Unit 3

Q-1-(a) Explain the meaning of Depreciation?
(b) Explain the importance of providing depreciation?
(c) What are the different causes of depreciation?
(d) Name the methods of depreciation?
(e) What are the factors for determining Depreciation?

Ans-1-(a) Depreciation is a permanent, continuing and gradual shrinkage in the book value of a fixed asset. It arises through wear and tear from the use of the assets in business or by passage of time or through obsolescence or through depletion.
According to W. Pickles: Depreciation is the gradual and permanent decrease in the value of an asset from any cause.".
Ans-(b) The following are needs for Providing Depreciation:
1. Ascertainment of True Profit: Depreciation is an expense, and like all other expenses it must be charged against revenue in order to ascertain true net profit.
2. Valuation of Assets: When assets lose their value through wear and tear, that loss must be recorded in the books so that the true value of assets can be ascertained by deducing the amount of depreciation from their cost.
3. Replacement of Assets: Every asset has a definite period of life and on the expiry of the period it becomes useless. A business requires replacement of its old assets at the end of their useful life. So the business requires a fund for such replacement. That fund is provided by charging depreciation.
4. It helps to Ascertainment of true Cost of Production:
5. Allocation of Cost: It allocates cost of the fixed assets to the products it produces.
Ans-(c) The following are the causes of depreciation:
1. Wear and Tear: An asset declines on account of its continued use, it will lead the asset to an unusable state in the long run. Even repairs will not make it fit for use. As for example – Plant and Machinery, Motor Car etc.
2. Exhaustion: An asset may get exhausted through workings. It happens in case of minerals. Continuous extraction of minerals may exhaust the asset.
3. Effluxion of time: Certain assets get decreased in value simply with the passage of time because the value of the asset is time-bound. Patent, Lease, Copyrights, Licenses, etc. are the examples of such assets.
4. Inadequacy: It means that an asset may be put out of use though it is still in working condition because if its inadequate capacity to meet the increased needs of the business.
Ans-(d) The following are the different methods for providing depreciation:
1. Fixed Installment Method Or Straight Line Method;
2. Reducing Installment Method or Reducing Balance Method or Written Down Value Method;
3. Annuity Method;
4. Depreciation Fund Method;
5. Insurance Policy Method;
6. Revaluation Method.
7. Machine Hour Rate Method.
Ans-(e) In order to determine the amount of depreciation of a fixed asset the following factors are to be taken into consideration:
1. Cost of the asset,
2. Useful life of the asset, and
3. Scrap value.
1. Cost of Asset: The cost of an asset includes all expenses in carrying and installing the asset to put it in- a workable condition. Thus, if we buy a machine at Rs. 20,000 and pay Rs. 1,000 on carriage and Rs. 2,000 on installation; the cost price of the machine will be Rs. 23,000.
2. Estimated working Life: Working life means the period during which the asset will be used in earning revenue. Generally it is calculated in terms of years, hours, units of output or kilometres etc.
3. Scrap Value: The scrap value means an amount that can be recovered from the sale of the asset after the expiry of the useful life of the asset. It is considered while determining the depreciable value of an asset for the purpose of determining the annual amount of depreciation of an asset. If the value is very small, it should be ignored. Depreciable Value = Cost – Scrap value.

Q-2-(a) Define the meaning of straight line method.

(b) Define the meaning of diminishing balance method.

(c) Describe the advantages and disadvantages of straight line method.

(d) Describe the advantages and disadvantages of diminishing balance method.

(e) Distinguish between straight line method and diminishing balance method.

Ans-2-(a) Under straight line method, also known as original cost method, equal amount of depreciation is written off every year over the useful life of an asset by taking its original cost less residual value. Since, the amount of depreciation is equal every year, this method is also called as equal instalment or fixed instalment method.

Ans-(b) Under this method, the amount of depreciation is calculated as a fixed percentage of the reducing or diminishing value of the asset standing in the books at the beginning of the year, so as to bring down the book value of the asset to its residual value. The amount of depreciation goes on decreasing every year.

Ans-(c) Straight line method of providing depreciation has got the following advantages :

1. Simplicity. This is the simplest method of providing depreciation. This can be easily understood even by ordinary person. Calculation of depreciation according to this method is also very simple.

