

# HIRE PURCHASE AND INSTALLMENT PAYMENT SYSTEM

## BASIC CONCEPTS

Under Hire Purchase System, hire purchaser will pay cost of purchased asset in installments. The ownership of the goods will be transferred by the Hire Vendor only after payment of outstanding balance.

- Under installment system, ownership of the goods is transferred by owner on the date of delivery of goods.
- Accounting Method when goods have substantial sales under Hire Purchase System
  - Cash price Method
  - Interest suspense method
- Accounting Method when goods have small sales under Hire Purchase System
  - Debtor method
  - Stock & Debtor Method

## Question 1

*Omega Corporation sells computers on hire purchase basis at cost plus 25%. Terms of sales are Rs. 10,000 as down payment and 8 monthly instalments of Rs. 5,000 for each computer. From the following particulars prepare Hire Purchase Trading Account for the year 2011.*

*As on 1<sup>st</sup> January, 2011 last instalment on 30 computers was outstanding as these were not due up to the end of the previous year.*

*During 2011 the firm sold 240 computers. As on 31<sup>st</sup> December, 2011 the position of instalments outstanding were as under :*

*Instalments due but not collected :*

*2 instalments on 2 computers and last instalment on 6 computers.*

*Instalments not yet due :*

*8 instalments on 50 computers, 6 instalments on 30 and last instalment on 20 computers.*

Two computers on which 6 instalments were due and one instalment not yet due on 31.12.2011 had to be repossessed. Repossessed stock is valued at 50% of cost. All other instalments have been received. **(May, 2000)**

**Answer**

**In the books of Omega Corporation  
Hire Purchase Trading Account  
for the year ended on 31<sup>st</sup> Dec., 2011**

Dr.	Rs.	Rs.		Cr	Rs.
To Hire Purchase Stock (30×Rs. 5,000)		1,50,000	By Hire Purchase Sales (W.N. 2)		91,40,000
To Goods Sold on Hire Purchase (240×Rs. 50,000)		1,20,00,000	By Stock Reserve (Rs. 1,50,000×20%)		30,000
To Bad Debts		12,000	By Goods sold on Hire Purchase (Rs. 1,20,00,000× 20%)		24,00,000
To Loss on Re- possession	16,000		By Hire Purchase Stock [(8×50+6×30+1×20)× Rs. 5,000]		30,00,000
Less : Instalments not yet due	<u>8,000</u>	8,000			
To Stock Reserve (30,00,000 ×20%)		6,00,000			
To Profit & Loss A/c (Transfer of Profit)		<u>18,00,000</u>			
		<u>1,45,70,000</u>			<u>1,45,70,000</u>

Alternatively, hire purchase trading account can be prepared in the following manner:

**Hire Purchase Trading Account  
for the year ended on 31<sup>st</sup> Dec., 2011**

	Rs.	Rs.		Rs.
To Hire Purchase Stock (30×Rs. 5,000)		1,50,000	By Cash (W.N.1)	90,30,000
To Goods Sold on Hire Purchase (240×Rs. 50,000)		1,20,00,000	By Stock Reserve (Rs. 1,50,000×20%)	30,000
To Stock Reserve (Rs. 30,00,000 × 20%)		6,00,000	By Goods Sold on Hire Purchase (Rs. 1,20,00,000×20%)	24,00,000
To Profit & Loss A/c (Transfer of Profit)		18,00,000	By Goods Repossessed (2×Rs. 40,000×50%)	40,000
		<u>1,45,50,000</u>	By Instalments Due [(2×2+1×6)×Rs. 5,000]	50,000
			By Hire Purchase Stock [8×50+6×30+1×20)×Rs. 5,000]	<u>30,00,000</u>
				<u>1,45,50,000</u>

