

## COMPLETE REPOSSESSION

Problem: on 1<sup>st</sup> Jan 2014, ABC pvt ltd, purchased a van for Rs.4,20,000, payable as Rs.1,00,000 down and four instalments Rs.1,00,000 each at the end of the year. Interest is charged at 10% p.a. ABC Pvt Ltd depreciates the van at 10% p.a. on written down value method.

ABC Pvt led having paid the down payment and first instalment, could not pay the second instalment and the hire vendor took possession of the van. The hire vendor after spending Rs.12,800 on repairs of the van, sold it for Rs.3,10,000.

Prepare ledger accounts in the books of both the parties.

Solution:

Working Note: calculation of interest

Statement showing calculation of interest	Rs.
Cash price of van as on 1 <sup>st</sup> Jan 2014	4,20,000
- Down payment	1,00,000
Outstanding balance of cash price at the beginning of the year 2014	3,20,000
+ interest for the year 2014 <span style="float: right;">[3,20,000x10%]</span>	32,000
Total amount outstanding at the end of the year 2014	3,52,000
- Instalment paid on 31 <sup>st</sup> Dec 2014	1,00,000
Outstanding balance of cash price at the beginning of the year 2015	2,52,000
+ interest for the year 2015 <span style="float: right;">[2,52,000x10%]</span>	25,200
Total amount outstanding at the end of the year 2015	2,77,200

Note: In the absence of any instruction, credit purchase method will be used.

Journal entries in the books of ABC Pvt ltd [hire purchaser]

Date	Particulars	L.F	Debit Rs.	Credit Rs.
2014 1/01	Asset a/c Dr To Hire Vendor's a/c [Being Van purchased on hire purchase system]		4,20,000	4,20,000
1/01	Hire Vendor's a/c Dr To Bank a/c [Being Down payment paid to hire vendor]		1,00,000	1,00,000
31/12	Hire Vendor's a/c Dr To Bank a/c [Being first instalment paid]		1,00,000	1,00,000
31/12	Interest a/c Dr To Hire Vendor's a/c [Being Interest on I instalment due]		32,000	32,000
31/12	Depreciation a/c Dr To Asset a/c [Being Depreciation charged]		42,000	42,000
31/12	Profit /Loss a/c Dr To Interest a/c To Depreciation a/c [Being Interest and Depreciation transferred to P/L a/c]		74,000	32,000 42,000
2015 31/12	Interest a/c Dr To Hire vendor's a/c [Being Interest on Second instalment due]		25,200	25,200
31/12	Depreciation a/c Dr		37,800	37,800

	To Asset a/c [Being Depreciation charged]			
31/12	Hire vendor's a/c Dr To Asset a/c [Being the hire vendor's balance transferred to Asset a/c]		2,77,200	2,77,200
31/12	Profit / Loss a/c Dr To Asset a/c [Being loss on repossessed goods]		63,000	63,000

Ledger accounts in the books of ABC Pvt Ltd [Hire Purchaser]

Dr. Asset a/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2014 1/01	To Hire Vendor's a/c	4,20,000	2014 31/12	By Depreciation a/c By Balance c/d	42,000 3,78,000
		4,20,000			4,20,000
2015 1/01	To Balance b/d	3,78,000	2015 31/12	By Depreciation a/c By Hire Vendor's a/c By Profit/Loss a/c	37,800 2,77,200 63,000
		3,78,000			3,78,000

Dr. Hire Vendor's a/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2014 1/01	To Bank a/c	1,00,000	2014 1/01	By Asset a/c	4,20,000
31/12	To Bank a/c	1,00,000	31/12	By Interest a/c	32,000
31/12	To Balance c/d	2,52,000			
		4,52,000			4,52,000
2015 31/12	To Asset a/c	2,77,200	2015 1/01	By Balance b/d	2,52,000
		2,77,200	31/12	By interest a/c	25,200
					2,77,200

Note: Repossession value of the asset is not given in the question, hence it is assumed that the van was repossessed at the value equal to the sum due to the hire vendor.

Dr. Interest a/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2014 31/12	To Hire Vendor's a/c	32,000	31/12	By Profit/Loss a/c	32,000
		32,000			32,000
2015 31/12	To Hire Vendor's a/c	25,200	31/12	By Profit/Loss a/c	25,200
		25,200			25,200

Dr. Depreciation a/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2014 31/12	To Asset a/c	42,000	2014 31/12	By Profit/Loss a/c	42,000
		42,000			42,000
2015 31/12	To Asset a/c	37,800	2015 31/12	By Profit/Loss a/c	37,800

		37,800			37,800
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Journal Entries in the books of Hire Vendor.

Date	Particulars	L.F	Debit Rs.	Credit Rs.
2014 1/01	ABC Pvt Ltd a/c. Dr To Hire Sales a/c [Being Van sold on hire sale]		4,20,000	4,20,000
1/01	Bank a/c Dr To ABC Pvt Ltd a/c [Being Down payment received]		1,00,000	1,00,000
31/12	ABC Pvt Ltd a/c Dr To Interest a/c [Being interest charged]		32,000	32,000
31/12	Bank a/c Dr To ABC Pvt Ltd a/c [Being I instalment received]		1,00,000	1,00,000
31/12	Interest a/c Dr To Profit/Loss a/c [Being interest transferred to P/L a/c]		32,000	32,000
2015 31/12	ABC Pvt Ltd a/c Dr To Interest a/c [Being interest charged]		25,200	25,200
31/12	Goods Repossessed a/c Dr To ABC Pvt Ltd a/c [Being asset repossessed]		2,77,200	2,77,200
31/12	Goods Repossessed a/c Dr To Bank a/c [Being expenses incurred on asset repossessed]		12,800	12,800
31/12	Bank a/c Dr To Goods Repossessed a/c [Being asset repossessed sold]		3,10,000	3,10,000
31/12	Goods Repossessed a/c Dr To Profit/Loss a/c (3,10,000- (2,77,200+12,800)) [Being profit on sale of asset repossessed]		20,000	20,000
31/12	Interest a/c Dr To Profit/Loss a/c [Being interest transferred to P/L a/c]		25,200	25,200

Ledger accounts in the books of Hire Vendor

Dr. ABC Pvt Ltd a/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
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2014 1/01	To Hire Sales a/c	4,20,000	2014 31/12	By Bank a/c	1,00,000
31/12	To Interest a/c	32,000	31/12	By Bank a/c	1,00,000
				By Balance c/d	2,52,000
		4,52,000			4,52,000
2015 1/01	To Balance b/d	2,52,000	2015 31/12	By Goods Repossessed a/c	2,77,200
31/12	To Interest a/c	25,200			
		2,77,200			2,77,200

Dr. Goods Repossessed a/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2015 31/12	To ABC Pvt Ltd a/c	2,77,200	2015 31/12	By Bank a/c	3,10,000
31/12	To Bank a/c (repair)	12,800			
31/12	To Profit/Loss a/c	20,000			
		3,10,000			3,10,000

Dr. Interest a/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2014 31/12	To Profit/Loss a/c	32,000	31/12	By ABC Pvt Ltd a/c	32,000
		32,000			32,000
2015 31/12	To Profit/Loss a/c	25,200	31/12	By ABC Pvt Ltd a/c	25,200
		25,200			25,200