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Department of Commerce (CA).

I B. Com (CA) - II Semester

Financial Accounting - 18BCA23C.

UNIT - 5 - Reddy & Murthy

Hire Purchase System.

Meaning

It is an agreement under which goods are let on hire and under which the hirer has an option to purchase them in accordance with the terms of the agreement.

Important Terms: -

1. Cash Price
2. Hire Purchase Price
3. Interest
4. Installment
5. Down Payment
6. Hirer
7. Hire Vendor.

Prepared by DR. P. SRIDHAR

Difference between Hire Purchase & Instalment System.

1. Nature of Agreement
2. Transfer of ownership
3. Names of the party
4. Relationship
5. Risk of loss
6. Right of Sale
7. Repossession of goods.
8. Instalment
9. Governing.
10. Termination of Agreement.

Pro. no. ①. (When All information given in the Question.)

Value (Cash price) of the machinery under hire purchase system Rs. 14,900
 Down Payment Rs. 4000; Annual instalment

Rs. 4,000 for three years. Rate of interest is 5% p.a. calculate the interest amount for each year.

Particulars.	Cash Price. Rs.	Interest Rs.	Instalment Paid Rs.
Machinery value	14,900		4000
(-) Down Payment	<u>4,000</u>	-	
	10900.		4000.
(-) I - Instalment	<u>3455</u>	545	
	7445.		
(-) II "	<u>3628</u>	372	4000.
	3817		
(-) III "	<u>3817</u>	183	4000
	<u>0</u>	<u>1,100</u>	<u>16000</u>

Pro. No. 2 (When Rate of Interest is not given:-)

Mr. X purchased a machine on hire purchase system Rs. 3000 being paid on 31st Dec. Cash price of the machine was Rs. 30000; calculate the amount of interest

• Total Interest: = Rs. 33000 - Rs. 30000
= Rs. 3000

• Interest Ratio :- 30,000; 24000; 18000; 12000; 6000
30 : 24 : 18 : 12 : 6
5 : 4 : 3 : 2 : 1

• Interest amount = 2 yr = Rs. 3000 x 5/15 = 1000
I = Rs. 3000 x 4/15 = 800
II = Rs. 3000 x 3/15 = 600
III = Rs. 3000 x 2/15 = 400
IV = Rs. 3000 x 1/15 = 200

Prob. No. (3). When cash price is not

Given :- Down Payment Rs. 800
2-year end Rs. 400
I " " Rs. 300.
II " " Rs. 700

Rate of interest is = 5% P.A.
Find out the interest amount.

2 yr = Rs. 337; 2 yr = Rs. 254

Prob. NO. (4).

Down Payment Rs. 10000.

A Annual instalments Rs. 10000

Rate of interest Rs. 5% P. a.

Cash price = Rs. 45460

Prob. No (5).

Raana Ltd., purchased 3 trucks costing Rs. 50000 each under Hire Purchase System. Payment was to be made Rs. 30000 down and the remainder in 3 equal instalments together with interest at 9% P. a. Calculate interest concept.

Interest = Rs 2 yr = Rs. 10,800; 7,200; 3600

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