Hire Purchase Accounting Practice Questions

Dear Students. The following questions have been taken from the last 10 years' question paper and other different books for your Practice. Endeavour has been made to make this compilation error–free, yet mistakes may have crept in for which I am apologetic. Suggestions are welcome for improving this compilation from every walk of the society. Readers should feel free to write me about their queries at my email ***tss_chd@hotmail.com****.*

PRACTICALS

1. On 1-1-2000, Rekha purchased a car from Hind Motors onhire pruchase basis on the following terms :

a) Cash price of the car – Rs. 2,18,750

b) Cash down payment at the time of signing the contract – 20%

c) Balance to be paid in 5 equal instalments together with interest @ 9.25% p.a. to be paid at the end of each year.

Calculate the amount of interest for each year

2. On 1-1-2000, Kapil and Co purchased a machinery from Sachin & Co onhire purchase basis on the following terms :

a) Cash price of the car – Rs. 2,32,683

b) Cash down payment at the time of signing the contract – 33 1/3 %

c) Balance to be paid in 4 equal instalments of Rs. 50,000 each (inclusive of interest @ 11%) to be paid at the end of each year.

Calculate the amount of interest for each year

3. Vibhu purchased a video camera on hire purchase system. The cash price of video camera is Rs. 18,000. He agrees to pay tour quaterly instalments of Rs. 5,000 each. Calculate interet of each quarter.

4. On 1.1.2000, A acquires a machine from B onhire purchase system at 10% pa.. interest compounded yearly. The buyer agrees to pay the seller Rs. 2,00,000 on 1.1.2000, Rs. 1,21,000 on 31.12.2001; Rs. 1,33,100 on 31.12.2002 and finally Rs. 1,46,410 on 31.12.2003. A duly pays all these sums. Prepare Machinery account and B's account in the books of A, assuming A provides depreciation @ 20% p.a. on diminishing balance method.

5. On Ist April, 2001, Mr. Prashar purchased a Projection Television from Sony India Pvt. Ltd. on hire purchase system. The cash price of which was payable as Rs. 30,000 down and the balance in 3 equal annual instalments together with interest @ 10% p.a. The amount of the last instalment including interest was Rs. 44,000. Depreciation was to be provided @ 20% p.a. on the reducing balances. On 31st March, 2004 the Projection Television was sold for Rs. 72,500. Your are required to show ledger accounts in the books of Mr. Prashar.

6. X Transport Ltd. purchased from Delhi Motors 3 Tempos costing Rs. 50,000 each on the Hire purchase system on 1.1. 2001. Payment was to be made Rs. 30,000 down and the remainder in 3 equal instalments payable on 31.12.2001, 31.12.2002 and 31.12.2003 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. 31.12.2001 but could not pay the next on 31.12.2002. Delhi Motors agreed to leave on Tempo with the pruchaser on31.1.2002 adjusting the value of the other 2 Tempos against the amount due on 31.12.2002. 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 20901, 2002 and 2003.

7. On Ist October, 2002, 5 trucks were purchased by Kartar on the hire purchase system. The cash price of each truck was Rs. 5,50,000. The payment was to be made as follows :

– 10% cash price at the time of delivery.

– 25% of cash price at thend of each one of the subsequent four half years.

The payment due on 30th September, 2003 could not be made and hence trucks were seized by the hire vendor but after negotiations, Kartar was allowed to keep 3 trucks on the condition that the value of the other 2 trucks would be adjusted against the amout due, the trucks being valued at coss less 25% depreciation and Kartar would pay the balance in five half-yearly instalments together with interest @ 10% p.a. Both the parties close their books of account on 31st March every year. Kartar charges 15% depreciation on trucks on the original cost.

In October, 2003, the hire vendor spent Rs. 60,000 on getting the seized trucks thoroughly overhauled and sold them for Rs. 9,50,000. Prepare for two accounting years ended 31st March, 2004 :

i) Trucks account in Kartar's ledger assuming that Kartar debited it with full cash price in the beginning of the contract ;

ii) The personal account of Kartar and goods repossessed account ofhire vendor's ledger.

