

7. HIRE PURCHASE SYSTEM

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-14	N-14	M-15	N-15	M-16	N-16
Model – 1	-	-	05	-	-	-	-	-	-	08	-	-	-
Model – 2	-	-	-	-	-	08	-	-	-	-	-	-	-
Model – 3	-	-	-	06	-	-	-	-	-	-	-	-	-
Model – 4	-	-	-	-	-	-	-	-	-	-	-	08	8
Model – 5	-	-	-	-	-	-	-	-	05	-	-	-	-

Model – 1 : Computation of Cash Price

Model – 2 : Apportionment of Interest

Model – 3 : Complete repossession

Model – 4 : Partial Repossession

Model – 5 : Theory

Introduction: Hire purchase system refers to that system where the buyer undertakes to pay the price of the asset bought, by Installments (which include interest) to acquire the possession immediately, but the title passes to the buyer only on the payment of the last Installment. For hire purchaser it is asset and for hire vendor it is goods.

Special Features of Hire Purchase Agreement:

- Possession:** The hire vendor transfers only possession of the goods to the hire purchaser immediately after the contract for hire purchase is made.
- Installments:** The goods are delivered by the hire vendor on the condition that the hire purchaser should pay the amount in periodical Installments.
- Down Payment:** The hire purchaser generally makes a down payment i.e. an amount on signing the agreement.
- Constituents of Hire purchase Installments:** Each Installment consists partly of a finance charge (interest) and partly of a capital payment.
- 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.
- 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.

Hire Purchase Agreement as distinguished from Sale:

- Passage of title:** Under a sale the title in the goods passes to the buyer as soon as the transaction is complete, while the title in case of hire purchase agreement passes to the buyer only after the last payment is made.
- Right to Sale:** In case of sale the buyer can dispose of the goods in any way he likes after the sale transaction is complete, but a buyer under hire purchase agreement does not acquire that right before he acquires the title by making the last payment.
- Sue Vs. Re-possession:** In case of sale on credit the seller can sue the buyer for the payment of the price outstanding, but a seller under hire purchase agreement can repossess the goods sold in case of default by the buyer in payment of any Installment. The payments made till the repossession can be forfeited by the seller in lieu of the rent for the use of the goods.
- Interest:** In case of sale on prompt cash basis, the price does not include any interest, but in case of sale under hire purchase agreement, the Installments except the deposit (Down payment) include interest.

5. **Right to return:** In case of sale, once the goods are sold they cannot be returned by the buyer normally, but in case of sale under hire purchase agreement, the buyer can either retain or return the goods.

Hire Purchase Agreement as distinguished from Installment System:

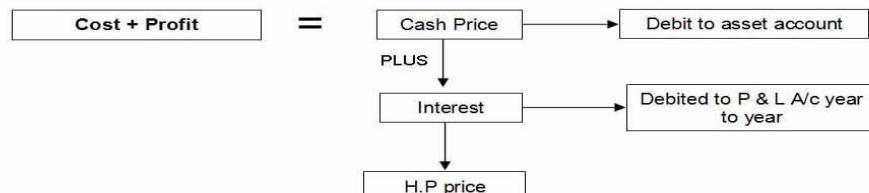
Hire-Purchases System	Installment System
<ol style="list-style-type: none"> 1. The parties to the contract are called hire-purchaser and hire-vendor. 2. The ownership in the goods passes to the hire purchaser only when he has paid all the stipulated number of Installments. 3. If the hire-purchaser makes a default in payment of an Installment, the hire-vendor gets the right to repossess the goods. 4. The hire purchaser can terminate the contract. He will return the goods but he will not be required to pay the remaining Installments. However, he may be required to pay the termination charges mentioned in the contract. 	<ol style="list-style-type: none"> 1. The parties to the contract are called buyer and seller. 2. The ownership in the goods passed from seller to buyer as soon as the contract is signed. 3. If the buyer makes a default in payment of an Installment, the seller can only sue for the recovery of the amount unpaid. 4. The buyer cannot terminate the contract and escape the liability of the payment of the remaining Installments.