## Working Notes :

		Rs.
(1) <i>Cash collected:</i>		
Cash down payment (240 × Rs. 10,000)		24,00,000
<i>Add : Instalments collected :</i>		
Last instalments on 30 computers outstanding on 1.4.2011		1,50,000
Instalments due and collected on 240 computers sold during the year :		
Total instalments on 240 computers (8 × 240 × Rs. 5,000)	96,00,000	
<i>Less : Instalments due but not collected</i>		
[(2 × 2 + 1 × 6 + 6 × 2) × Rs. 5,000]	1,10,000	
Instalments not due on 31.12.2011 [(8 × 50 + 6 × 30 + 1 × 20 + 1 × 2) × Rs. 5,000]	<u>30,10,000</u>	
		<u>31,20,000</u>
		<u>64,80,000</u>
		<u>90,30,000</u>
(2) <i>Hire purchase sales:</i>		
Cash collected		90,30,000
<i>Add : Instalments due but not collected</i> [(2 × 2 + 1 × 6 + 6 × 2) × Rs. 5,000]		<u>1,10,000</u>
		<u>91,40,000</u>
(3) <i>Loss on repossessed computers:</i>		
Cost of instalments due but not collected (6 × 2 × Rs. 4,000)		48,000
Cost of Instalments not yet due (1 × 2 × Rs. 4,000)		<u>8,000</u>
		56,000
<i>Less : Estimated value of repossessed computers</i> (2 × Rs. 40,000 × 50%)		<u>40,000</u>
Loss		<u>16,000</u>
(4) <i>Bad debts (in respect of repossessed computers):</i>		
Instalments due but not collected (6 × 2 × Rs. 5,000)		60,000
Cost of installments not due on 31.12.2011 (1 × 2 × Rs. 5,000 × 80%)		<u>8,000</u>
		68,000
<i>Less : Cost of instalments due but not collected</i> (6 × 2 × Rs. 4,000)	48,000	
Cost of instalments not yet due (1 × 2 × Rs. 4,000)	<u>8,000</u>	
Bad debts		<u>56,000</u>
		<u>12,000</u>

**Question 2**

*Welwash (Pvt.) Ltd. sells washing machines for outright cash as well as on hire-purchase basis. The cost of a washing machine to the company is Rs. 10,500. The company has fixed cash price of the machine at Rs. 12,300 and hire-purchase price, at Rs. 13,500 payable as to Rs. 1,500 down and the balance in 24 equal monthly instalments of Rs. 500 each.*

*On 1st April, 2010 the company had 26 washing machines lying in its showroom. On that date 3 instalments had fallen due, but not yet received and 675 instalments were yet to fall due in respect of machines lying with the hire purchase customers.*

*During the year ended 31st March, 2011 the company sold 130 machines on cash basis and 80 machines on hire-purchase basis. After paying five monthly instalments, one customer failed to pay subsequent instalments and the company had to repossess the washing machine. After spending Rs. 1,000 on it, the company resold it for Rs. 11,500.*

*On 31st March, 2011 there were 21 washing machines in stock, 810 instalments were yet to fall due and 5 instalments had fallen due, but not yet received in respect of washing machines lying with the hire-purchase customers. Total selling expenses and office expenses including depreciation on fixed assets totalled Rs. 1,60,000 for the year.*

*You are required to prepare for the Accounting Year ended 31st March, 2011:*

- (i) Hire purchase Trading Account, and
- (ii) Trading and Profit and Loss Account showing net profit earned by the company after making provision for income-tax @ 35%. **(November, 2001)**

**Answer**

**In the books of Welwash (Pvt.) Ltd.  
Hire Purchase Trading Account  
for the year ended on 31st March, 2011**

Dr.	Rs.	Cr
		Rs.
To Hire Purchase Stock (Rs. 500 × 675)	3,37,500	By Cash (W.N. 1) <span style="float: right;">10,02,000</span>
To Instalments due Rs. (500 × 3)	1,500	By Stock Reserve <span style="float: right;">75,000</span>
		(Rs. 3,37,500 × $\frac{3,000}{13,500}$ )
To Goods sold on Hire Purchase (Rs. 13,500 × 80)	10,80,000	By Goods Repossessed <span style="float: right;">9,500</span>
		(Rs. 13,500 – Rs. 1,500 – Rs. 2,500)
To Stock Reserve (Rs. 4,05,000 × $\frac{3,000}{13,500}$ )	90,000	By Goods sold on Hire Purchase <span style="float: right;">2,40,000</span>
		(Rs. 10,80,000 × $\frac{3,000}{13,500}$ )

