

Problem: Mohan purchased a truck from Kumar on Hire Purchase system on 1<sup>st</sup> July, 2014. Cash price of the truck was Rs.6,00,000. Mohan paid Rs.46,000 and agreed to pay the balance in half yearly instalments of Rs.1,60,000 each. Rate of interest is 12% p.a. and the truck is to be depreciated at 15% p.a. on diminishing balance. Mohan could not pay the second instalment. Kumar took possession of the truck. Kumar spent Rs.34,000 for repairs and sold the truck for Rs.34,000 for repairs and sold the truck for Rs.5,40,000.

Prepare Truck a/c and Kumar's a/c in the books of Mohan and Mohan's a/c and Goods Repossessed a/c in the books of Kumar.

Journal entries in the books of Mohan [Credit Purchase method]

Date	Particulars	L.F	Debit Rs.	Credit Rs.
2014 1/07	Truck a/c Dr To Kumar's a/c [Being truck purchased on hire purchase system]		6,00,000	6,00,000
1/01	Kumar's a/c Dr To Bank a/c [Being Down payment paid to hire vendor]		46,000	46,000
31/12	Kumar's a/c Dr To Bank a/c [Being first instalment paid]		1,60,000	1,60,000
31/12	Interest a/c Dr To Kumar's a/c [Being Interest on I instalment due]		33,240	33,240
31/12	Depreciation a/c Dr To Truck a/c (6,00,000 x 15% x 6/12) [Being Depreciation charged]		45,000	45,000
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]		78,240	33,240 45,000
2015 30/06	Interest a/c Dr To Kumar's a/c [Being Interest on Second instalment due]		25,634	25,634
30/06	Depreciation a/c Dr To Truck a/c (5,55,000x 15%x 6/12) [Being Depreciation charged]		41,625	41,625
30/06	Kumar's a/c Dr To Truck a/c [Being the hire vendor's balance transferred to truck a/c]		4,52,874	4,52,874

30/06	Profit / Loss a/c Dr To Truck a/c [Being loss on repossessed goods]		60,501	60,501
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Ledger accounts in the books of Mohan [Hire Purchaser]

Dr. Truck a/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2014 1/07	To Kumar's a/c(CP)	6,00,000	2014 31/12	By Depreciation a/c By Balance c/d	45,000 5,55,000
		6,00,000			6,00,000
2015 1/01	To Balance b/d	5,55,000	2015 30/06	By Depreciation a/c By Kumar's a/c (transfer from Kumar's a/c) By Profit/Loss a/c (b/l)	41,625 4,52,874 60,501
		5,55,000			5,55,000

Dr. Kumar's a/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2014 1/07	To Bank a/c(DP)	46,000	2014 1/07	By Truck a/c	6,00,000
31/12	To Bank a/c	1,60,000	31/12	By Interest a/c (6,00,000-46,000= 5,54,000x12%x6/12)	33,240
31/12	To Balance c/d	4,27,240			
		6,33,240			6,33,240
2015 30/06	To Truck a/c (balance due to Kumar transferred to truck a/c)	4,52,874	2015 1/01	By Balance b/d	4,27,240
			30/06	By interest a/c (4,27,240x12%x6/12)	25,634
		4,52,874			4,52,874

Journal entries in the books of Kumar

Date	Particulars	L.F	Debit Rs.	Credit Rs.
2014 1/07	Mohan's a/c Dr To Hire Sales a/c [Being truck sold on hire sale]		6,00,000	6,00,000
1/07	Bank a/c Dr To Mohan's a/c [Being Down payment received]		46,000	46,000

31/12	Mohan's a/c To Interest a/c [Being interest charged]	Dr		33,240	33,240
31/12	Bank a/c Dr To Mohan's a/c [Being 1 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]			33,240	33,240
2015 30/06	Mohan's a/c Dr To Interest a/c [Being interest charged]			25,634	25,634
30/06	Goods Repossessed a/c To Mohan's a/c [Being truck repossessed]	Dr		4,52,874	4,52,874
30/06	Goods Repossessed a/c To Bank a/c [Being expenses incurred on truck repossessed]	Dr		34,000	34,000
30/06	Bank a/c Dr To Goods Repossessed a/c [Being truck repossessed sold]			5,40,000	5,40,000
30/06	Goods Repossessed a/c To Profit/Loss a/c (5,40,000- (4,52,874+34,000)) [Being profit on sale of truck repossessed]	Dr		53,126	53,126
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 Kumar [Hire Vendor]

Dr. Mohan's a/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2014 1/07	To Hire Sales a/c	6,00,000	2014 1/07	By Bank a/c [DP]	46,000
31/12	To Interest a/c	33,240	31/12	By Bank a/c [Instalment]	1,60,000
				By Balance c/d	4,27,240
		6,33,240			6,33,240
2015 1/01	To Balance b/d	4,27,240	2015 30/06	By Goods Repossessed a/c	4,52,874
30/06	To Interest a/c	25,634			
		4,52,874			4,52,874

Dr. Goods Repossessed a/c

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2015 30/06	To Mohan's a/c	4,52,874	2015 30/06	By Bank a/c [sale price]	5,40,000
30/06	To Bank a/c (repair)	34,000			
30/06	To Profit/Loss a/c	53,126			

	[profit on repossession]				
		5,40,000			5,40,000