Terminology:

1. **Hire Vendor:** Hire vendor is a person who delivers the goods along with its possession to the hire purchaser under an hire purchase agreement.
2. **Hire Purchaser:** Hire purchaser is a person who obtains the goods and rights to use the same from hire vendor under an hire purchase agreement.
3. **Cash Price:** It is the amount for which an article can be purchased immediately by making cash payment, without there being any facility of Installments.
4. **Hire-Purchase Price:** It is the total amount which the hirer is required to pay to the hire vendor under the hire-purchase contract. As this amount also includes interest (also called finance charges), it is always more than cash price of the goods. Thus, Hire-purchase Price = Cash Price + Interest Charged.
5. **Down Payment:** Under the hire-purchase system as well as Installment system, normally the hire-purchaser or buyer is required to pay an amount (which is a part of hire purchase price or total amount payable under the contract) at the time of signing of the contract. This is called Down Payment.
6. **Hire Purchase Installment:** Hire purchase Installment is the amount which the hire purchaser has to pay at 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.

In the books of Hire Purchaser: To have proper accounting record, some information is required in regard to the hire purchase transactions. They are (1) date of purchase of the asset; (2) cash price of the asset; (3) hire purchase price of the asset; (4) the amount of down payment (5) number and amount of each Installment; (6) rate of interest ; (7) method and rate of depreciation; and (8) date of closing the books of accounts.

Before passing journal entries the student should consider the make-up of the hire purchase price:



There are two principal methods of recording hire purchase transactions in the books of the hire purchaser.

1) When the asset is recorded at full cash price

- Cost price method
- Interest suspense method

2) When the asset is recorded at cash price actually paid in each Installment

1) When the asset is recorded at full cash price

Method 1: Asset taken on hire purchase basis should be considered like ordinary purchase by the Hire Purchaser. These transactions can be recorded either in **Cost Price Method**.

However, it is necessary to disclose this fact by classifying it as "Assets on Hire Purchase." Accordingly, amount due to the hire vendor should also be shown in his books as a liability – "hire purchase creditors" with additional such classification of amount of hire purchase Installment due and amount of hire purchase Installment not yet due.

Cost Price Method: (Known as Credit Purchase with Interest Method) in this method acquired is brought into account at the Cash Price.

Accounting treatment (In the books of Hire Purchaser)

1.	On entering into the agreement: Asset Account To Hire Vendor Account	Dr.	XXX	XXX
2.	When down payment is made: Hire Vendor Account To Cash/Bank Account	Dr.	XXX	XXX
3.	When an Installment becomes due: Interest Account To Hire Vendor Account	Dr.	XXX	XXX
4.	When an Installment is paid: Hire Vendor Account To Bank Account	Dr.	XXX	XXX
5.	When depreciation is charged on the asset: Depreciation Account To Asset Account	Dr.	XXX	XXX
6.	For closing interest and depreciation account: Profit and Loss Account To Interest Account To Depreciation	Dr.	XXX	XXX XXX

Note:

1. However, a firm may maintain Provision for Depreciation A/c instead of charging depreciation to Hire Purchase Asset A/c. In such case the journal entry is:

Profit and Loss A/c Dr.

To Provision for Depreciation for Asset on Hire Purchase A/c

and naturally, Asset on Hire Purchase is shown at its historical cost.

Disclosure in the balance sheet:

Assets:

Fixed Assets:

Asset (at cash price)	XXX
Less: Depreciation	XXX
	XXX

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Creditors:**Hire Purchase Creditors:**

Balance in hire vendor's A/c	XXX
Installment due	XXX
Installment not yet due	XXX

In any subsequent year: Repeat entries 3, 4, 5, 6 with respective figures for the year concerned.

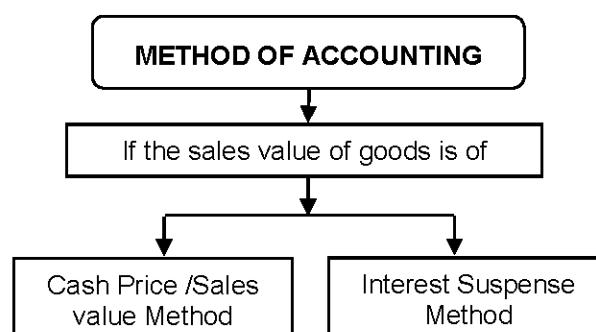
Method 2:**Interest suspense method:**

Under this method, at the time of transfer of possession of asset, the total interest unaccrued is transferred to interest suspense account. At later years, as and when interest becomes due, interest account is debited and interest suspense account is credited.