To Profit and Loss A/c (Transfer of profit)	2,25,000	By Hire Purchase Stock (Rs. 500 × 810)	4,05,000
		By Instalments due (Rs. 500 × 5)	2,500
	<u>17,34,000</u>		<u>17,34,000</u>

### Trading and Profit and Loss Account

**for the year ended on 31<sup>st</sup> March, 2011**

	Rs.		Rs.
To Opening Stock (Rs.10,500×26)	2,73,000	By Sales (Rs. 12,300×130)	15,99,000
To Purchases Rs. 10,500×(130+80+21-26)	21,52,500	By Goods sold on Hire Purchase (Rs. 10,80,000-Rs. 2,40,000)	8,40,000
To Gross Profit	2,34,000	By Closing Stock (Rs. 10,500×21)	2,20,500
	<u>26,59,500</u>		<u>26,59,500</u>
To Sundry Expenses	1,60,000	By Gross Profit	2,34,000
To Provision for Income Tax (35% of Rs. 3,00,000)	1,05,000	By Hire Purchase Trading A/c	2,25,000
To Net Profit for the year	1,95,000	By Goods Repossessed (Rs. 11,500-Rs.1,000-Rs. 9,500)	1,000
	<u>4,60,000</u>		<u>4,60,000</u>

#### Working Notes :

	Rs.
(1) <i>Cash collected during the year</i>	
Hire purchase stock on 1.4.2010	3,37,500
Instalments due on 1.4.2010	1,500
Hire purchase price of goods sold during the year	<u>10,80,000</u>
	14,19,000
	Rs.
Less : Repossessed goods	9,500
Hire purchase stock on 31.3.2011	4,05,000
Instalments due on 31.3.2011	<u>2,500</u>
Cash collected during the year	<u>10,02,000</u>

(2) Washing machines purchased during the year

	No.	No.
Closing balance	21	
Add : Cash Sales	130	
Sales on hire purchase basis	80	231
Less : Opening stock		26
Purchase during the year		205
Purchases		205 × Rs. 10,500 = Rs. 21,52,500

**Question 3**

A acquired on 1st January, 2011 a machine under a Hire-Purchase agreement which provides for 5 half-yearly instalments of Rs. 6,000 each, the first instalment being due on 1st July, 2011. 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. **(May, 2003)**

**Answer**

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

	Instalment Amount	Interest @ 5% half yearly (10% p.a.) = $\frac{5}{105} = \frac{1}{21}$ (in each instalment)	Principal Amount (in each instalment)
	Rs.	Rs.	Rs.
5th Instalment	6,000	286	5,714
Less: Interest	286		
	5,714		
Add: 4th Instalment	6,000		
	11,714	558	5,442
Less: Interest	558		(11,156–5,714)
	11,156		
Add: 3rd instalment	6,000		
	17,156	817	5,183
Less: Interest	817		(16,339–11,156)
	16,339		

Add: 2nd instalment	<u>6,000</u>		
	22,339	1,063	4,937
Less: Interest	<u>1,063</u>		(21,276–16,339)
	21,276		
Add: 1st instalment	<u>6,000</u>		
	27,276	1,299	4,701
Less: Interest	<u>1,299</u>	_____	(25,977–21,276)
	<u>25,977</u>	<u>4,023</u>	<u>25,977</u>

The cash purchase price of machinery is Rs. 25,977.

**Question 4**

Sameera Corporation sells Computers on Hire-purchase basis at cost plus 25%. Terms of sales are Rs. 5,000 as Down payment and 10 monthly instalments of Rs. 2,500 for each Computer. From the following particulars, prepare Hire-purchase Trading A/c for the year 2010-2011:

As on 1st April, 2010, last instalment on 20 Computers were outstanding as these were not due upto the end of the previous year. During 2010-2011, the firm sold 120 Computers. As on 31st March, 2011 the position of instalments outstanding were as under:

- Instalments due but not collected                      4 instalments on 4 computers and last instalment on 9 computers
- Instalments not yet due                                      6 instalments on 50 computers, 4 instalments on 20 and last instalment on 40 Computers

Two Computers on which 8 instalments were due and one instalment not yet due on 31.03.2011, had to be repossessed. Repossessed stock is valued at 50% of cost. All other instalments have been received.

