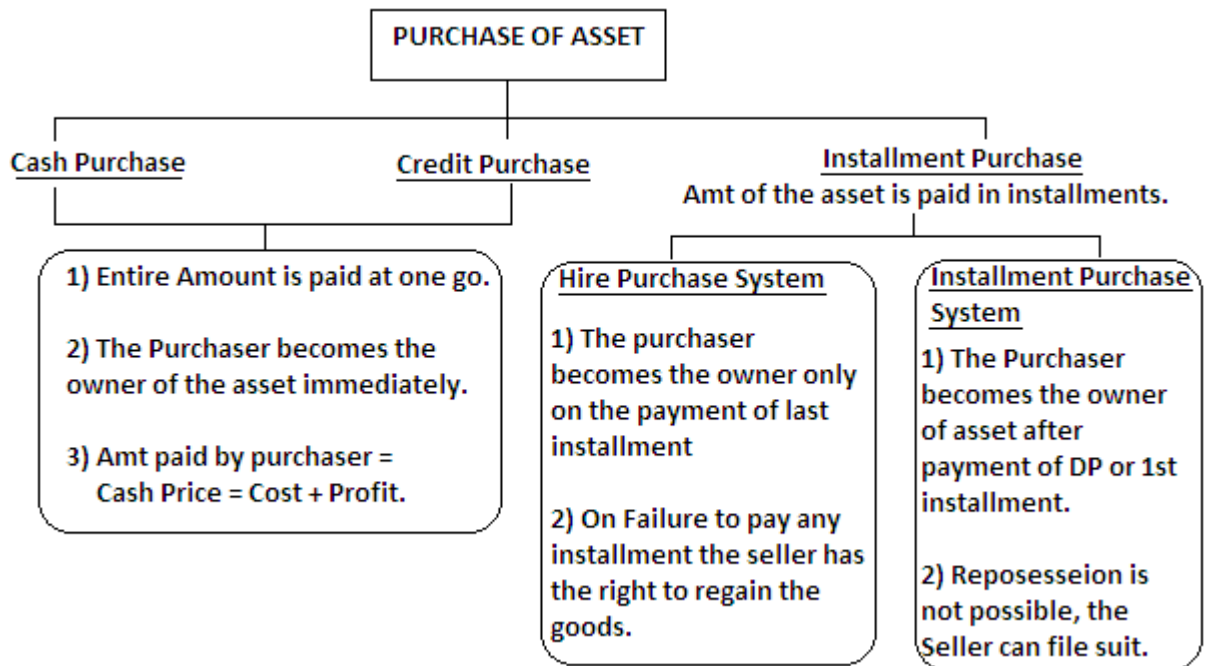


HIRE PURCHASE

1. There are three ways to purchase an Asset:



2. Parties in Hire Purchase:

- Hire Purchaser (H.P)
- Hire Vendor (Seller/Financer/H.V)

3. Hire Purchase Price (HPP) = Cost Price of Seller + Profit = Cash Price

↓
Cost Price of Purchaser

Revenue in nature as per AS-19



- a. Cash Price + Interest = HPP
- b. DP + ∑Installments = HPP
- c. The interest is income for hire vendor and expense for hire purchaser.
- d. The interest is transferred to P/L A/C @ the end of th year.