8. X Ltd. has a Hire Purchase Department. Goods are sold on hire purchase at a profit of 25% on sale price. From the following particulars, prepare "Hire Purchase Trading Account" in the books of X Ltd. for the year to 31st March 2004 :

April 1, 2003

Stock in Shop	– Rs. 10,000
Instalment due	– Rs. 6,000
Stock out with customers at hire–purchase price	– Rs. 80,000

During the year ended 31st March 2004 :

Goods sold on Hire purchase at Hire Purchase price	– Rs. 1,76,000
Purchases	– Rs. 1,36,000
Cash received	– Rs. 1,60,000

March 31, 2004

Stock in shop	– Rs. 14,000
Stock out with customers at Hire purchase price	– Rs. 92,000

9. Amar sells goods on hire–purchase system, the price being cost plus 50%. From the following particulars, calcualte profit by preparing ledger accounts on stock and debtors system for the year ending 31st March, 2004 :

April 1, 2003

Stock at shop, at cost price	– Rs. 2,70,000
Stock out with hire–purchase customers at Selling price	– Rs. 1,35,000
Installment due	

March 31, 2004

Cash received from customers	Rs. 9,00,000
Goods repossessed (instalment due Rs. 30,000) valued at–	Rs. 7,500
Installment due at the end of the year	Rs. 1,35,000
Stock at shop at cost (including repossessed goods)	Rs. 3,07,500
Purchases made during the year	Rs. 9,00,000

10. Mr. XYZ Ltd. sold goods on hire–purchase basis. Hire purchase price was fixed at cost plus 25%. Following figures relate to 2004 :

January 1, 2004

Instalments Due	Rs. 14,500
Stock with customers at H.P. Price	Rs. 65,000

During the year,

Hire purchase sales	Rs. 4,48,000
Cash received from H.P. customers	Rs. 4,70,000
Instalments that fell due during the year	Rs. 4,60,000

One customer to whom goods were sold for Rs. 6,000 payable in12 monthly instalments of Rs. 500 each failed to pay instalment due on 1.12.2004 and goods were repossessed on 21.12.2004. He has already paid 7 instalments. Prepare Hire Purchase Adjustment a/c.

11. The hire purchase department of New Appliances Ltd. sells television sets and room cooler department was started in 2003. The relevant information for the year ended 31st December is as follows :

	Television (Rs.)	Room Cooler (Rs.)
Cost	5,400	2,000
Cash price	6,300	2,400
Cash down payment	900	400
Monthly instalment	600	200
Number of instalments	10	12

During the year, 200 television sets and 240 room coolers were sold on hire–purchase basis. Four television sets on which only 3 instalments could be collected and 8 room coolers on which 5 instalments could be collected and room coolers on which 5 instalments had been collected were repossessed. These were valued at Rs. 20,000, after reconditioning at a cost of Rs. 2,000, they were sold out–right for Rs. 28,000. Other instalments collected and those due (customers still paying) were respectively as follows :

Television sets	540 and 40
Room Coolers	800 and 60

Prepare accounts on Stock and Debtors System to reveal the profit of the department. Show your workings.

12. MM Ltd. sells Television sets and Washing machines on hire purchase. The following detail is given :

Article	Cost	Cash Price	Down Payment	Monthly Instalment
Televion	5,400	6,300	900	10 of Rs. 600 each
Washing Machine	2,000	2,400	400	12 of Rs. 200 each

During the year, 100 TV sets and 120 washing machines were sold. Two TV sets on which only 3 instalments could be collected were repossessed. These were valued at Rs. 4,000. Other instalments collected and due (customers still paying) were 270 and 20 respectively for television sets and 400 and 30 respectively for washing machines. Prepare accounts on stock and debtors system.

13. A purchased a machine on HP basis from B Ltd. on the terms : Cash down payment Rs. 158,500 and four instalments of Rs. 2,21,900, Rs. 2,06,050, Rs. 1,90,200 and Rs. 1,74,350 at the end of 1^{st}, 2^{nd}, 3^{rd} and 4^{th} year. The payment of cash price in each instalment– Uniform. Calculate amount of interest. [13.7T4]

