000+2,45,000+2,75,000)	12,85,000
Cash price (HP Price - Interest) (12,85,000-1,35,000)	11,50,000

(i)

In the books of Lucky**Tractor Account**

Date	Particulars	₹	Date	Particulars	₹
01.10.2016	To Happy a/c	11,50,000	30.09.2017	By Depreciation A/c	2,30,000
				Balance c/d	9,20,000
		11,50,000			11,50,000
01.10.2017	To Balance b/d	9,20,000	30.09.2018	By Depreciation A/c	1,84,000
				Balance c/d	7,36,000
		9,20,000			9,20,000
01.10.2018	To Balance b/d	7,36,000	30.09.2019	By Depreciation A/c	1,47,200

		By Happy a/c (Value of 1 Tractor taken over) (11,50,000/2-30%-30%-30%)	1,97,225
		By Profit and Loss a/c (loss on surrender) (2,94,400 – 1,97,225)	97,175
		By Balance c/d ½ (7,36,000 – 1,47,200)	2,94,400
	7,36,000		7,36,000

Happy Account

Date	Particulars	₹	Date	Particulars	₹
01.10.2016	To Bank (down payment)	5,00,000	01.10.2016	By Balance b/d	11,50,000
30.09.2017	To Bank (1st Installment)	2,65,000	30.09.2017	By Interest a/c	65,000
	To Balance c/d	4,50,000			
		12,15,000			12,15,000
30.09.2018	To Bank (2 nd Installment)	2,45,000	01.10.2017	By Balance b/d	4,50,000
	To Balance c/d	2,50,000	30.09.2018	By Interest a/c	45,000
		4,95,000			4,95,000
30.09.2019	To Tractor a/c	1,97,225	01.10.2018	By Balance b/d	2,50,000
	To Balance c/d (b.f.)	77,775	30.09.2019	By Interest a/c	25,000
		2,75,000			2,75,000
31.12.2019	To Bank (Amount settled after 3 months)	81,275	01.10.2019	By Balance b/d	77,775
			31.12.2019	By Interest a/c (@ 18% on bal.) (77,775x3/12x18/100)	3,500
		81,275			81,275

Solution 5:

(i) Calculation of Interest and Cash Price

	₹
3 rd Instalment	5,50,000
Less: Interest (5,50,000 x 10/110)	50,000
Principal Amount	5,00,000
2 nd Instalment	4,90,000
Less: Interest (9,90,000 x 10/110)	90,000
Principal Amount	4,00,000
1 st Instalment	4,20,000
Less: Interest (13,20,000 x 10/110)	1,20,000
Principal Amount	3,00,000
Total Interest (50,000 + 90,000 + 1,20,000)	2,60,000
Hire purchase price of machinery (14,60,000+6,00,000)	20,60,000
Cash price (HP Price - Interest) (20,60,000-2,60,000)	18,00,000

(ii)

**In the books of Amandeep
Cars Account**

Date	Particulars	₹	Date	Particulars	₹
1.4.2016	To Fair Value Motor Pvt Ltd. A/c	18,00,000 <u>18,00,000</u>	31.3.2017	By Depreciation A/c By Balance c/d	4,50,000 <u>13,50,000</u> <u>18,00,000</u>
1.4.2017	To Balance b/d	13,50,000 <u>13,50,000</u>	31.3.2018	By Depreciation A/c By Balance c/d	3,37,500 <u>10,12,500</u> <u>13,50,000</u>
1.4.2018	To Balance b/d	10,12,500	31.3.2019	By Depreciation A/c By Fair Value Motors Pvt. Ltd. A/c (value of 1 card taken over after depreciation for 3 years) [9,00,000 – 40%-40%-40%] By Profit and Loss A/c (Loss on Surrender) (Bal. fig.) By Balance c/d ½ (10,12,500-2,53,125)	2,53,125 1,94,400 1,85,288 3,79,687
		10,12,500			10,12,500

Solution 6:

		₹
(i)	Price of two cars = ₹ 2,00,000 x 2	4,00,000
	Less: Depreciation for the first year @ 30%	<u>1,20,000</u>
		2,80,000
	Less: Depreciation for the second year = ₹ 2, 80,000 x $\frac{30}{100}$	<u>84,000</u>
	Agreed value of two cars taken back by the hire vendor	<u>1,96,000</u>
(ii)	Cash purchase price of one car	2,00,000
	Less: Depreciation on ₹ 2,00,000 @ 20% for the first year	<u>40,000</u>
	Written down value at the end of first year	1,60,000
	Less: Depreciation on ₹ 1,60,000 @ 20% for the second year	<u>32,000</u>
	Book value of car left with the hire purchaser	<u>1,28,000</u>
(iii)	Book value of one car as calculated in working note (ii) above	1,28,000
	Book value of Two cars = ₹ 1,28,000 x 2	2,56,000
	Value at which the two cars were taken back, calculated in working note (i) above	1,96,000
	Hence, loss on cars taken back = ₹ 2,56,000 – ₹ 1,96,000 =	₹ 60,000
(iv)	Sale proceeds of cars repossessed	1,70,000
	Less: Value at which cars were taken back	₹ 1,96,000
	Repair	₹ <u>10,000</u>
	Loss on resale	<u>36,000</u>

EXAMINATION QUESTIONS

NOV 2019 (OLD COURSE)

Question. 7. (c)

(4 Marks)

On 1st January 2017 M/s KMR acquired a Van on hire purchase from M/s PQR on the following terms:

- (1) Cash price of the Van was ₹ 2,40,000.
- (2) The down payment at the time of signing the contract was ₹ 96,000.
- (3) The balance amount is to be paid in 3 equal annual instalment plus interest.
- (4) Interest is chargeable @ 8% p.a.

On this basis prepare Account of M/s PQR in the books of the purchaser and also the H.P. Interest Suspense Account.

Solution:

Interest Payable shall be as given below:

1 st Instalment $(2,40,000 - 96,000) \times 8\% =$	11,520
2 nd Instalment $(2,40,000 - 96,000 - 48,000) \times 8\% =$	7,680
3 rd Instalment $(2,40,000 - 96,000 - 48,000 - 48,000) \times 8\% =$	3,840
Total	23,040

In the Books of M/s KMR

M/S PQR A/C

Date	Particulars	₹	Date	Particulars	₹
01.01.2017	To Bank A/c (DP)	96,000	01.01.2017	By Van A/c	2,40,000
31.12.2017	To Bank A/c	48,000	31.12.2017	By Interest Suspense A/c	23,040
31.12.2017	To Bank A/c	11,520			
31.12.2017	To Balance c/d	1,07,520			
		2,63,040			2,63,040
31.12.2018	To Bank A/c	48,000	01.01.2018	By Balance b/d	1,07,520
31.12.2018	To Bank A/c	7,680			
31.12.2018	To Balance c/d	51,840			
		1,07,520			1,07,520
31.12.2019	To Bank A/c	48,000	01.01.2019	By Balance b/d	51,840
31.12.2019	To Bank A/c	3,840			
		51,840			51,840

HP Interest Suspense A/C

Date	Particulars	₹	Date	Particulars	₹
01.01.2017	To M/S PQR A/c	23,040	31.12.2017	By Interest A/c	11,520
		23,040	31.12.2017	By Balance c/d	11,520
		23,040			23,040
01.01.2018	To Balance b/d	11,520	31.12.2018	By Interest A/c	7,680
		11,520	31.12.2018	By Balance c/d	3,840
		11,520			11,520
01.01.2019	To Balance b/d	3,840	31.12.2019	By Interest A/c	3,840
		3,840			3,840

MAY 2019 (NEW COURSE)

Question 2 (a)**(10 Marks)**

M/s A bought six Scooters from M/s B on 1st April, 2016 on the following terms:

Down payment	₹ 3,00,000
1 st instalment payable at the end of 1 st year	₹ 1,59,000
2 nd instalment payable at the end of 2 nd year	₹ 1,47,000
3 rd instalment payable at the end of 3 rd year	₹ 1,65,000

Interest is charged at the rate of 10% per annum.

M/s A provides depreciation @ 20% per annum on the diminishing balance method. On 31st March, 2019 M/s A failed to pay the 3rd instalment upon which M/s B repossessed two Scooters. M/s B agreed to leave the other four Scooters with M/s A and adjusted the value of the repossessed Scooters against the amount due. The Scooters taken over were valued on the basis of 30% depreciation per annum on written down value. The balance amount remaining in the vendor's account after the above adjustment was paid by M/s A after 5 months with interest @ 15% per annum.