4. Assets can be shown in Balance sheet even if he is not the owner.

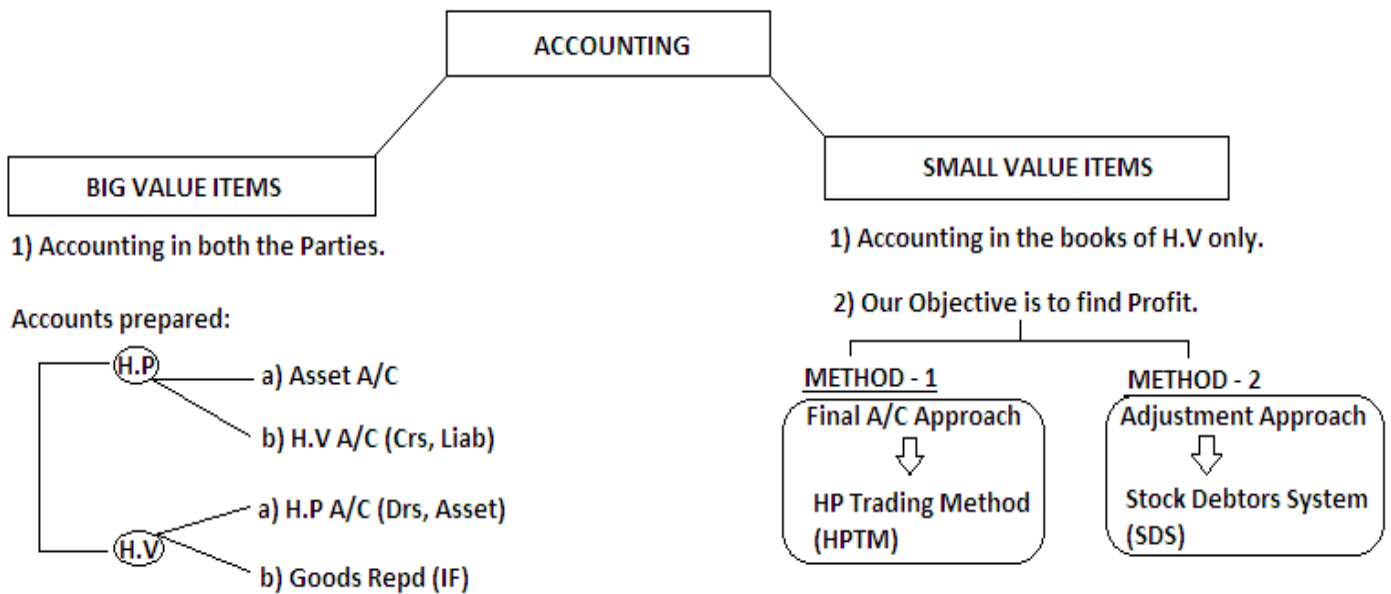
*as per AS-1 (substance over form).

5. Asset is shown in B/S @ Cash Price & not HPP

6. Depn is charged by the hire purchaser on cash price.

ACCOUNTING:-

2 type of items:



HIRE PURCHASE (PART - I)

BIG VALUE ITEMS:

Concept 1: Calculation steps.

1) CP – Given (G)

Rate of Interest (ROI) – G

Then Check,

If $DP + \sum Inst > CP$ it means Installments are Cum-Interest.

(OR)

If $DP + \sum Inst = CP$ it means Installments are Ex-Interest.

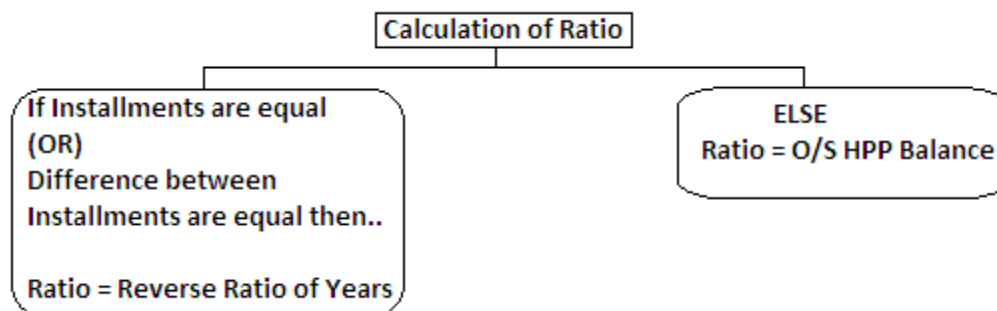
2) CP – G

ROI – Not Given (NG)

Then use 'Ratio Method' to Distribute *Total Interest*.

$HPP = DP + \sum Inst$

$T. Interest = HPP - CP$



3) CP – NG

ROI – G

Use Back Calculation Method.

4) CP – NG

ROI – NG

Use Equation Method.

STEPS TO SOLVE PROBLEM:

STEP 1:- 3 Basic Details

- 1) I) Name of the Hire Purchaser
II) Name of the Hire Vendor
- 2) I) Date of Purchase
II) Yr ending Date
III) Date of Special Transaction
- 3) Rate of Depn & Method of Depn of H.P

STEP 2:- Calculation steps

Up to the date of special transaction

STEP 3:- Accounting Treatment of Special Transaction

STEP 4:-

- a) Ledgers in the books of H.P
 - i) Asset A/C
 - ii) H.V A/C
- b) Ledgers in the books of H.V
 - i) H.P A/C
 - ii) G.R A/C (IF)

Variety 1 – Normal Accounting Treatment.

Variety 2 – Complete Repossession.