**(May, 2004)**

**Answer**

**In the books of Sameera Corporation  
Hire Purchase Trading Account  
for the year ended 31st March, 2011**

		Amount			Amount
		Rs.			Rs.
To	Hire Purchase Stock (20 × Rs. 2,500)	50,000	By	Hire Purchase Sales (W.N. 2)	25,95,000
To	Goods sold on Hire Purchase (120×Rs.30,000)	36,00,000	By	Stock Reserve (Rs. 50,000 × 20%)	10,000

To	Bad Debts (W.N. 4)	8,000	By	Goods sold on Hire Purchase	7,20,000
To	Loss on Repossession	12,000		(Rs. 36,00,000 × 20%)	
	Less: Instalments not yet due	<u>4,000</u>	By	Hire Purchase Stock	10,50,000
				[(6×50+4×20+ 1×40) × Rs. 2,500]	
To	Stock Reserve (Rs.10,50,000 × 20%)	2,10,000			
To	Profit and Loss Account (Transfer of Profit)	4,99,000			
		<u>43,75,000</u>			<u>43,75,000</u>

Alternatively the Hire Purchase Trading A/c can be prepared in the following manner:

**Hire Purchase Trading Account  
for the year ended 31st March, 2011**

		<i>Amount</i>			<i>Amount</i>
		<i>Rs.</i>			<i>Rs.</i>
To	Hire Purchase Stock (20 × Rs. 2,500)	50,000	By	Cash Account (W.N. 1)	24,92,500
To	Goods sold on Hire Purchase (120×Rs.30,000)	36,00,000	By	Stock Reserve (Rs. 50,000 × 20%)	10,000
To	Stock Reserve (Rs.10,50,000 × 20%)	2,10,000	By	Goods sold on Hire Purchase (Rs. 36,00,000 × 20%)	7,20,000
To	Profit and Loss Account (Transfer of Profit)	4,99,000	By	Goods Repossessed (2 × Rs. 24,000 × 50%)	24,000
			By	Instalments due  [(4 × 4 + 1 × 9) × Rs. 2,500]	62,500
			By	Hire Purchase Stock [(6 × 50 + 4 × 20 + 1 × 40) × Rs. 2,500]	10,50,000
		<u>43,59,000</u>			<u>43,59,000</u>

**Question 5**

ABC Ltd. sells goods on Hire-purchase by adding 50% above cost. From the following particulars, prepare Hire-purchase Trading account to reveal the profit for the year ended 31.3.2011:

		<i>Rs.</i>
1.4.2010	Instalments due but not collected	10,000
1.4.2010	Stock at shop (at cost)	36,000



1.4.2010	Instalment not yet due	18,000
31.3.2011	Stock at shop	40,000
31.3.2011	Instalments due but not collected	18,000
<i>Other details:</i>		
Total instalments became due		1,32,000
Goods purchased		1,20,000
Cash received from customers		1,21,000

Goods on which due instalments could not be collected were repossessed and valued at 30% below original cost. The vendor spent Rs. 500 on getting goods overhauled and then sold for Rs. 2,800. **(May, 2005)**

**Answer**

**In the Books of ABC Ltd.  
Hire Purchase Trading Account  
for the year ended 31st March, 2011**

		Rs.			Rs.
1.1.2010	To Hire purchase stock	18,000	1.1.2010	By Stock reserve	
1.1.2010	To Goods sold on hire			(1/3 of Rs. 18,000)	6,000
	to Purchase	1,74,000	1.1.2010	By Hire purchase sales	1,32,000
31.3.2011	To Loss on repossession of goods (W.N. 5)	1,600	31.3.2011	By Goods sold on hire purchase (1/3 of Rs. 1,74,000)	58,000
31.3.2011	To Stock reserve	20,000		By Profit on sale of repossessed goods (W.N. 4)	900
	To Profit and loss account (Transfer of profit)	43,300	31.3.2005	By Hire purchase stock (W.N. 3)	<u>60,000</u>
		<u>2,56,900</u>			<u>2,56,900</u>

Alternatively, Hire Purchase Trading Account can be prepared in the following manner:

**Hire Purchase Trading Account  
for the year ended 31st March, 2011**

		Rs.			Rs.
1.1.2010	To Hire purchase stock	18,000	1.1.2010	By Stock reserve (1/3 of Rs. 18,000)	6,000
1.1.2010	To Hire purchase debtors	10,000			
	to To Goods sold on hire	1,74,000	1.1.2010	By Cash (Rs. 1,21,000 + Rs.	