1.	When the asset is acquired on hire purchase: Asset Account To Hire Vendor Account	Dr.	XXX	XXX
2.	For total interest: H.P. Interest Suspense Account To Hire Vendor Account	Dr.	XXX	XXX
3.	When down payment is made: Hire Vendor Account To Bank Account	Dr.	XXX	XXX
4.	For Interest of the relevant period: Interest Account To H.P. Interest Suspense Account	Dr.	XXX	XXX
5.	When an Installment is paid: Hire Vendor Account To Bank Account	Dr.	XXX	XXX
6.	When depreciation is charged on the asset: Depreciation Account To Asset Account	Dr.	XXX	XXX
7.	For closing interest and depreciation account: Profit and Loss Account To Interest Account To Depreciation Account	Dr.	XXX	XXX XXX

In any subsequent year: Repeat entries 4, 5, 6 and 7 with respective figures for the year concerned.

Accounting treatment in the books of Hire Vendor: There are two methods of recording hire purchase transactions in the books of the hire vendor. The two methods are discussed below:



Sales Value 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. 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

1.	When goods are sold and delivered under hire purchase: Hire Purchaser's Account To Hire Purchase Sales Account	Dr.	XXX	XXX
2.	When the down payment is received: Bank Account To Hire Purchaser's Account	Dr.	XXX	XXX
3.	When an Installment becomes due: Hire Purchaser's Account To Interest Account	Dr.	XXX	XXX
4.	When the amount of Installment is received: Bank Account To Hire Purchaser's Account	Dr.	XXX	XXX
5.	For closing interest Account: Interest Account To Profit and Loss Account	Dr.	XXX	XXX
6.	For closing Hire Purchase Sales Account: Hire Purchase Sales Account To Trading Account	Dr.	XXX	XXX

Note:

1. Interest pertaining to each accounting period is credited to the Profit and Loss Account of that year.
2. In any subsequent year: Repeat entries 3, 4, 5 with respective figures for the year concerned.

Interest Suspense Method:

This method is almost similar to the sales method, except the accounting for interest.

1.	When goods are sold and delivered under hire purchase: Hire Purchaser Account To H.P. Sales Account To Interest Suspense Account	Dr.	XXX	XXX XXX
2.	When down payment received: Bank Account To Hire Purchaser Account	Dr.	XXX	XXX
3.	When Installment is received: Bank Account To Hire Purchaser Account	Dr.	XXX	XXX
4.	For interest of the relevant accounting period: Interest Suspense Account To Interest Account	Dr.	XXX	XXX
5.	For closing interest Account: Interest Account To Profit and Loss Account	Dr.	XXX	XXX
6.	For closing Hire Purchase Sales Account: H.P. Sales Account To Trading Account	Dr.	XXX	XXX

The disclosure in balance sheet of the respective parties will be:

Balance Sheet of Hire Purchaser

Assets

Fixed assets:

Asset on Hire purchase

Add: Balance in Interest suspense A/c

Less: Depreciation

In any subsequent year: Repeat entries 3, 4, 5 with respective figures for the year concerned.

Repossession of Goods (or) Return of goods:

Meaning: If the hire purchaser fails to pay any Installment, the hire vendor has the right to take back the goods from the hire purchaser. Often the seller gives some scope to the buyer leaving a portion of goods sold, so that the latter can somehow continue his business. Therefore re-possession can be of two types.



Complete Re-Possession:

Journal entries in the books of Hire Purchaser

Note:

- Entries for re-possession in the books of Hire Purchaser will depend on the method of accounting adopted by Hire purchaser at the time of purchase.

If Cost Price method is followed - Entries for re-possession:

1.	For Interest due up to the date of default: Interest A/c To Hire Vendor A/c	Dr.	XXX	XXX
2.	On return of goods: Hire Vendor A/c To Asset A/c	Dr.	XXX	XXX
3.	For Depreciation - on such asset up to the date of default: Depreciation A/c To Asset a/c	Dr.	XXX	XXX
4.	For transfer of bal. in Asset A/c to P&L A/c: P&L A/c To Asset A/c	Dr.	XXX	XXX

If interest suspense method is followed: 1st entry will be

1.	For Interest due up to the date of default: Interest A/c To Interest Suspense A/c	Dr.	XXX	XXX
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2nd, 3rd, and 4th entries will be the same

In the Books of Hire Vendor

1.	For Interest due up to the date of default: Hire Purchaser A/c To Interest A/c	Dr.	XXX	XXX
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2.	On re-possession of goods at agreed value: Good reposessed A/c To Hire Purchaser A/c	Dr.	XXX	XXX
3.	For transfer of balance in HPA/c to P&L A/c: P & L A/c To Hire Purchaser A/c	Dr.	XXX	XXX
4.	For exp. incurred on re-possessed goods: Goods reposessed A/c To Cash A/c	Dr.	XXX	XXX
5.	On sale of the re-possessed goods: Cash A/c To Goods reposessed A/c	Dr.	XXX	XXX
6.	On transfer of balance in Re-possessed goods to P & L A/c: Goods reposessed A/c To P & L A/c	Dr.	XXX	XXX

Note:

- If estimated value is not given, amount due from Hire Purchaser should be treated as agreed value.