I) H.P's Point of View

- 1) Decrease in assets therefore credit.
- 2) Decrease in liability of H.V. therefore debit.
- 3) Difference is treated as Profit or loss & transferred to P/L A/C
- 4) Journal Entry:

<i>H.V A/C Dr.</i>	<i>(Bal Fig of HV A/c)</i>
<i>To Asset A/C</i>	<i>(Bal Fig of Asset A/c)</i>

5) STEPS

Step 1 – Close HV’s A/C by transferring the balance to Assets A/C

HV’s A/C Dr	XXXX
To Asset A/C	XXXX

(Balancing Figure of HV’s Account)

Step 2 – Close asset account by transferring the balance to P/L A/C

Asset A/C Dr	XXXX
To P/L A/C	XXXX

*For Loss the entry is reversed

II) H.V’s Point of View

- 1) His Asset by the name of HP will decrease (Therefore Credit)
- 2) His Current Asset by the name of goods repossessed will increase (Therefore Debit)

Goods Repossessed A/C Dr	XXXX
To HP’s A/C	XXXX

(Balancing figure of HP’s A/C)

- 3) These Repossessed goods can be sold by HV after incurring some reconditioning expenses

Journal for Reconditioning Expenses:

Goods Repossessed A/C Dr	XXXX
To Bank A/C	XXXX

Journal for sale of Goods Repossessed:

Bank A/C Dr	XXXX
To Goods Repossessed A/C	XXXX

Close Goods Repossessed A/C by transferring its balance to P/L account

Journal for profit on sale of Goods Repossessed:

Goods Repossessed A/C Dr	XXXX
To P/L A/C	XXXX

*For Loss the entry is reversed

Variety 3 – Partial Repossession.

- 1) When HP fails to pay any installment due then HV can:
 - a) Repossess part of the asset sold
 - b) Adjusts the amount paid towards assets not repossessed, then such repossession is termed as Partial Repossession
E.g.: 5 Assets sold, 3 Repossessed.
- 2) The amount payable by HP to HV towards assets not repossessed (OR) Balance Due such amount would be payable as per new agreement & new arrangement, the details of which would not be given in the problem.
- 3) Steps to solve the problem:-
Step 1: 3 basic details (As Usual)

Step 2: Calculation steps:

- i) Calc of interest portion in each installment as usual.
- ii) Calc of B.V of Assets Repossessed on ... day after 'n' years

- a) Original Cost of asset repossessed
- b) Depn % & method followed by HP
- c) B.V = Original Cost – Depn for 'n' years

- iii) Calc of agreed value of goods repossessed on ... aft 'n' years

- a) O/Cost of asset repossessed
- b) Depn O/s & method followed by H.V
- c) Agreed Value (AV) = OC – Depn for 'n' years as per H.V
(OR)
- d) Any other Diff method of calc of AV as given in the problem
(OR)
- e) If calc method of agreed value is not given in the problem then follow
"Proportionate Liability Reduction Method"

$$\text{This Method} = \frac{\text{Balance of H.P A/C or H.V A/C as on D.o.R}}{\text{Total no of assets sold}} \times \text{Total Assets Repossessed}$$

$$\text{A.V} = \frac{\text{Bal of Hp or HV A/C}}{\text{Total Assets}} \times \text{G.R}$$

- iv) Calc of P/L on Repossession from Hp's Point of view:-

$$\text{Loss} = \text{B.V} - \text{A.V}$$

(OR)

$$\text{Profit} = \text{A.V} - \text{B.V}$$

- v) Calc of Depn of Assets NOT repossessed for the year.

- If the repossession takes place in 3rd yr (N) calc depn on asset not repossessed for 4th yr (N+1)

Step 3:- Accounting

IN THE BOOKS OF HP

I) Journals:

i) For Goods Repossessed

HV A/C Dr XXXX
To F/A A/C XXXX
(With AV)

ii) For loss on G/R

P/L A/C Dr XXXX
To F/A A/C XXXX
(Loss = BV – AV)

II) Ledgers:

Dr.		FIXED ASSETS ACCOUNT				Cr.
Date	Particulars	Amount	Date	Particulars	Amount	
O.D.R	To Balance B/D	✓	ODR	By HV	AV	
				By P/L	Loss	
				By Depn	on asset not repd	
				By C/D	Bal Fig.	

Dr.		H.V. A/C		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
O.D.R	To Fixed Asset A/C	AV	ODR	By HV	✓
	To C/D	✓			

IN THE BOOKS OF HV

I) Journal

a) For Repossession

Goods Repossessed A/C Dr. XXXX
To H P A/C XXXX
 (With AV)

II) Ledger

Dr.		H.P. A/C		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
O.D.R	To Balance B/D	✓	ODR	By G.R A/C	AV
				By C/D	✓

Dr.		G.R. A/C		Cr.	
Particulars	Amount	Particulars	Amount		
To H/P	AV	By Bank A/C	SP		
To Bank	Exp	By P/L A/C	Loss		
To P/L	Profit				

Variety 4 – Sale or Destruction.

Entries upto the date of sale or destruction of asset should be passed as usual.