31.3.2011	purchase		to	2,800)		1,23,800
	To Cash (Overhauling charges)	500	31.3.2011	By Goods sold on hire purchase		58,000
31.3.2011	To Stock reserve	20,000		(1/3 of Rs. 1,74,000)		
	To Profit and loss account		31.3.2011	By Hire purchase stock		60,000
	(Transfer of profit)	43,300		By Hire purchase debtors		18,000
		<u>2,65,800</u>				<u>2,65,800</u>

**Working Notes:**

**1. Memorandum Instalment due but not collected (hire purchase debtors) account**

		Rs.			Rs.
To	Balance b/d	10,000	By	Cash	1,21,000
To	Hire purchase sales	1,32,000	By	Repossessed stock (Bal.fig.)	3,000
		<u>1,42,000</u>	By	Balance c/d	<u>18,000</u>
					<u>1,42,000</u>

**2. Memorandum shop stock account**

		Rs.			Rs.
To	Balance b/d	36,000	By	Goods sold on hire purchase	1,16,000
To	Purchases	1,20,000		(Balancing figure)	
		<u>1,56,000</u>	By	Balance c/d	<u>40,000</u>
					<u>1,56,000</u>

**3. Memorandum hire purchase stock (Instalment not yet due) account**

		Rs.			Rs.
To	Balance b/d	18,000	By	Hire purchase Sales	1,32,000
To	Goods sold on hire purchase [1,16,000 + (1,16,000 × 50%)]	<u>1,74,000</u>	By	Balance c/d (Balancing figure)	60,000
		<u>1,92,000</u>			<u>1,92,000</u>

**4. Goods Repossessed account**

		Rs.			Rs.
To	Hire purchase debtors	3,000	By	Hire purchase trading account (W.N. 5)	1,600
		<u>3,000</u>	By	Balance c/d (W.N. 5)	<u>1,400</u>
					<u>3,000</u>

To	Balance b/d	1,400	By	Cash account	2,800
To	Cash account (expenses)	500			
To	Profit on sale	<u>900</u>			
		<u>2,800</u>			<u>2,800</u>

5.		Rs.
	Original cost of goods repossessed $\left( \text{Rs. } 3,000 \times \frac{100}{150} \right)$	2,000
	Instalments due but not received	3,000
	Valuation of repossessed goods (70% of Rs. 2,000)	<u>1,400</u>
	Loss on repossession	<u>1,600</u>

**Question 6**

Computer point sells computers on Hire-purchase basis at cost plus 25%. Terms of sale are Rs.5,000 down payment and eight monthly instalments of Rs.2,500 for each computer.

The following transactions took place during the financial year 2010-11:

Number of instalments not yet due as on 1.4.2010 = 25

Number of instalments due but not collected as on 1.4.2010 = 5

During the financial year 240 computers were sold. Out of the above sold computers during the year the outstanding position were as follows as on 31.3.2011:

Instalments not yet due:

(i) Eight instalments on 50 computers.

(ii) Six instalments on 30 computers.

(iii) Two instalments on 10 computers.

Instalments due but not collected:

Two instalments on 5 computers during the year. Two computers on which five instalments were due and two instalments not yet due were repossessed out of sales effected during current year. Repossessed stock is valued at 50% of cost. All instalments have been received. You are asked to prepare Hire-Purchase Trading Account for the year ending on 31.3.2011. **(November, 2007)**

**Answer**

**Hire Purchase Trading Account for the year ended 31.3.2011**

	Rs.			Rs.
To Hire purchase stock (25 x Rs. 2,500)	62,500	By	Stock reserve ( $62,500 \times \frac{25}{125}$ )	12,500
To Hire purchase debtors (5 x Rs. 2,500)	12,500	By	Goods sold on hire purchase A/c – Loading ( $60,00,000 \times \frac{25}{125}$ )	12,00,000
To Goods sold on hire purchase (240 computers x Rs.25,000*)	60,00,000	By	Cash A/c (W.N.1)	45,15,000
To Stock reserve (Rs.15,00,000 $\times \frac{25}{125}$ )	3,00,000	By	Repossessed goods (W.N.2)	20,000
To Profit transferred to P & L A/c	8,97,500	By	Hire purchase debtors (2 x 5 x Rs.2,500)	25,000
		By	Hire purchase stock [(8x50)+(6x30)+(2x10) x Rs.2,500]	<u>15,00,000</u>
	<u>72,72,500</u>			<u>72,72,500</u>