M/s B incurred repairing expenses of ₹15,000 on repossessed scooters and sold scooters for ₹1,05,000 on 25th April, 2019.

You are required to :

- (1) Calculate the cash price of the Scooters and the interest paid with each instalment.
- (2) Prepare Scooters Account and M/s B Account in the books of M/s A.
- (3) Prepare Goods Repossessed Account in the books of M/s B.

Solution:**(i) Calculation of Interest and Cash Price**

	₹
3 rd Instalment	1,65,000
Less: Interest (1,65,000 x 10/110)	15,000
Principal Amount	1,50,000
2 nd Instalment	1,47,000
Less: Interest (2,97,000 x 10/110)	27,000
Principal Amount	1,20,000
1 st Instalment	1,59,000
Less: Interest (4,29,000 x 10/110)	39,000
Principal Amount	1,20,000
Total Interest (15,000 + 27,000 + 39,000)	81,000
Hire purchase price of machinery (1,65,000+1,47,000+1,59,000+3,00,000)	7,71,000
Cash price (HP Price - Interest) (7,71,000-81,000)	6,90,000

(ii)**In the books of M/s A****Scooter Account**

Date	Particulars	₹	Date	Particular	₹
01.04.2016	To M/s B A/c	6,90,000	31.03.2017	By Depreciation A/c	1,38,000
				By Balance c/d	5,52,000
		6,90,000			6,90,000
01.04.2017	To Balance b/d	5,52,000	31.03.2018	By Depreciation A/c	1,10,400
				Balance c/d	4,41,600
		5,52,000			5,52,000

01.04.2018	To Balance b/d	4,41,600	31.03.2019	By Depreciation A/c	88,320
				By M/s B A/c (Value of 2 Scooters taken over)	78,890
				By Profit and Loss A/c (Bal. fig.)	38,870
				By Balance c/d	2,35,520
				$\frac{4}{6}(4,41,600 - 88,320)$	4,41,600
		4,41,600			4,41,600

(iii) **M/s B Account**

Date	Particulars	₹	Date	Particular	₹
01.04.2016	To Bank (Down Pmt)	3,00,000	01.04.2016	By Scooter A/c	6,90,000
31.03.2017	To Bank (1 st installment)	1,59,000	31.03.2017	By Interest A/c	39,000
	To Balance c/d	2,70,000			
		7,29,000			7,29,000
31.03.2018	To Bank (2 nd Installment)	1,47,000	01.04.2017	By Balance b/d	2,70,000
	To Balance c/d	1,50,000	31.03.2018	By Interest A/c	27,000
		2,97,000			2,97,000
31.03.2019	To Scooter A/c	78,890	01.04.2018	By Balance b/d	1,50,000
	To Balance c/d (b.f.)	86,110	31.03.2019	By Interest A/c	15,000
		1,65,000			1,65,000
31.08.2019	To Bank (Amount settled after 5 months)	91,492	01.04.2019	By Balance b/d	86,110
			31.08.2019	By Interest A/c (@ 15% on bal.)(86,110 x 5/12 x 15/100)	5,382
		91,492			91,492

(iv) **In the Books of the M/s B
Goods Repossessed A/c**

Date	Particulars	₹	Date	Particular	₹
31.03.2019	To M/s A A/c	78,890	31.03.2019	By Balance c/d	78,890
		78,890			78,890
01.04.2019	To Balance b/d	78,890	25.04.2019	By Bank (Sale)	1,05,000
25.04.2019	To Repair A/c	15,000			
25.04.2019	To Profit & Loss A/c	11,110			
		1,05,000			1,05,000

Working Note:**Value of Scooters as per hire vendor**

6,90,000/6 X 2	=	2,30,000
Less: Depreciation @ 30%	=	(69,000)
Balance	=	1,61,000
Less: Depreciation @ 30%	=	(48,300)
Balance	=	1,12,700
Less: Depreciation @ 30%	=	(33,810)
Balance	=	78,890