TRANSACTION	WITHOUT PROVISION FOR DEPRECIATION	WITH PROVISION FOR DEPRECIATION
1) Depreciation	Depreciation To Fixed Assets	Depreciation To Fixed Assets
2) Fixed Assets Account	<ul style="list-style-type: none"> • Depreciation to be charged. • F.Assets A/C at WDV 	<ul style="list-style-type: none"> • Depreciation not to be charged. • Depreciation in separate account. • Close P.F.D A/c every year with Balance c/d • F.Assets A/C at OC
3) Entry For Sale (A) Without Disposal A/C	Bank A/C Dr (SP) P/L A/c Dr (Loss) To F.Assets A/c (WDV as on D.o.S/D)	Bank A/C Dr (SP) PFD A/C Dr (Total Depn 4m DoP to DoS/D) P/L A/c Dr (Loss) To F.Assets A/c (WDV as on D.o.S/D)
(B) With Disposal A/C Disp A/C acts as an intermediary A/C used at the time of sale or destruction to break the entry.	a) Bank A/C Dr To Disposal A/c b) P/L A/c Dr To Disposal A/C c) Disposal A/C Dr To F. Assets A/C	a) Bank A/C Dr To Disposal A/C b) P.F.D A/C Dr To Disposal A/C c) P/L A/C Dr To Disposal A/C d) Disposal A/C Dr To Fixed Asset A/C

NOTE 1: SP also represents insurance claim received on destruction of asset.

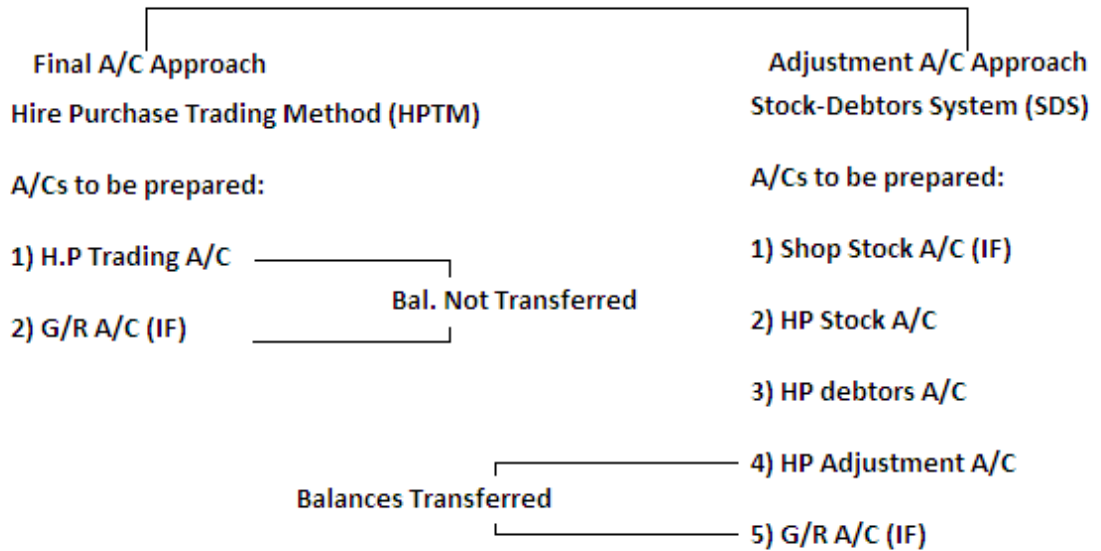
NOTE 2: When lump sum is paid by HP to HV to settle the account, its treatment would be same as under.

H.V's Account		H.P's Account		
ODS To Bank	LSP	ODS By Bal B/D	ODS To Bal B/D	ODS By Bank
To P/L	✓	✓	✓	By P/L
				LSP ✓