**Working Notes:**

**1. Calculation of cash collected during the year**

	Rs.
Down payment received on 240 computers sold during the year (240 x Rs.5,000)	12,00,000
Number of Instalments due and collected:	No. of instalments
Total Instalments (8 instalments x 240 computers)	1,920
Add: Opening hire purchase debtors	25
Add: Opening hire purchase stock	<u>5</u>
	1,950
Less: Closing hire purchase debtors (2 x 5)	<u>10</u>
	1,940
Less: Closing hire purchase stock	
8 x 50 = 400	
6 x 30 = 180	
2 x 10 = <u>20</u>	<u>600</u>

\* Hire purchase price of a computer = Rs. 5,000 + (Rs. 2,500 x 8) = Rs. 25,000

	1,340
Less: Repossessed computer ( 5 x 2 + 2 x 2 )	<u>14</u>
Total number of instalments received during the year	<u>1,326</u>
Total amount of instalments received (1,326 instalments x Rs.2,500)	<u>33,15,000</u>
Instalments collected during the year	<u>45,15,000</u>

**2. Value of repossessed computers**

Hire purchase price of two repossessed computers	= [Rs.5,000 + (8 x Rs. 2,500)] x 2 computers	= Rs.50,000
Cost price of the repossessed computers	= $\frac{\text{Rs.50,000}}{125} \times 100$	= Rs. 40,000
Value of repossessed computers	= Rs.40,000 x 50%	= Rs.20,000

**Alternatively Hire Purchase Trading Account can also be prepared in the following manner:**

**Hire Purchase Trading Account for the year ended 31.3.2011**

	Rs.		Rs.
To Hire purchase stock (25 x Rs. 2,500)	62,500	By Stock reserve ( 62,500 × $\frac{25}{125}$ )	12,500
To Hire purchase debtors (5 x Rs. 2,500)	12,500	By Hire purchase sales A/c (W.N.1)	45,65,000
To Goods sold on hire purchase (240 computers x Rs.25,000)	60,00,000	By Goods sold on hire purchase A/c – Loading ( 60,00,000 × $\frac{25}{125}$ )	12,00,000
To Bad debts (W.N.3)	5,000	By Hire purchase stock [(8x50)+(6x30)+(2x10) x Rs.2,500]	15,00,000
To Loss on goods repossessed (W.N.2)	8,000		
Less : Cost of instalments not due	<u>8,000</u>	Nil	
To Stock reserve $15,00,000 \times \frac{25}{125}$	3,00,000		
To Profit transferred to P & L A/c	<u>8,97,500</u>		
	<u>72,77,500</u>		<u>72,77,500</u>

**Working Notes:**

**1. Calculation of hire purchase sales**

Rs.

Cash collected (As per the working note 1 of the Alternate solution given above)	45,15,000
Add: Instalments due but not collected (including repossessed computers) (2 x Rs.2,500 x 5) + (5 x Rs.2,500 x 2)	<u>5,00,000</u>
	<u>45,65,000</u>

**2. Calculation of loss on repossessed computers**

Cost of instalments due but not collected $\frac{(2 \times 2,500 \times 5)}{125} \times 100$	20,000
Add: Cost of instalments not yet due $\frac{(2 \times 2,500 \times 2)}{125} \times 100$	<u>8,000</u>
	28,000
Less : Value of repossessed computers $\left[ \frac{(2 \times 25,000)}{125} \times 100 \right] \times 50\%$	<u>20,000</u>
Loss on repossessed computers	<u>8,000</u>

**3. Bad debts (in respect of repossessed computers)**

Instalments due but not collected (5 x Rs.2,500 x 2)	25,000
Add: Cost of instalments not due $\frac{(2 \times \text{Rs. } 2,500 \times 2)}{125} \times 100$	<u>8,000</u>
	33,000
Less : Cost of instalments due but not collected $\frac{(5 \times \text{Rs. } 2,500 \times 2)}{125} \times 100$	20,000
Cost of instalments not yet due $\frac{(2 \times \text{Rs. } 2,500 \times 2)}{125} \times 100$	<u>8,000</u> <u>28,000</u>
Bad debts on repossessed computers	<u>5,000</u>

**Question 7**

Easy buy Corporation sells goods on hire-purchase basis. The hire-purchase price is cost plus 60%.