PROBLEMS FOR CLASSROOM DISCUSSION

Problem 1: (PRINTED SOLUTION AVAILABLE) Basic level: On 1.1.2010, M/s. Tallboy & co. Ltd. took delivery from plain vans Ltd. of 5 motors vans on a hire-purchase system Rs. 2000 being paid on delivery and the balance in five installments of Rs 3,000 each, payable annually on 31st December. The vendor company charges 5% interest P.a on yearly balances. The cash value of 5 motor vans was Rs. 15,000.

Show journal entries and the vendors account, interest account and the motor vans account in the books of M/s. Tallboy & co Ltd. for first 2 years under (i) cash price method (ii) interest suspense method. Provide depreciation @ 20% on the diminishing balances.

(Calculation may be made to the nearest rupee, all working to be made for 5 years and adjust any difference in fifth year account.)

(Solve problem no 1 of assignment problems as rework)

Note: _____

Problem 2: (PRINTED SOLUTION AVAILABLE) Computation of Cash Price by Backward Approach:

- On 1.1.2011 Shaan Ltd. purchased a machine on hire purchase basis. The terms of agreement provided for 40% as cash down payment and the balance in three installments of Rs. 1,63,000 on 31.12.2012, Rs. 1,20,000 on 31.12.2013 and Rs. 1,10,000 on 31.12.2014. The rate of interest charged by the vendor is 10% p.a. compound annually. You are required to calculate the cash Price and periodic interest charged by hire vendor.
- On 1.1.2011 Beeta Ltd. purchased a machine from Yama Ltd. on hire purchase basis. The terms of agreement provided for 40% as cash down payment and the balance in three installments of Rs. 1,30,000 on 31.12.2011, Rs. 1,42,000 on 31.12.2013 and Rs. 1,10,000 on 31.12.2014. The rate of interest charged by the vendor is 10% p.a. compounded annually. You are required to calculate the cash price.

(Nov. 2014 – RTP), (Ans: a. Cash Price Rs.5,00,000, b. Cash Price Rs.5,00,000)

(Solve problem no 2, 3, 4 of assignment problems as rework)

Note: _____

Problem 3: (PRINTED SOLUTION AVAILABLE) Computation of Cash Price in Backward method in case of half yearly installments (ledger A/c's): On 1-7-2013, Eastern Printers purchased a printing machine on a Hire Purchase basis, payments to be made Rs.10,000 on the said date and the balance in three half-yearly Installments of Rs.8,200 Rs.7,440 and Rs.6,330 commencing from 31st December 2013. The vendor charges interest at 10% p.a. calculated on half-yearly rests. Eastern printers close their books annually on 31st December, and provide depreciation at 10% p.a. on diminishing balances in each year. Determine the cash price of the machine and show the necessary ledger accounts in the books of Eastern Printers. (May-2003, 2008, Nov-2012, May - 15, Similar Problem) (Ans: Cash Price Rs.30,027)

Note: _____

Problem 4: Computation of interest when amount of interest is given but cash price and rate of interest not given: India Motors Ltd. sold a scooter to Indranath Bhatta on the Hire Purchase system. The terms of payment are Rs.1,000 on delivery, Rs.1,040 at the end of the first year, Rs.960 at the end of the second year and Rs.880 at the end of the third year, inclusive of finance charges. Show ledger accounts in the books of the seller till all the Installments are paid. Depreciation is to be charged at 10% per annum on the original cost.