Value of Scooters as per hire purchaser

6,90,000/6 X 2	=	2,30,000
Less: Depreciation @ 20%	=	(46,000)
Balance	=	1,84,000
Less: Depreciation @ 20%	=	(36,800)
Balance	=	1,47,200
Less: Depreciation @ 20%	=	(29,440)
Balance	=	1,17,760
Loss on Repossession 1,17,760 – 78,890	=	38,870

MAY 2019 (OLD COURSE)**Question 5 (a)****(8 Marks)**

Leena Transport Limited purchased from Ethnic Motors, 4 tempos costing ₹2,75,000 each on the hire purchase system on 1.1.2016. Payment was to be made ₹ 2,00,000 down and the balance in 3 equal annual installments payable on 31.12.2016, 31.12.2017 and 31.12.2018 Plus interest @ 12% p.a.

Leena Transport Ltd. charge depreciation at the rate of 10% p.a. on the diminishing balance. It paid the installment due at the end of the first year, i.e., 31.12.2016, but could not pay the next on 31.12.2017. Ethnic Motors decided to take over 2 tempos and to leave the other 2 tempos with the purchaser on 31.12.2017, adjusting the value of the 2 tempos (taken over) against the amount due on 31.12.2017. The tempos taken over were valued on the basis of 15% depreciation annually. The balance amount remaining in the vendor's account after the above adjustment was paid by Leena Transport Limited after 1 year with interest @ 12% per annum. Show the necessary accounts in the books of Leena Transport Ltd. for the years 2016, 2017 and 2018.

Solution:**In the books of Leena Transport Limited****Tempos Account**

	Particulars	₹		Particulars	₹
01.01.2016	To ethnic motors ₹ (2,75,000 x 4)	11,00,000	31.12.2016	By depreciation	1,10,000
				By balance c/d	9,90,000
		11,00,000			11,00,000
01.01.2017	To balance b/d	9,90,000	31.12.2017	By depreciation a/c	99,000
				By ethnic motors A/c (values of 2 tempos taken away)	3,97,375
				By profit & Loss A/c (balancing figure)	48,125
				By balance c/d (value of two tempos left)	4,45,500
		9,90,000			9,90,000
01.01.2018	To balance b/d	4,45,500	31.12.2018	By depreciation A/c	44,550
				By balance c/d	4,00,950
		4,45,500			4,45,500

Ethnic Motors Limited

	Particulars	₹		Particulars	₹
01.01.2016	To Bank (Down Payment)	2,00,000	01.01.2016	By Tempos A/c	11,00,000
31.12.2016	To Bank To Balance c/d	4,08,000 6,00,000	31.12.2016	By Interest (12% on ₹ 9,00,000)	1,08,000
		12,08,000			12,08,000
01.01.2017	To tempo	3,97,375	01.01.2017	By Balance b/d	6,00,000
			31.12.2017	By Interest (12% on ₹ 6,00,000)	72,000
31.12.2017	To Balance c/d	2,74,625			6,72,000
		6,72,000			6,72,000
31.12.2018	To bank*	3,07,580	01.01.2018	By balance b/d	2,74,625
			31.12.2018	By Interest (12% on ₹ 2,74,625)	32,955
		3,07,580			3,07,580

*assumed to be paid

Working Notes:

(1) Value of Two Tempos left with the buyer

	₹
Cost ₹ (2,75,000 x 2)	5,50,000
Depreciation @ 10% p.a. under WDV method for 2 years [i.e. ₹ 55,000 + ₹ 49,500]	(1,04,500)
Value of the Tempos left with the buyer at the end of 2nd year	<u>4,45,500</u>

(2) Value of a Tempos taken away by the seller – Number of tempos - 2

	₹
Cost – (₹2,75,000 x 2)	5,50,000
Depreciation @ 15% p.a. under WDV method for 2 years [i.e. ₹ 82,500 + ₹ 70,125]	(1,52,625)
Value of Tempos taken away at the end of 2nd year	<u>3,97,375</u>

NOV-2018 (OLD COURSE)

Question 7(d)

(4 Marks)

Describe in brief the methods of recording Hire purchase transactions in the books of Hire vendor.