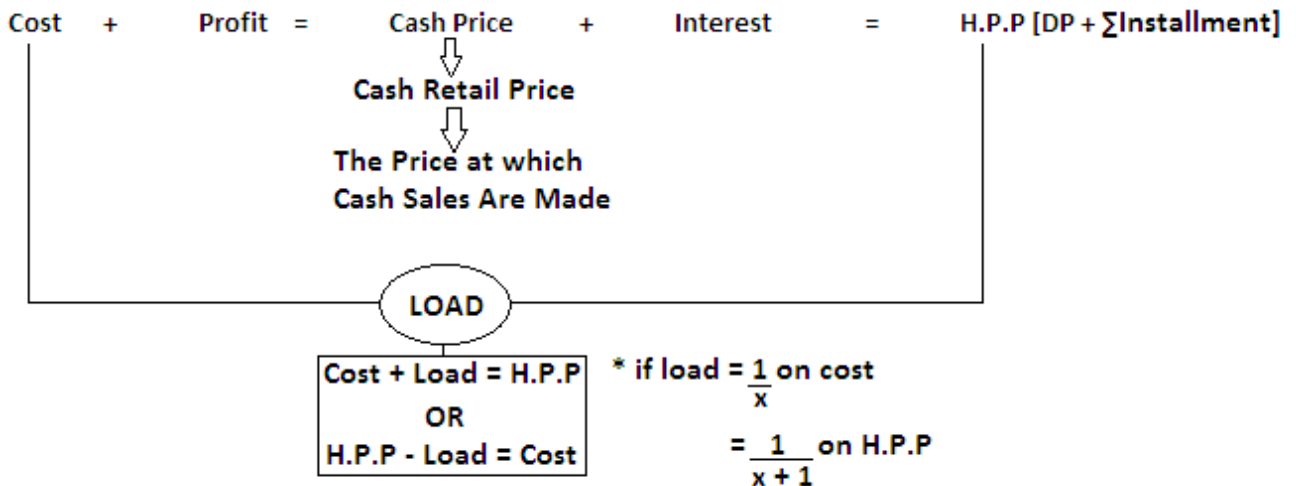
HIRE PURCHASE – (PART – II)

SMALL VALUE ITEMS

- 1) They denote such capital goods as TV, Washing Machine, Radio etc.
- 2) Accounting is done only in the books of H.V.
- 3) Here our objective is to find out profit from H.P Sales (G.S on H.P).
- 4) Profit can be found out by:-



* Profit From Trading A/C + Profit From G/R A/C = Profit From HP Adjustment A/C



CONCEPT OF INSTALLMENTS:

CAPSULE-

Mr. X Sold an article on HP System on 1/4/90. The Amount is payable on 12 equal monthly installments. On the C.Y Ending 31/12/90. 7 Items were received.

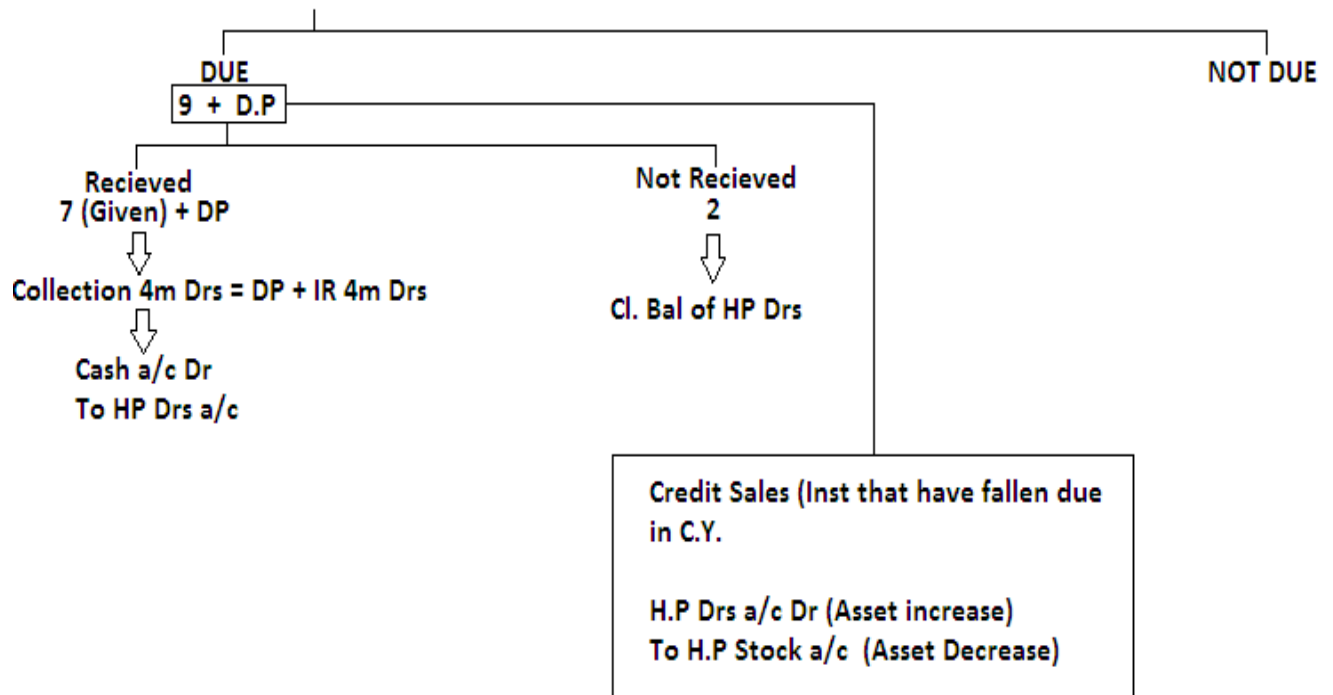
SOLUTION TO CAPSULE-

-Since the article is sold on 1/4/90 at equal monthly installments in C.Y. 9 months i.e. 9 Installments will fall due.