(May-2009, 2010 Similar Problem), (Ans. :Cash price of scooter Rs.3,400)

Note: _____

Problem 5: (PRINTED SOLUTION AVAILABLE) Computation of interest when cash price is given and rate of interest not given: (IRR METHOD): Happy Valley Florists Ltd. acquired a delivery van on hire purchase on 01.04.2010 from Ganesh Enterprises. The terms were as follows:

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

Cash price of van Rs. 150,000 You are required to calculate Total Interest and Interest included in each instalment. (SM)

(Ans.: Total interest-30182, Interest in 1st instalment-13668, 2nd instalment-9530, 3rd instalment-4920, 4th instalment-2064)

[NOTE: This problem will be taught only after completion of IRR concept in Capital budgeting of Financial management subject]

Note: _____

Problem 6: (PRINTED SOLUTION AVAILABLE) Accounting for complete re-possession of goods in cash price method: MC purchased machinery from K & Co on Hire Purchase system on 1-1-2011. The cash price of the machine was Rs.1,00,000. Rs.20,000 to be paid at the time of taking delivery and balance by four annual Installments of Rs.20,000 plus interest at 5% on the yearly balances (5% p.a.) MC failed to pay the Installment due on 31-12-2012. K & Co. took possession of the machinery and valued the same in his books after charging depreciation @ 10% p.a. on reducing balance method. In 2013 K & Co. incurred Rs.1,000 for reconditioning and resold the machinery for Rs.90,000. Show the ledger accounts in the books of K & Co.

(Solve problem no 5 of assignment problems as rework)

Note: _____

Problem 7: (PRINTED SOLUTION AVAILABLE) Accounting for complete re-possession of goods in cash price method and value of repossessed goods is given: On 1-1-2013, Ashok acquired furniture on the Hire Purchase system from TA Ltd agreeing to pay four semi-annual Installments of Rs.800 each, commencing on 30-6-2013. The cash price of the items was Rs.3,010 and an interest of 5% p.a. was chargeable.

On 30-9-2013, Ashok expresses his inability to continue and TA seized the property. It was agreed that Ashok would pay the due proportion of the Installment up to the date of seizure and also a further sum of Rs.200 towards depreciation. At the time of repossession, TA Ltd valued the furniture at Rs.1,500.

The company after incurring Rs.200 towards repairs of the furniture sold the items for Rs.1,800 on 15-10-2013. Show the ledger accounts as they would appear in the books of TA Ltd working out the profit or loss on the transactions, assuming that the company passes Hire Purchase transactions through its books as sales.

Note: _____

Problem 8: Accounting for partial repossession: Girish Transport Ltd. purchased from NCR Motors 3 electric rickshaws costing Rs. 60,000 each on the hire purchase system on 1.1.2013. Payment was to be made Rs. 30,000 down and the remainder in 3 equal installments payable on 31.12.2013, 31.12.2014 and 31.12.2015 together with interest @ 10% p.a. Girish Transport Ltd. writes off depreciation @ 20% p.a. on the reducing balance. It paid the installment due at the end of 1st year i.e. 31.12.2013 but could not pay next on 31.12.2014. NCR Motors agreed to leave one e-rickshaw with the purchaser on 31.12.2014 adjusting the value of the other two e-rickshaws against the amount due on 31.12.2014, The e- rickshaws were valued on the basis of 30% depreciation annually on WDV basis.

Show the necessary Ledger accounts in the books of Girish Transport Ltd. for the year 2013, 2014 and 2015. (May 2016)

(Solve problem no 6 of assignment problems as rework)

Note: _____

Problem 9: Accounting for destruction of tractor B: A firm acquired two tractors under hire purchase agreements, details of which were as follows:

Particulars	Tractor A 1.4.2012	Tractor B 1.10.2012
Cash price	14,000	19,000
Deposit	2,000	2,680
Interest (Deemed to accrue evenly over the period of agreement)	2,400	2,880
Monthly Installment amount	600	800

Both agreements provided for payment to be made in twenty-four monthly Installments, commencing on the last day of the month following purchase, all Installments being paid on due dates.

On 30th June, 2013 Tractor B was completely destroyed by fire. In full settlement, on 10th July, 2013 the insurance company paid Rs.15,000 under a comprehensive policy out of which Rs.10,000 was paid to the hire purchase company in termination of the agreement. Any balance on the hire purchase company's account in respect of these transactions was to be written off.

The firm prepared accounts annually to 31st December and provided depreciation on tractors on a straight-line basis at a rate of 20% per annum rounded off to nearest ten rupees, 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, 2012 and 31st December, 2013:

- a. Tractors on hire purchase
- b. Provision for depreciation of tractors.
- c. Disposal of tractors
- d. Hire purchase Company.

(Nov 16)(SM) (Ans.: Total of Tractors on hire purchase a/c as on 01.01.2013 is Rs.33,000)

Note: _____

Problem 10: Accounting for sale and lease back under interest suspense method:

On 1-1-2010, A sells a truck to B, on the Installment payment system on the following conditions:

The purchase price of the truck is Rs.1,00,000. This amount is payable to A in four equal annual Installments along with 12% interest p.a. on the outstanding balance, the first Installment being payable on the date of sale.