14. Calculate the cash price in each of the following alternatives : [13.8T5]

Case	**Down Payment**	**Balance to be discharged**	**Rate of Interest**	**Compounding of Interest**
I	20%	In 4 annual instalments of Rs. 2,80,000, Rs. 2,60,000, Rs. 2,40,000 and Rs. 2,20,000 commencing from the end of a year from the date of down payment	10% p.a.	At yearly rest
II	20%	In 4 annual instalments of Rs. 1,84,000, Rs. 1,63,000, Rs. 1,42,000 and Rs. 1,21,000 commencing from the end of a year from the date of down payment	20% p.a.	At half–yearly rest
III	20%	In 3 annual instalments of Rs. 1,63,000, Rs. 1,42,000 and Rs. 1,21,000 commencing from the end of a year from the date of down payment	20% p.a.	At half–yearly rest

15. On 1.1.2001 T Ltd. purchased a machine on HP basis. The terms of agreement provided for 40% as cash down payment and the balance in 3 instalments of Rs. 1,63,000 on 31.12.2002; Rs. 1,20,000 on 31.12.2003 and Rs. 1,10,000 on 31.12.2004. The rate of interest chargedby the vendor is 10% p.a. compounded annually. Calculate the cash price.

16. On 1.1.2001 Bharat Ltd. purchased a machine from Gupta Ltd. on HP basis. The terms of agreement provided for 40% as cash down payment and the balance in 3 instalments of Rs. 1,30,000 on 31.12.2001; Rs. 1,42,000 on 31.12.2003 and Rs. 1,10,000 on 31.12.2004. The rate of interest charged by the vendor is 10% p.a. compounded annually. Calculate the cash price.

17. On 1.1.2001 Tushar Ltd. purchased a machine from Bansal Ltd. on HP basis. The terms of agreement provided for 40% as cash down payment and the balance in 3 instalments of Rs. 1,30,000 on 31.12.2001; Rs. 1,20,000 on 31.12.2002 and Rs. 1,21,000 on 31.12.2004. The rate of interest charged by the vendor is 10% p.a. compounded annually. Calculate the cash price.

18. A Ltd. purchased a machinery on HP basis from B Ltd. on the following terms : Cash Down Payment is 33 1/3%, three half–yearly instalments of Rs. 16,400, Rs. 14,880 and Rs. 12,600, the first to commence at the end of 6 months from the date of cash down payment. Interest to be charged by the vendor 10% p.a. calculated on half yearly rests. Calculate cash price.

19. Z Company purchases an asset on HP system. Rs. 508 are paid on signing the agreement (down payment) and Rs. 1800 in three instalments of Rs. 600 each at an interval of 2 years. Hire vendor charges compund interest @ 5%. Calculate interest included in each instalment.

20. X purchased a motor on 1.1.2002 on HP system paying Rs. 15,000 down and balance in four annual instalments of Rs. 14,000, Rs. 13,000, Rs. 12,000 and Rs. 11,000 respectively. Each instalment comprising equal amount of cash price at the end of each accounting period. Calculate total cash price and interest included in each instalment.

21. On Ist April, 2001, Y purchased a car on HP system whose cash price was Rs. 25,000 and agreed to pay 8 quarterly instalmens of Rs. 3,300 each. The first instalment was to be made on 30^{th} june 2001. The rate of interest charged by the hire vendor was 5% per annum and the scooter is to be depreciated at 20% per annum on written down value basis. Show accounts in books of X (Interest is to be rounded off).

22. X Ltd. purchased from Y Ltd. a tractor on HP system on 1–1–99. Its HP price was Rs. 95,000 and cash price was Rs. 81,880. Rs. 5000 was paid as down payment, Rs. 10,000 was paid after 4 months, Rs. 15,000 after 6 months, Rs. 30,000 after 9 months and Rs. 35,000 after 12 months. Date of payment of each instalment is counted from the date of purchase of machinery. Show necessary accounts in the books of both parties.

23. X Ltd. purchased a machinery on HP system from Y Ltd. The cash price of the machinery is Rs. 80,000, Down payment is Rs. 8,000 and 4 annual equal instalments of Rs. 18,000 to be paid commencing a year after delivery. In addition, interest is to be paid @10% p.a. on yearly basis. The X Ltd. has also to pay an insurance premium of

1.5% p.a. on the outstanding balance. Show the accounts in the books of both parties.