2. Assets can be completely written off. According to this method, assets can be written off to zero. The depreciation is calculated on the original cost of the asset at the specified rate, so the value of asset is fully split over the useful life of asset.

3. Knowledge of total depreciation charged. The amount of total depreciation charged can be easily known by multiplying the yearly amount of depreciation with number of years, the asset has been used.

4. Suitable for small firms. Straight line method is the most suitable method for small firms. These firms use this method, because it is easy, simple and suitable to the size of the firms.

5. Suitable for firms having large number of old and new machines. The weaknesses of this method are removed, if the firm has both old and new machines. More maintenance charges on old machines and lesser on the new machines balance each other.

6. Useful for assets having lesser value. This method is the most suitable for charging depreciation on assets of lesser value such as furniture, fixture and patents etc.

Disadvantages or limitations of straight line method

Straight line method suffers from the following weaknesses :

1. Undue pressure on final years. The final years of the life of the asset have to bear more repairs and maintenance charges and also the same amount of depreciation. whereas initial years have to suffer lesser repair charges.

2. No provision for replacement. The amount charged as depreciation is retained in the business and used in the routine affairs. The firm has to bother for making arrangement of funds for the replacement of assets although depreciation has been charged every year.

3. Loss of interest. The amount of depreciation charged every year is not invested outside the firm, so no interest is received. In certain methods of depreciation the amount of depreciation is invested outside the business in securities and interest is received.

4. Illogical method. It seems illogical to charge depreciation on the original cost of the asset every year when the balance of the asset is declining year after year.

5. Unsuitable for assets having long life and more value. This method is not suitable for those assets which are subject to additions and extension from time to time, such as land and building and plant and machinery. It is not suitable for assets having more value also.

Ans-(d) Following are the disadvantages Of Reducing Balance Method Of Depreciation:-

1. Not Suitable For All Assets

Diminishing balance method of provision of depreciation is not suitable or applicable for less valued assets having short life. It is suitable only for valuable assets having long life.

2. Loss Of Interest

In this method of depreciation, deducted depreciation amount of previous is not invested outside. So, the company does not earn any interest or revenue from it. So, interest is lost on capital investment.

3. Higher Rate

Diminishing balance method requires higher depreciation rate to recover the cost of assets.

4. Book Value

In diminishing balance method, value of asset cannot be written off. The book value of asset never become zero.

Advantages of Reducing Balance Method Of Depreciation:-

The main advantages of reducing balance method of depreciation are listed below

1 Reducing balance method is easy to understand and simple to implement. Depreciation is calculated every year on the opening balance of asset.

2 Reducing balance method equalizes the yearly burden on profit and loss account in respect of both depreciation and repairs. The amount of depreciation goes on decreasing while the expenses on repairs goes on increasing, so that the total charge against revenue over different years remains more or less the same.

3 Reducing balance method is acceptable for income tax purposes

4 Reducing balance method matches the cost and revenue of the business. The greater amount of depreciation provided in initial years is matched against the higher amount of revenue generated by increased production by the use of new asset.

5. Difficulty In Calculation

Under this method, there is no uniformity in depreciation amount. It is difficult to obtain the exact rate of depreciation.

Ans-(e) Following are differences of straight line method and diminishing balance method:-

Fixed Installment Method	Diminishing Balance Method
Rate and Amount: 1. The rate and the amount of depreciation remains the same each year.	1. The rate of depreciation remains the same each year but the amount of depreciation diminishes gradually.
Basis of calculation: 2. Depreciation is calculated on the original cost less scrap value, if any, each year.	2. Depreciation is calculated on the book value of the asset each year.
End value: 3. The value of the asset is reduced to zero or scrap value at the end of its useful life.	3. The value of an asset is never reduced to zero at the end of its useful life.
Complexity of calculation: 4. Computation of depreciation is comparatively easy and simple.	4. It is comparatively difficult to calculate depreciation in this case.
Fixation of Rate: 5. The rate of depreciation can be fixed easily after considering the useful period of the life of an asset.	5. The fixation of the rate of depreciation is difficult even if the useful life of the asset is given.

of sole trading business.

Q-5-. a) What do you mean by capital expenditure?
b) What do you mean by revenue expenditure?
c) Mention the points of distinction between capital expenditure and revenue expenditure.
d) What do you mean by capital receipts?
e) What do you mean by revenue receipts?