B, in turn, hires out the truck to A for a monthly hire of Rs.3,000 p.m. from 1-1-2010. The hire charges are to be adjusted at the end of each year against the amount due to A on account of principal and interest, any difference being settled in cash.

B charges 20% depreciation (on the WDV methods) on the truck. All payments are made as per the agreement. On 1-1-2013, the truck is sold by B to A for Rs.15,000 in cash. Show in B's books, the truck A/c, the interest suspense account, the hire charges A/c, the interest account and A's A/c.

(Ans.: Total of trucks a/c as on 01.01.2013 is Rs.51,200)

Note: _____

ASSIGNMENT PROBLEMS

Problem 1: On January 1, 2010 HP and Co. acquired a pick-up Van on hire purchase from FM & Co. Ltd.

The terms of the contract were as follows:

- a) The cash price of the van was Rs.1,00,000.
- b) Rs.40,000 were to be paid on signing of the contract.
- c) The balance was to be paid in annual Installments of Rs.20,000 plus interest.
- d) Interest chargeable on the outstanding balance was 6% p.a.
- e) Depreciation at 20% p.a. is to be written-off using the straight-line method.

You are required to:

1. Give Journal Entries and show the relevant accounts in the books of HP and Co. from January 1, 2010 to December 31, 2012; and
2. Show the relevant items in the Balance Sheet of the purchaser as on December 31, 2010 to 2012.
3. And assume that the hire purchaser adopted the interest suspense method for recording his hire purchase transactions. On this basis, prepare H.P. Interest Suspense Account, Interest Account and FM & Co. Ltd. Accounts and Balance Sheets in the books of hire purchaser.(SM)

Problem 2: A acquired on 1st January, 2012 a machine under a Hire-Purchase agreement which provides for 5 half-yearly Installments of Rs.6,000 each, the first Installment being due on 1st July, 2012. 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.

(SM) (Ans: Cash Price of the Machine 25,977)

Problem 3: Asha purchased a truck on hire purchase system. As per terms he is required to pay Rs.70,000 down, Rs.53,000 at the end of first year, Rs.49,000 at the end of second year and Rs.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 Installment.

(SM) (Ans: Total cash price 2,00,000)

Problem 4: X Ltd. purchased a machine on hire purchase basis from Y Ltd. on the following terms: (a) Cash Down payment- Rs.1,58,500 (b) Four Installments of Rs.2,21,900, Rs.2,06,050, Rs.1,90,200 and Rs.1,74,350 at the end of the 1st year, 2nd year, 3rd year and 4th year respectively. (c) The payment of cash price in each Installment is uniform. Compute the amount of interest and total cash price of the machine. (SM) (Ans: Cash price 7,92,500)

Problem 5: A Machinery is sold on hire purchase. The terms of payment is four annual Installments of Rs.6,000 at the end of each year commencing from the date of agreement. Interest is charged @ 20% and is included in the annual payment of Rs.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 provides depreciation on the machinery @ 10% per annum. All workings should form part of your answers.

(SM) (Ans: Total of machinery A/c in iiird year is 12,582 . Total hire vendor A/c in iiird year is 11,000)

Problem 6: X Transport Ltd. purchased from Delhi Motors 3 Tempos costing Rs. 50,000 each on the hire purchase system on 1-1-2010. Payment was to be made Rs. 30,000 down and the remainder in 3 equal annual Installments payable on 31-12-2010, 31-12-2011 and 31-12-2012 together with interest @ 9%. X Transport Ltd. write off depreciation at the rate of 20% on the diminishing balance. It paid the Installment due at the end of the first year i.e. 31-12-2010 but could not pay the next on 31-12-2011. Delhi Motors agreed to leave one Tempo with the purchaser on 1-1-2012 adjusting the value of the other 2 Tempos against the amount due on 31-12-2011.

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 2010, 2011 and 2012. (SM)

(Ans: Balance c/d in tempo account as on 31.12.2012 Rs.25,600)
(Final payment made to Delhi motors on 31st Dec.2012, is Rs.41,638)

ABC ANALYSIS

	A Category	B Category	C Category
Class Room Problems	3,4,5,7,8,	1,2,6,10	9
Assignment Problems	2,3,4,5	1	6

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Executed by: Sai Ram Sir

THE END