

## Default and Repossession

If the hire purchaser fails to pay any installment, the hire vendor since he continues to be the owner of the goods, has the right to take back the possession of the goods sold under the hire purchaser agreement. In such a case, the amount paid so far by the hire purchaser is treated as hire charges for the use of goods. Hire vendor can take back the possession of entire goods sold or only a part of the goods sold.

Repossession: the act of recovery of possession of the asset from the hire purchaser on hire purchaser's failure to pay any of the installments is called repossession. Repossessed assets may be resold to any other customer after repairing or reconditioning if necessary.

I. Complete or full repossession: In the event of any default in the payment of any installment by the hire purchaser, if the hire vendor takes back the possession of all the assets or entire property sold on hire purchaser system from the hire purchaser, it is called complete or full repossession. In this case, accounting treatment is as follows:

a) Up to the date of default: All entries are passed in the usual manner in the books of both hire purchaser and hire vendor up to the date of the default except the entry for payment of installment in the year of default.

b) In the year of the default and repossession:

In the books of hire purchaser:

i) hire purchaser is not required to pay to the hire vendor the balance in the hire vendor's account. So, hire vendor's account should be closed by transferring the balance to the concerned asset account.

ii) After the transfer of the balance in the hire vendor's account to the asset account, any balance left in the asset account reflects the loss or profit due to the repossession and the same should be transferred to the profit and loss account and thereby asset account should be closed.

In the books of hire vendor:

i) Recording the return of goods: After complete repossession of goods, hire vendor cannot get from the hire purchaser the balance in his account. So, the hire vendor should close hire purchaser's account by transferring the balance in the hire purchaser's account to a new account called 'goods repossessed account'.

ii) Expense on repair etc: In case any expenses are incurred by the hire vendor on repair for reconditioning of goods repossessed, debit is given to goods repossessed account and credit is given to bank or cash account.

iii) Sale of repossessed goods: if the repossessed goods are sold, credit should be given to goods purchased account with actual sale price.

iii) Balance: after the sale of the repossessed goods, any balance left in the repossessed goods account should be considered as the profit or loss and the same should be transferred to the profit and loss account. If the repossessed goods have not been sold, the entire balance should be carried forward.

The above entries may be shown as follows:

Journal entries to record full repossession of goods sold on hire purchaser:

In the books of hire purchaser	In the books of hire vendor
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Up to the date of default: All usual entries except entry for payment of installment in the year of default.	All usual entries except entry for payment of installment in the year of the fault.
In the year of default and repossession:	
Hire vendor's a/c Dr. To asset a/c (with entire balance in hire vendor's a/c)	Goods repossessed a/c Dr. To hire purchaser's a/c (with entire balance in hire purchaser's a/c)
Expenses incurred on repossessed goods:	
No entry	Repossessed goods a/c Dr. To bank or cash a/c (with the amount of expenses)
Sale of repossessed goods:	
No entry	Bank /cash a/c Dr. <span style="float: right;">To</span> repossessed goods a/c (with the sale price)
To close repossessed goods account for the sale of entire stock:	
i. If there is a profit (i.e., credit balance in repossessed goods account)	
	Repossessed goods a/c Dr. To profit and loss a/c (with balance in repossessed goods a/c)
ii) If there is a loss: (i.e. debit balance in repossessed goods account)	
	Profit and loss a/c Dr. To repossessed goods a/c (with balance in repossessed goods account)

II. Partial repossession: At times the hire vendor takes over only a portion of the asset sold for the amount due, at an agreed value, leaving the balance of the asset with the hire purchaser. The act of taking back only a part of the asset by the hire vendor is called partial repossession. Accounting entries in the books of both the parties are similar to those done in the case of full repossession of goods except a few deviations. As a portion of the asset is still left with the hire purchaser, neither party closes the account of the other in their respective books. The accounting treatment is as follows:

a) Up to the date of default: All usual entries are passed in the books of both the parties, namely, hire purchaser and hire vendor, up to the date of the default except the entry for payment of installment in the year of default.

b) In the year of default and repossession:

In the books of hire purchaser:

- i) Hire vendor has taken possession of only a part of the assets. So, hire purchaser should not close hire vendor's account and the asset account maintained in his books. Entry should be passed in the asset account and in hire vendor's account with the agreed value of the asset taken away by seller. The basis for finding out the value of asset taken away is the agreement between the purchaser and seller. Generally, the value of asset not taken away is given.
- ii) After passing the entry in hire vendor's account for the asset taken over, hire vendor's account should be balanced and the balance should be carried forward.
- iii) After crediting the asset account with the agreed value of the asset taken over by the hire vendor, the value of the remaining asset should be recorded in the concerned asset account as 'by balance c/d'. The value of the remaining asset should be calculated by providing normal rate of depreciation.
- iv) After recording the asset taken over by the hire vendor and the value of the remaining asset, the balancing figure in the asset account represents either profit or loss on repossession. This should be transferred to the profit and loss account.

In the books of hire vendor:

- i) As only a part of the asset is repossessed, hire vendor should not close the hire purchaser's account maintained in his books. He should pass entry just for the part of the goods taken over by him. The entry is debiting a new account called 'goods repossessed account' and crediting the hire purchaser's account.
- ii) After recording the repossession of part of the assets taken over, hire purchaser's account should be balanced, and the balance should be carried forward.
- iii) All the transactions relating to the goods repossessed (such as expense incurred on repairing, reconditioning, sale of the repossessed goods etc.) should be recorded in goods repossessed account. The profit or loss on sale of repossessed goods should be transferred to profit and loss account.

Journal entries in the books of Hire Vendor for transactions relating to the assets repossessed a/c:

1. Part of the asset taken over:		
Goods Repossessed a/c To Hire Purchaser's a/c	Dr.	With the agreed value
2. Expenses incurred on Repossessed goods:		
Goods Repossessed a/c To Bank/Cash a/c	Dr.	With the amount of expenses
3. Sale of Repossessed Goods:		
Bank/Cash a/c To Goods Repossessed a/c	Dr.	With the sale price
4. Transfer of Profit or Loss on Sale:		
a. Profit:		
Goods Repossessed a/c To Profit and Loss a/c	Dr.	With the amount of profit
b. Loss:		
Profit and Loss a/c To Goods Repossessed a/c	Dr.	With the amount of loss

Journal entries to record partial repossession of goods:

In the books of Hire Purchaser	In the books of Hire Vendor
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1. Up to the date of default: All usual entries except entry for payment of instalment in the year of default.	
2. In the year of Default and repossession:	
Hire Vendor's a/c Dr. To Asset a/c (with the agreed value of asset repossessed)	Goods Repossessed a/c      Dr. To Hire Purchaser's a/c (with the agreed value of asset repossessed)