Ans-5-(a) Capital expenditure, or CapEx , are funds used by a company to acquire, upgrade, and maintain physical assets such as property, industrial buildings, or equipment. CapEx is often used to undertake new projects or investments by the firm.
Ans-(b) A revenue expenditure is an amount that is expensed immediately—thereby being matched with revenues of the current accounting period. Routine repairs are revenue expenditures because they are charged directly to an account such as Repairs and Maintenance Expense.
Ans-(c)

Points of distinction	Capital expenditure	Revenue expenditure
(i)Nature of spending	Capital expenditure is the amount spent on acquiring a permanent asset.	Revenue expenditure is incurred for carrying on business and maintaining the fixed assets efficiently.
(ii) earning capacity	Capital expenditure increases the revenue earning capacity of the business.	Revenue expenditure does not increase the revenue earning of capacity of the business.
(iii) value addition	Capital expenditure may add to the value of an existing asset.	Revenue expenditure will not add any value to net assets.
(iv) disclosure	Capital expenditure is shown in the balance sheet.	Revenue expenditure is transferred to trading or profit and loss account.
(v) Purpose	Capital expenditure is incurred for the purpose of increasing the earning capacity of the business.	Revenue expenditure is incurred for maintenance of earning capacity.

Ans-(d) Capital receipts consists of non-recurring receipts into the business which are shown on the liability side of the balance sheet or as a reduction in the value of assets. These receipts may arise in the business on account of:
a. Capital contributed by the owners.
b. Money borrowed for the business.
c. Sale of fixed assets.
Ans-(e) Revenue receipts consists of recurring receipts into the business as an outcome of the firms activities in the accounting period. Revenue receipts do not create any liability. These are shown on the credit side of trading and profit and loss account. These receipts may arise in the business on account of:
a. Sale proceeds of goods and services.
b. Commission or discount received.
c. Interest or dividend received.

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① Give some examples of Capital Expenditure and Revenue Expenditure.

Ans: Examples of Capital expenditure are:

(a) Cost of Installation of Fixed Assets.

(b) Cost of development, research and experiments.

(c) Cost of additions, expansions, improvements of fixed assets.

Examples of Revenue expenditure are:

(a) Cost of obsolescence.

(b) Salaries, Wages, Rent, Taxes, Audit fees etc.

(c) Expenses on repairs, renewals, replacements for maintaining the existing fixed assets.

② Mention the circumstances where revenue expenditure becomes capital expenditure.

Ans: Page No 3.65

③ What do you mean by Capital Receipts?

Ans: Page No 3.68.

④ What do you mean by Revenue Receipts?

Ans: Page No 3.68

⑤ Distinguish between Capital Receipts and Revenue Receipts.

Ans: Page No 3.69

⑥ What do you mean by Business Income?

Ans: In simple words business income is the earnings of a business firm or income from business.

According to American Accounting Association "Business Income is the increase in net assets due to the excess of revenue over expenses."

⑦ What are the features of Business Income?

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→ Features are:

(a) Business Incomes are based on documentary evidence which includes the books of accounts and relevant vouchers.

(b) Business Income is based on the accounting period concept.

(c) Business Income is based on the recognition and measurement of revenues.

(d) Business Income is measured by applying matching concept.

(e) Income the earning of which is not yet completed is not regarded as business income.

(8) What do you mean by Measurement of Business Income?

Ans: Measurement of business income means to calculate the amount of profit earned by a business from during a given period of time. Profit is also known as Net Income. This Profit or Net Income is calculated as under.

Profit or Net Income = Gross Income - Expenses

(9) What do you mean by Revenues and Expenses?

Ans: The income generated, whether in cash or otherwise measurable in monetary units, from day to day business operations are the revenues earned.

Expenses are the costs incurred, whether paid or not, to earn the revenues.

(10) What do you mean by Revenue Recognition Principle?

Ans: Revenue recognition principle tells us the procedure of determining the income and expenses for incorporation in profit and loss account.

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(11) What are the two conditions prescribed for revenue recognition of sale as per Accounting Standard 9?

Ans: The standard prescribes two conditions for revenue recognition of sale:

(a) The seller of goods has transferred the property in goods to the buyer along with significant risks and rewards of the ownership and seller has no effective control over goods transferred.

(b) No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale.