a) UNITS = 1 x H.P.P = ✓ → G.S on HP (OR) HP Sales (Peferred)

b) Installments P.U = 12

c) Total Installments = 12 x I.V + D.P P.U x 1 = ✓ = G.S on H.P



NOTE:

- a. Shop Stock represents complete units unsold.
- b. HP Stock represents inst that have not fallen due in the C.Y HP Stock is also called Stock on hire.
- c. Inst due but not received represents bal of HP Drs, HP Drs is also known as Inst due (Customers still paying).
- d. Inst Recd and Due means all the inst which were due has been Recd & therefore inst due & not recd is zero (0). ***
- e. Important items requiredd in all the problems:-
 - i) Balance of HP Stock.
 - ii) Balance of HP Debtors.
 - iii) Collection from Debtors, i.e. Inst recd + DP.
 - iv) GS on HP (HP Sales).
 - v) Balance of Shop stock (Not always).
 - vi) Expenses on hire purchase, if given in the problem.

CONCEPT OF ACCOUNTING:

H.P Trading A/C

To Balance b/d		By Stock Drs	Load
- HP Drs	✓		
- HP Stock	HPP	By GS on HP	Load
To GS on HP (inflow)	HPP	By Cash	
		- Cash 4m HP Drs	(DP+IR)
To Stock Reserve	Load	By c/d	
		-HP Drs	✓
To P/L	Profit	-HP Stock	HPP