Answer:

There are two methods of recording hire purchase transactions in the books of the hire vendor. The method for recording transactions is selected according to the type and value of goods sold, volume of transactions, the length of the period of purchase, etc. These methods are: **Sales Method and Interest Suspense Method** which can be briefly described as under:

Sales Method

A business that sells relatively large items on hire purchase may adopt this method. Under this method, hire purchase sale is treated as a credit sale. The only exception is that the vendor agrees to accept payments in installments and for that he charges interest. The amount due from the hire purchaser at the end of the year is shown in the Balance sheet on the assets side as Hire Purchase Debtors. The entire profit on sale under hire

purchase agreement is credited to the Profit and Loss account of the year in which the sale has taken place; and interest pertaining to each accounting period is credited to the Profit and Loss Account of that year in this method.

Interest Suspense Method

This method is almost similar to the sales method, except the accounting for interest. Under this method, the hire purchaser is debited with full cash price and interest (total) included in the selling price. Credit is given to the H.P. Sales Account and Interest Suspense Account. When the installment is received, the Bank Account is debited and the Hire Purchaser Account is credited. At the same time an appropriate amount of interest (i.e., interest for the relevant accounting period) is removed from the Interest Suspense Account and credited to the Interest Account. At the time of preparation of Final Accounts, interest is transferred to the credit of the Profit and Loss Account. The balance of the Interest Suspense Account is shown in the Balance Sheet as a deduction from Hire Purchase Debtors.

MAY 2018 (OLD COURSE)

Question 5 (a)

(8 Marks)

M/s. Kodam Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. on 1st April, 2017. The hire purchase price was ₹ 48,000. Down payment was ₹ 12,000 and the balance is payable in 3 annual instalments of ₹ 12,000 each payable at the end of each financial year. Interest is payable @ 8% p.a. and is included in the annual payments of ₹ 12,000.

Depreciation at 10% p.a. is to be written off using the straight-line method. You are required to:

- (i) calculate the cash price of the generator and the interest paid on each instalment.
- (ii) pass relevant journal entries in the books of M/s. Kodam Enterprises from 1st April, 2017 to 31st March, 2018 following the interest suspense method.

Answer:

(a) Calculation of Interest and Cash Price

	₹
3 rd Instalment	12,000
Less: Interest (12,000 x 8/108)	889
Principal Amount	11,111
2 nd Instalment	12,000
Less: Interest (23,111 x 8/108)	1,712
Principal Amount	10,288
1 st Instalment	12,000
Less: Interest (33,399 x 8/108)	2,474
Principal Amount	9,526
Total Interest (889 + 1,712 + 2,474)	5,075
Hire purchase price of machinery	48,000
Cash price (HP Price – Interest) (48,000-5,075)	42,925

(ii) Journal Entries in the books of M/s Kodam Enterprises

			Debit ₹	Credit ₹
01.04.2017	Generator A/c Interest suspense A/c To sanctum ltd account (For total interest payment, due)	Dr. Dr.	42,925 5,075	48,000
	Sanctum ltd account To bank account (when down payment is made)	Dr.	12,000	12,000
31.03.2018	Interest account To interest suspense account (for interest of the year)	Dr.	2,474	2,474
31.03.2018	Sanctum ltd account To bank account (being installment paid)	Dr.	12,000	12,000
31.03.2018	Depreciation account To generator account (being depreciation charge to asset @10%)	Dr.	4293	4293
31.03.2018	Profit and loss account. To interest account. To depreciation account (for closing interest and depreciation account).	Dr.	6767	4293 2474

NOV-2017 (OLD COURSE)

Question 5 (b)

(4 Marks)

Explain the special features of hire purchase agreement.

Answer:

Special features of Hire Purchase Agreement

- 1) **Possession:** The hire vendor transfers possession of the goods to the hire purchaser immediately after the contract for hire purchase is made.
- 2) **Installments:** The goods are delivered by the hire vendor on the condition that a hire purchaser should pay the amount in periodical installments.
- 3) **Down Payment:** The hire purchaser generally makes a down payment i.e. an amount on signing the agreement.
- 4) **Constituents of Hire purchase installments:** Each installment consists partly of a finance charge (interest) and partly of a capital payment.
- 5) **Ownership:** The property in goods is to pass to the hire purchaser on the payment of the last installment and exercising the option conferred upon him under the agreement.
- 6) **Repossession:** In case of default in respect of payment of even the last installment, the hire vendor has the right to take the goods back without making any compensation.