

Quadrant II - Notes

Course Code: COD121

Module Name: Repossession – Complete and Partial Repossession (Only Theory)

Hire purchase

- Hire purchase agreement means 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 and includes the agreement under which:
- Possession of goods is delivered by the owner thereof to a person on condition that such person pays the agreed amount, in periodical installments
- The property in the goods is to pass to such a person on the payment of the last installment and
- Such a person has a right to terminate the agreement at any time before the property so passes

Features of Hire Purchase

- The payment is to be made by the hire purchaser (buyer) to the hire seller, usually the vendor, in instalments over a specified period of time.
- The possession of the goods is transferred to the buyer immediately.
- The ownership of the goods remains with the vendor (hire seller) till the last instalment is paid.
- The ownership passes to the buyer (hire purchaser) when he pays all instalments.
- The Hire seller or the vendor can repossess the goods in case of default and treat the amount received by way of instalments as hire charged for that period.
- The instalments in hire purchase include interest as well as repayments of principal.

Hirer or Hire Purchaser

- The person who obtains the possession of goods from the owner of the goods under hire purchase agreement.

Hire Vendor

- The person who lets and delivers the possession of goods to a hirer under hire purchase agreement

Down Payment

- The amount paid by the hirer to the hire vendor at the time of signing the agreement or at the time of taking delivery of the goods by the hirer from hire vendor.

Instalment

- A part of the difference between the hire purchase price and down payment (payable by the hirer to the hire vendor periodically as per agreement).
- After making the down payment, the remaining amount (i.e., the difference between the hire purchase price and the down payment) of the hire purchase price is paid periodically in few parts at the end of each of the period.
- $\text{Instalment Amount} = (\text{Hire Purchase Price} - \text{Down Payment}) / \text{Number of Instalments}$
- As the hire purchase price comprises both cash price and interest, the amount of each instalment includes a part towards cash price (i.e., principal amount) and another part towards interest for a particular period (on the outstanding balance).

Repossession

- Under the hire purchase system goods are sold on instalment basis.
- In a hire purchase agreement, the hire purchaser has a responsibility to pay up to the last installment so that the ownership of goods passes to him
- If the hire purchaser fails to pay & becomes defaulter, the hire vendor has the right to take away the asset back in the actual form without any compensation to the hire purchaser
- 'Default' is the failure to act, appear or pay i.e., failure to meet obligation. The hirer has to pay up to the last instalment so that the ownership of goods smoothly passes to him. If he fails to meet this obligation, it will be treated as default on his part.
- If the hirer fails to pay even the last instalment hire vendor has 'the legal right to recover the possession of the goods. This act of recovery of possession of goods is termed as 'repossession'.
- The amounts received from the hire purchaser through down payment and installments are forfeited and are treated as the hire charges by the hire vendor
- Repossessed goods are ultimately sold to other customers after repairing or reconditioning if necessary
- Accounting figures relating to repossessed assets are segregated from those which continue under hire purchase contract in the usual way
- Repossessed goods are then accounted for in a separate account called "Goods Repossessed Account".
- There are two possibilities in repossession of goods
- So, far as the repossession of goods is concerned the vendor can either take back the whole of the asset or a part of it i.e. Complete Repossession and Partial Repossession

Complete Repossession

- If a hire purchaser fails to pay any installment on the stipulated date, the hire purchaser is said to be at default.
- In case of default by the hire purchaser, the hire vendor may repossess the goods.
- If the vendor takes the possession of all the goods it is called complete repossession
- It means the vendor will close Hire Purchaser's Account in his books by transferring the balance of the Hire Purchaser Account to the Goods Repossessed Account
- The hire purchaser closes the Hire Vendors Account in his books by transferring the balance of the Hire Purchase to the Hire Vendors Account

Partial Repossession

- Sometimes, in case of default, the vendor enters into a compromise with the hirer and does not repossess the complete goods.
- But, he repossesses a part of the goods called 'partial repossession. In this case some part of the asset is still left with the buyer
- As some part of the asset is left with the hire purchaser, the hire vendor does not close the hire Purchaser's Account in his books, nor does the hire purchaser close the Hire Vendor's Account in his books.
- They ascertain the current value of the asset repossessed with the help of an agreed rate of depreciation (it is usually an enhanced rate).
- The hire vendor debits the same to the Goods Repossessed Account and credits it to the Hire Purchaser's Accordingly.
- Similarly, the hire purchaser debits the Hire Vendor's Account and credits the Asset Account with the agreed value of the asset repossessed