H.P Stock A/C

To Balance b/d	HPP	By HP Drs	HPP
To GS on HP	HPP	By Balance c/d	HPP

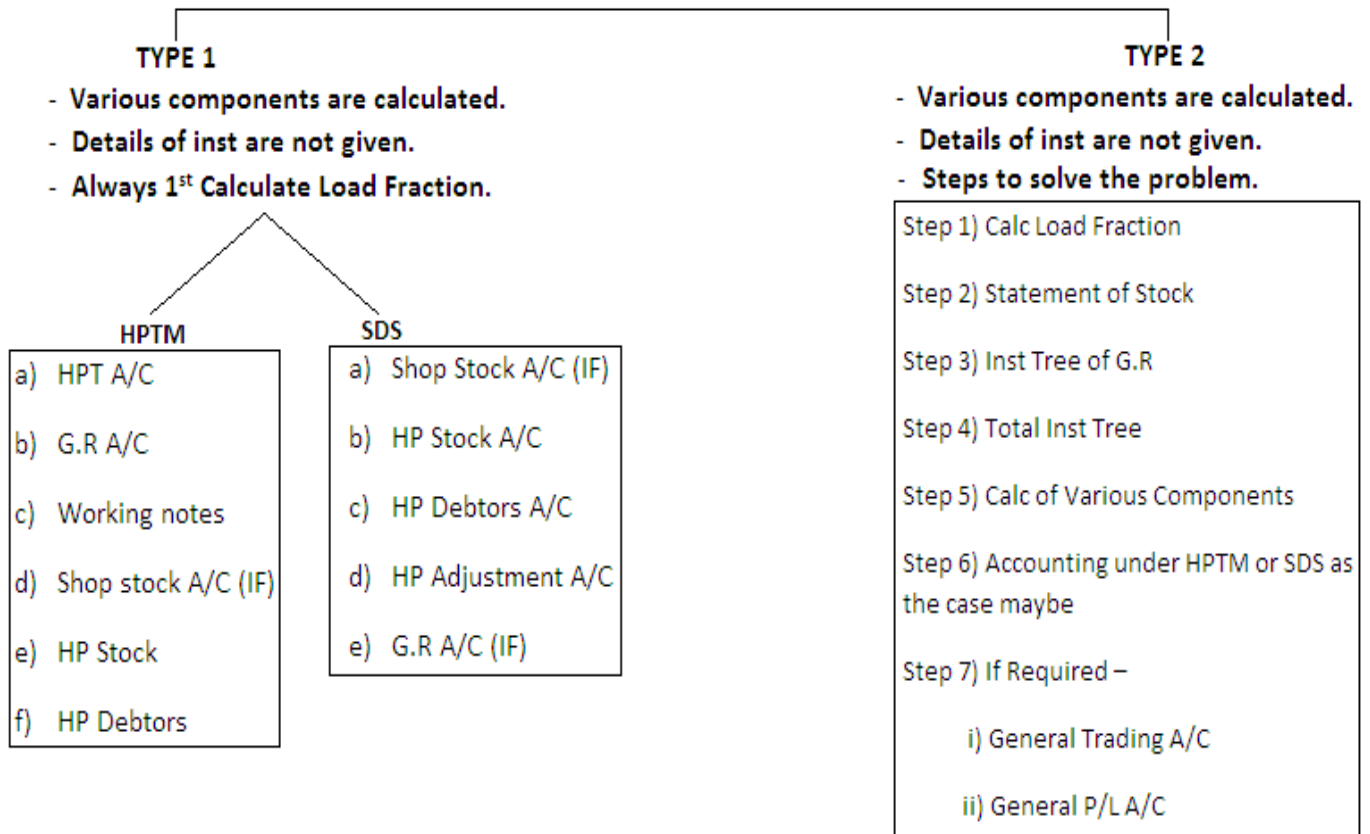
H.P Debtors A/C

To Balance b/d	✓	By Cash	DP + IR
To HP Stock	✓	By Balance c/d	✓

H.P Adjustment A/C

To Stock Reserve	Load on cl. HP stock	By Stock Reserve	Load on ope. HP Stock
To Profit/Loss a/c	Bal fig.	By GS on HP	Load on GS on HP

TYPES OF PROBLEMS:

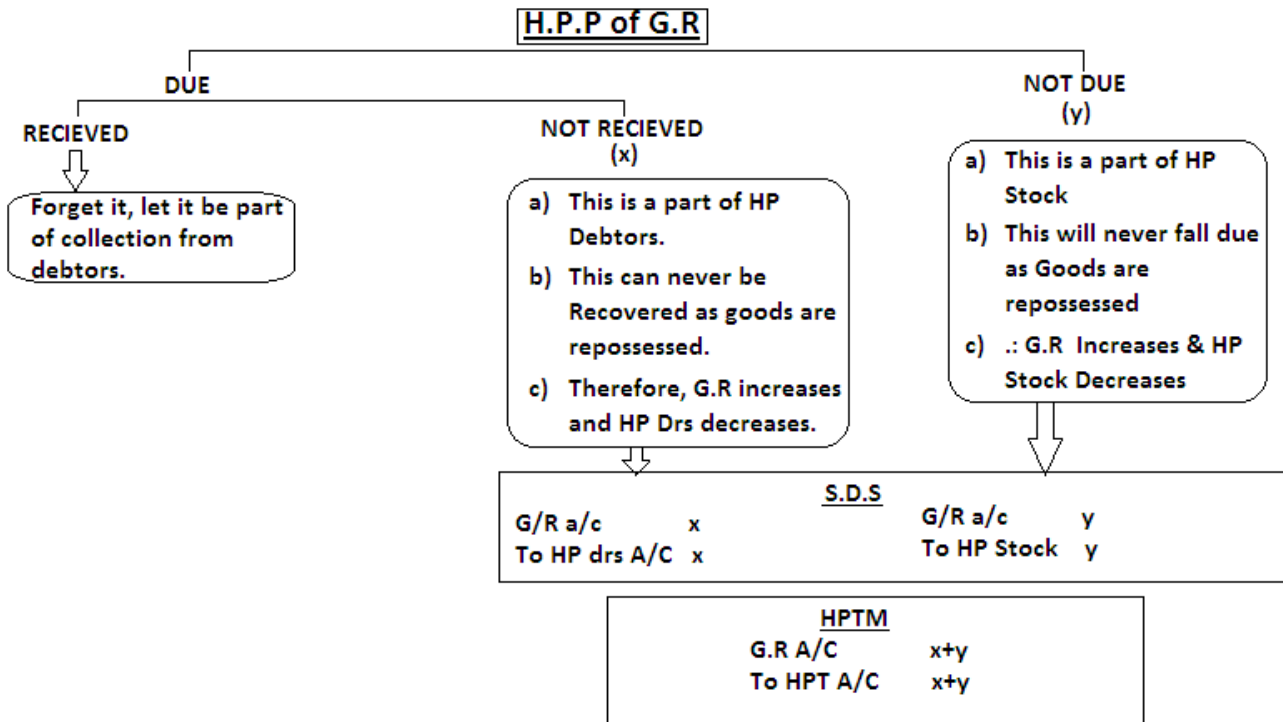


Note 1: G.R A/C under HPTM & SDS is not same.