24. A Ltd. sold 3 cars for a total cash price of Rs. 3,00,000 on HP basis to B Ltd. 1–1–99. The terms of agreement provided for Rs. 90,000 as cash dow and the balance of cash price in 3 equal instalments along with interest at 10% p.a. compounded annually. The 1st instalment was paid 31.12.2000, 2nd on 31.12.2001 and 3rd on 31.12.2002. B Ltd. paid the 1st instalment in time but failed to pay thereafter and on his failure to pay the 2nd instalment, A Ltd. repossesed two cars and valued them at 50% of Cash price. B Ltd. charges 10% p.a. depreciation on straight line method. Show accounts in the books of Hire purchaser.

25. P purchased a car on 1–4–98 on HP from Q Ltd. at a cash price of Rs. 33,360. Down payment was made Rs.8,000 and balance in 4 annual instalments of Rs. 8,000 each to be paid at the end of the year i.e. 31st March. Q ltd. charge interest @ 10% p.a.on outstanding balance. P provide depreciation @ 20% on Diminishing balance method. On 1st April, 2000 after paying 2 instalments, P with the approval of vendor transferred the motor car to S for a sum of Rs. 10,000 on the same terms and conditions and S was to pay the rest of instalments to Q Ltd. S decides to provide depreciation @ 20% p.a. on original cost basis and closes his books on 30th September each year. Show Car account and Q Ltd. account in the bookds of P and given journal entries in the books of S for the year ending 30th September, 2000.

26. On 1–4–90 A purchased a machine of which the cash price was Rs. 12,900. The purchase price of machine was financed by Berkley Finance Corporation to whom Rs. 2000 was payable by A on 1–4–90 and instalments of Rs. 4,000 including interest on 31st March 1991, 1992 and 1993. The rate of interest was 5% p.a. On 1–4–1992 the machine was sold for Rs. 10,000 and the balance i.e. debt of Berkley Finance Corporation was made on that date. Show account of Berkley Finance Corporation and Machinery account in the books of A Ltd. Charge depreciation @ 10% p.a. on diminishing balance.

27. A purchased a car on HP basis from B Ld. on 1–4–2001. The cash price of car was Rs 5,00,000 payable Rs. 1,02,000 as down payment and balance in 3 annual instalments of Rs. 1,60,000 each. B Ltd. provide free repairs and maintenance for a period of 3 years for which it charges Rs. 30,000 which is already included in the cash price of the car. The rate of interest is 10% p.a. but actual expenditure incurred on the repairs and maintenance by B Ltd. during three years is 2001–02 : Rs. 9,000; 2002–03 : Rs. 13,000 and 2003–04 : Rs. 7,000. Show ledger accounts in the books of B Ltd.

28. The following are the particulars from the books of a trader sells goods of small value on H.P. system at 50% profit on cost. Prepare H.P. Trading account for the year ending on Dec. 31, 1999

Stock with customers on 1–1–99	– 27,000
Stock with customers on 31.12.99	– ?
Stock in the shop on 1–1–99	– 54,000
Stock with customers on 31–12–99	– 61,500
Instalment due on 1–1–99	– 15,000
Instalment due on 31–12–99	– 27,000

Goods repossessed (instalment due Rs. 8,000) valued at Rs. 1,500 which had been included in the stock at the end of Rs. 1500. Cash received from customers Rs. 1,80,000, purchases Rs. 1,80,000.

29. Z Ltd. sells goods on H.P. basis at a profit of 50% on cost. Given below are the particulars during 2002 :

H.P. Stock at HP price as on January 1, 2002	– 67,500
Instalment due on Jan 1, 2002	– 37,500
Goods sol on H.P. during the year at HPP	– 6,52,500
Cash received from HP customer during the year	– 4,50,000
Goods repossessed (instalment due Rs. 15,000) valued at	– 3,750
HP Stock (at HP price) as on Dec 31, 2002	– 2,25,000
Instalment due on 31st Dec, 2002	– 67,500

Prepare H.P. Trading account showing the profit earned for 2002.