It furnishes you the following information:

	Rs.
Hire Purchase stock on 1.4.2010	2,40,000
Installments due on 1.4.2010	45,000
Goods sold on hire purchase from 1.4.2010 to 31.3.2011	9,60,000
Cash collected from HP debtors during 1.4.2010 to 31.3.2011	3,00,000
Stock with customers at hire-purchase price on 31.3.2011	6,40,000

You are required to prepare Hire Purchase Trading Account for the year ended 31<sup>st</sup> March, 2011.

**(November, 2008)**

**Answer**

**Hire Purchase Trading Account**  
**For the year ended 31.3.2011**

		Rs.			Rs.
To	Hire purchase stock (Opening)	2,40,000	By	Hire purchase stock reserve (Opening)	90,000
To	Instalments due (Opening)	45,000	By	Bank (Collections)	3,00,000
To	Goods sold on hire purchase	9,60,000	By	Goods sold on hire purchase (Loading)	3,60,000
To	Hire purchase stock reserve (Closing)	2,40,000	By	Hire purchase stock (Closing)	6,40,000
To	Profit and loss A/c	<u>2,10,000</u>	By	Instalments due (Closing)	<u>3,05,000</u>
		<u>16,95,000</u>			<u>16,95,000</u>

**Working Notes:**

**Memorandum Hire Purchase Stock A/c**

		Rs.			Rs.
To	Balance b/d	2,40,000	By	Hire Purchase debtors A/c (Balancing Figure)	5,60,000
To	Goods sold on hire purchase	<u>9,60,000</u>	By	balance c/d	<u>6,40,000</u>
		<u>12,00,000</u>			<u>12,00,000</u>

**Memorandum Hire Purchase Debtors A/c**

	Rs.		Rs.
To Balance b/d	45,000	By Cash/Bank A/c	3,00,000
To Hire purchase stock A/c	<u>5,60,000</u>	By balance c/d (Bal.Fig.)	<u>3,05,000</u>
	<u>6,05,000</u>		<u>6,05,000</u>

**Question 8**

*From the following information of M/s Chennai Traders, you are required to prepare Hire Purchase Trading Account to ascertain the profit made during the financial year 2009-10.*

*Chennai Traders sell goods on hire purchase basis at cost plus 25%. The following details are available:*

		₹
(1)	Instalment not due on 31 <sup>st</sup> March, 2009	4,50,000
(2)	Instalment due and collected during the financial year 2009-10	12,00,000
(3)	Instalment due but not collected during the financial year 2009-10 which includes ₹ 15,000 for which goods were repossessed	75,000
(4)	Instalment not due on 31 <sup>st</sup> March, 2010 including ₹ 30,000 for which goods were repossessed	5,55,000
(5)	Instalment collected on repossessed stock	22,500

(6) *M/s Chennai Traders valued repossessed stock at 60% of original cost.*

**(November, 2010)**

**Answer**

**In the books of M/s Chennai Traders  
Hire Purchase Trading A/c (at invoice value)**

Particulars	₹	Particulars	₹
To Goods with customer (31 <sup>st</sup> March, 2009)	4,50,000	By Stock reserve (Opening)	90,000
To Goods sold on Hire Purchase (W.N.3)	13,50,000	By Hire purchase sales (W.N.1)	12,75,000
To Bad debts (W.N.4)	3,000	By Goods sold on hire purchase (loading) (W.N.3)	2,70,000



To Loss on repossession (W.N.2)	3,600	By Goods with customer (31 <sup>st</sup> March, 2010)	5,25,000
To Stock reserve (Closing)	1,05,000		
To Profit & Loss A/c (Transfer of H.P. profit)	<u>2,48,400</u>		
	<u>21,60,000</u>		<u>21,60,000</u>