Note 2: Profit From HPTM + Profit from G.R = Profit From HP Adjustment

CONCEPT OF REPOSSESSION –

1)



2) $x + y = UPI \rightarrow$ Unpaid Installments

Suppose $x + y = 5000$ and break up is not available then assume $x=0, \therefore y = 5000$

3) HPP of G.R = IR + ID & ND + IND

And

Original Cost of G.R = HPP of G.R – Its Load.

4) ACCOUNTING:-

i) WHEN AV IS NOT GIVEN:

Under HPTM –

Take UPI (Entry – By G/R A/C To HPT A/C)

TAKE Load on UPI (Entry – By HPT A/C To G/R A/C)

UNDER SDS –

Take Load on $x+y$ (Entry – By HP Adjustment To G.R A/C)

And Bal fig for closing balance of G.R A/C

ii) WHEN AV IS GIVEN:

UNDER HPTM –

Take AV (Entry – By G.R A/C To HPT A/C)

UNDER SDS –

Take AV as CI Balance of G.R A/C

Take Bal Fig. as HP Adjustment A/C's Amount

TYPE 2:- Where Various Details of Inst are Given

Step 1: Calc of Load Fraction

LF = Load/HPP

- a) This step is also useful at times to calc cash price, HPP & value of each inst .
- b) CP is Required in the Problem only if there is sales.

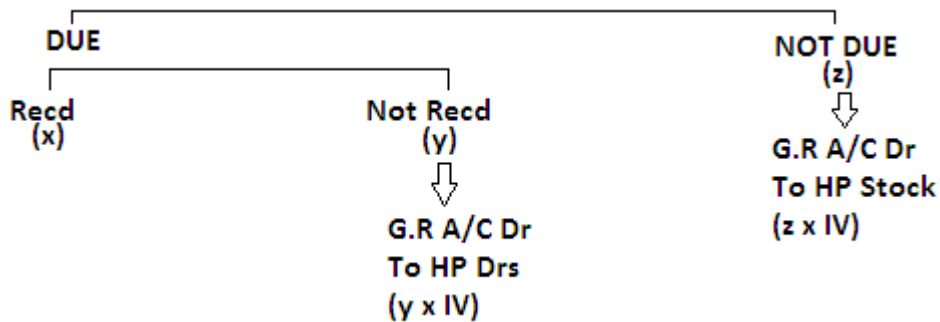
Step 2: Statement of Stock

Particulars	Units
Opening Stock	✓
Add: Purchases	✓
Less: Cash Sales	✓
Less: Sales on HP	✓
Closing Stock	✓ ✓

Note: This Statement is to be prepared only if cash sales is given in the problem & we are required to prepare General Trading A/C.

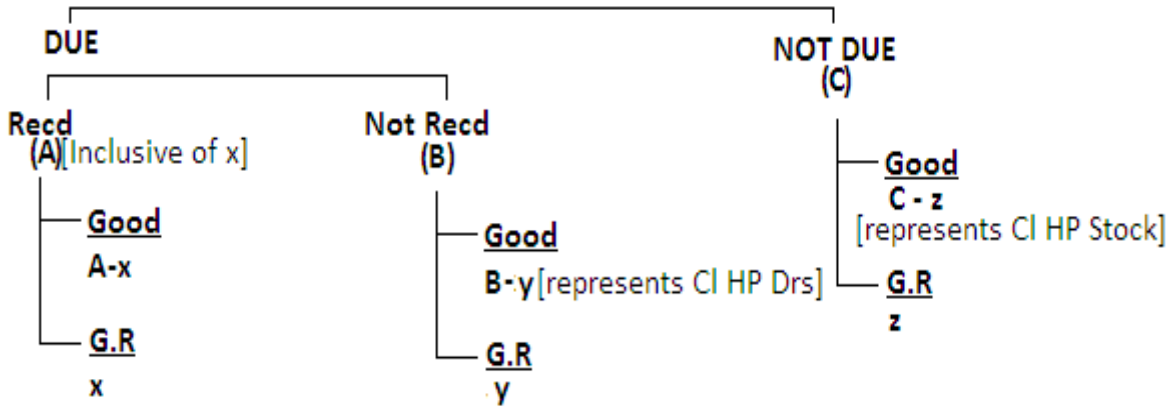
Step 3: Installment tree of G.R

- a) Units Repd ✓
- b) Inst P.U ✓
- c) Total Inst (axb) ✓



- d) If Calc of y & z is not possible assume y = 0

Step 4: Total Installment Tree



Note: These notes are meant for last minute revision & shouldn't be supplemented for Texts or any other reference material. Best of efforts have been put into making this Material; we regret any mistakes and do not own any responsibility as such for the same.