30. X company sells goods at H.P. at cost plus 50%. From the following information prepare H.P. Trading account of the company :

Stock out with purchase customers at HP price on 1–4–99	–	9,000
Stock at shop on 1–4–99	–	18,000
Instalments Due (Customers still paying)	–	5,000
Cash received from customers on 31–4–2000	–	60,000
Goods repossessed (instalments due Rs. 2000) as valued	–	500
Instalments due, customers still paying	–	9,000
Stock at shop (at cost) excluding repossed gods	–	20,000
Goods purchased duringthe the year	–	60,000

31. XYZ Ltd. sells goods on H.P. basis. Following information is given and Show the H.P. Trading and Shop stock

account if the goods are sold on H.P. price basis at 33 1/3 % on cost :

Stock at shop on 1–4–1999	–	45,000
Stock with customers at H.P. Price on 1–4–99	–	90,000
Instalments due as on 1–4–99	–	40,000
Instalments received during the year	–	2,56,000
Direct expenses for Hire purchase	–	30,000
Stock at shop on 31–3–200	–	30,000
Stock with customer at H.P. Price on 31–3–2000	–	1,20,000
Instalment due as on 31–3–2000	–	55,000

32. K Ltd. sells goods on H.P. basis, the price being cost plus 33 1/3% and supplies the following information for the year ended 31st Dec., 2002

1–1–2002		
Stock out on hire	–	10,00,000
Stock at shop	–	1,25,000
Instalment Due (customer still paying)	–	75,000
31–12–2002		
Stock out on Hire	–	11,50,000
Stock at shop	–	1,75,000
Instalment due (Customer still paying)	–	1,25,000
Cash received during the year	–	20,00,000

33. XYZ sells goods on HP basis, charging 25% on selling price. Prepare necessary accounts under Stock and Debtors System from the following information :

1st January		
Stock on hire at selling price	–	2,80,000
Stock at shop at cost	–	40,000
Instalment due	–	30,000
Jan–Dec		
Cash received duringthe year	–	5,50,000
31st Dec		
Stock on hire at SP	–	3,20,000
Stock at shop at cost	–	30,000
Instalment Due	–	40,000

34. A sells goods on HP basis also and fixes HP price by adding 50% to the cost of goods. The following are the figures relating to his HP business for the year 2001 :

Balance on HP stock on 1st Jan	–	12,000
Balance of HP debtors on 1st Jan	–	300
SP of goods sold on HP basis during year	–	90,600
Cash received during the year	–	92,400

Total amount of Installments that fell during the year–92,700

One customer to whom goods had been sold for Rs.1200 paid only 5 instalments of Rs. 100 each. On his failure to pay the montly instalment of Rs. 100 each due on 4th December, 2001, the goods were repossessed on 27th December, 2001 after due legal notice. Prepare necessary account according to stock and debtors system.

35. XYZ sells goods on HP basis, the price being cost plus 20%. Prepare necessary accounts under Stock and Debtors System from the following information :

1st January		
Stock on hire at selling price	–	24,996
Stock at shop at cost	–	15,000
Instalment due	–	2,500
Jan–Dec		
Cash received duringthe year	–	20,000
31st Dec		
Stock on hire at SP	–	45,000
Stock at shop at cost	–	23,200
Instalment Due	–	3,500

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36. V sells goods on H.P. basis also and fixes the HP price by adding 50% to the cost of goods to him. From the following information prepare the necessary accounts on Stock and Ledger system :

HP Stock on 1–1–99	–	12,000
HP Debtors on 1–1–99	–	300
SP of goods sol on HP basis during the year	–	90,600
Cash received from customers during the year	–	92,400
Total amount of instalments that fell during year	–	92,700

One customer to whom goods had been sold for Rs.12,000 paid only 3 instalments of Rs. 100 each. On his failure to pay the montly instalment of Rs. 100 each due on 4th December, 1999, the goods were repossessed on 27th December, 1999 after due legal notice.

37. K Ltd. sells goods on H.P. basis, the price being cost plus 60% and supplies the following information for the year ended 31st March, 1999

1–4–1998		
Stock out on hire at SP	–	12,000
Stock at shop at cost	–	5,000
Instalment Overdue	–	8,000
31–03–1999		
Stock at shop at Cost (including goods repossessed Rs. 400)	–	2,000
Purchases	–	1,20,000
Hire Expenses	–	3,400
Total instalments that fell during the year	–	1,89,440
Goods repossessed (instalment due Rs. 500)	–	400
Cash received from customers (including down payments of Rs. 15,440)	–	1,75,440

Wishing You All The Best
Remember You Can Do Wonders , Nobody Can Stop You From Achieving Success Except You
Get Up and Keep Going, World Is Waiting For You
— Rasesh Tandon
Believe me it''ll work. So be ready to face such situations