**Working Notes:****1. Hire purchase sales**

	₹
Installments due and collected	12,00,000
Add: Installments due but not collected	<u>75,000</u>
	<u>12,75,000</u>

**2. Loss on repossessed goods**

	₹
Hire purchase price of repossessed goods	
Installments collected	22,500
Installments due	15,000
Installments not due	<u>30,000</u>
	<u>67,500</u>
Cost of repossessed goods (₹67,500 x 100/125)	<u>54,000</u>
Valuation of repossessed goods (₹54,000 x 60/100)	32,400
Less: Cost of installments due + Installments not yet due (₹ 15,000 + 30,000) x 100/125	<u>(36,000)</u>
Loss on repossession	<u>3,600</u>

**3. Goods taken from shop stock :**

	₹
Hire purchase sales (12,00,000+75,000)	12,75,000
Add: Stock with customer as on 31 <sup>st</sup> March 2010 (5,55,000 – 30,000)	5,25,000
Less: Stock with Customer as on 31 <sup>st</sup> March, 2009	<u>(4,50,000)</u>
	<u>13,50,000</u>

Loading on goods taken from shop stock

$$= ₹ 13,50,000 \times (25/125) = ₹ 2,70,000$$

**4. Bad Debt**

	₹
Installment due but not collected	15,000
Add: Installment not yet due at cost	<u>24,000</u>
	39,000
Less: Cost of installments due and not yet due	<u>(36,000)</u>
	<u>3,000</u>

In other words ₹15,000 x (25/125) = ₹ 3,000

**Note:** It is presumed that all the figures given in the question is at invoice price.

**EXERCISES**

1. Krishna Agencies started business on 1<sup>st</sup> April, 2010. During the year ended 31<sup>st</sup> March, 2011, they sold under-mentioned durables under two schemes — Cash Price Scheme (CPS) and Hire-Purchase Scheme (HPS).

Under the CPS they priced the goods at cost plus 25% and collected it on delivery.

Under the HPS the buyers were required to sign a Hire-purchase Agreement undertaking to pay for the value of the goods including finance charges in 30 instalments, the value being calculated at Cash Price plus 50%.

The following are the details available at the end of 31<sup>st</sup> March, 2011 with regard to the products :

Product	Nos. purchased	Nos. sold under CPS	Nos. sold under HPS	Cost per unit Rs.	No. of instalments due during the year	No. of instalments received during the year
TV sets	90	20	60	16,000	1,080	1,000
Washing Machines	70	20	40	12,000	840	800

The following were the expenses during the year :

	Rs.
Rent	1,20,000
Salaries	1,44,000
Commission to Salesmen	12,000
Office Expenses	1,20,000

From the above information, you are required to prepare :

- (a) Hire-purchase Trading Account, and  
(b) Trading and Profit & Loss Account.

**(Hints: Total of Hire Purchase Trading Account = Rs. 39,60,000; Gross Profit Rs.1,40,000; and Net Profit Rs.5,42,000)**

2. ABC Associates entered into a financial lease agreement on 1.4.2010 with Flexible Leasing Ltd. for lease of a car. The price of the car was Rs. 2,00,000 and the quarterly lease rentals were agreed at Rs. 90 per thousand payable at the beginning of every quarter. ABC Associates kept up their payments but by 25.3.2011 they approached and obtained the consent of the leasing company for treating the arrangement as one of Hire-purchase from the beginning on the following terms :

Period: 3 years

Quarterly hire : Rs. 30,000 payable at the beginning of the quarter.

It was agreed that the lease rentals paid will be treated as hire monies and that the balance due upto 31.3.2011 will be settled by ABC Associates on that date with interest at 18% p.a. on various instalments due during the year. The rate of depreciation on the car is 25%.

Show the following accounts in the books of ABC Associates for the year 2010-2011:

Flexible Leasing Ltd.'s A/c and Interest Suspense A/c.

Calculations are to be rounded off to the nearest rupee

**(Hints: Total of Flexible Leasing Limited Account Rs. 3,65,400; and Total of Interest Suspense Account Rs. 1,60,000)**