(12) What are the objectives of Income Measurement?

Ans: Objectives are-

(iii) **Dividend Decision:** An important objective of business income measurement is to decide how much profit can be distributed as dividend and how much should be retained. The profit influences the expectations of the investors and prospective investors about the future prospect of the company. The prospective investor looks to the income of the business enterprise as a guide to his investments decisions of the future.

(iv) ***Basis for taxation:*** Tax is a statutory payment. Business firms are required to pay tax on profits. Therefore, periodic measurement of income is required in order to determine the tax liability of the business. Accounting helps in measuring the income of a business enterprise for tax purposes.

(v) ***Indicator of managerial efficiency:*** The trend of income earning indicates the success of the management. The efficiency of management as decision makers and as trustees of the resources is judged by the profit earned and the profitability of the company. The measurement of business income therefore provides a suitable criterion for judging the efficiency of management in a competitive economy.

(vi) Measurement of overall efficiency and creditworthiness: Financial statements are used and analysed by the stakeholders to decide upon the efficiency and creditworthiness of the company. Income is a useful measure of overall efficiency and creditworthiness for creditors, banks and other credit institutions. They depend upon current profit level that acts as an indicator about a firm's ability to repay loan out of future income.

(vii) ***Payment of bonus to workers:*** Business firms usually distribute bonus to the workers on the basis of profit earned. Bonus paid to workers is based on the income measured by the business enterprise. Therefore, proper measurement of business income and profit is necessary.

(VIII) Future Investment decision: One important objective of income measurement is to use it for future investment plan. Current income serves as a guide for investment decision in the future. Decisions regarding expansion and further investment in the business are based on the current income to maximize their returns on investment.

(13) Give 3 examples of fictitious assets.

=> 3 examples are :

(a) Discount on Issue of Debentures

(b) Cost of Issue of shares and Debentures

(c) Preliminary Expenses

(14) What do you mean by Final Accounts?

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=> Final statements are statements relating to financial matters of an organisation. The Balance Sheet and the Income Statement are the basic financial statements of a business enterprise. Balance sheet is also known as statement of financial position. Income statement is generally divided into two parts: Trading A/C and Profit and Loss A/C These financial statements are also called 'Final Accounts'.

Distinction between Capital Expenditures and Revenue Expenditures:

Points of Distinction	Capital Expenditures:	Revenue Expenditures
1. *Meaning*	Expenses incurred in acquiring fixed assets or improving fixed assets are termed as capital expenditure.	Expenses incurred for meeting the day-to-day business expenses are known as Revenue Expenditure.
2. *Purpose*	These are incurred to purchase fixed assets.	These are incurred for meeting day-today business. operation.
3. *Accounting treatment*	These are shown at the assets side of the Balance Sheet.	These are shown on the debit side of trading/profit and loss account.
4. *Capacity*	It increases the earning capacity of the business.	These are incurred for maintaining the present level earning capacity of the business.
5. *Period of benefit*	The benefit of capital expenditure is received over a number of years.	The benefit of revenue expenditure is restricted only to the accounting period in which it is incurred.

Circumstances where revenue expenditure becomes capital expenditure:

Following are some of the circumstances under which an expenditure which usually of a revenue nature may be taken as an expenditure of a capital nature :

(a) Repairs: The amount spent on repairs of plant, furniture, building, etc., is taken as a revenue expenditure. However, when some second-hand plant, motor car, etc., is purchased, the expenditure incurred for immediate repairs of such plant, motor car, etc., to make it fit for use will be taken as a capital expenditure.

(b) Wages: The amount spent as wages is usually taken as a revenue expense. However, the amount of wages paid for erection of a new plant or machinery or wages paid to workmen engaged in construction of a fixed asset are taken as capital expenditure.

(c) Legal charges: Legal charges are usually taken as expenditure of a revenue nature, but legal charges incurred in connection with purchase of fixed assets is taken as a part of the cost of the fixed asset and hence treated as capital expenditure.

(d) Carriage/Freight charges: Carriage/Freight charges are generally of a revenue nature, but such charges incurred for a new plant and machinery are taken as expenditure of a capital nature and are added to the cost of the asset.

(e) Raw materials and stores: Amount paid for purchase of Raw materials and stores are usually taken as revenue expenditure, but raw materials and stores utilised in construction of the fixed assets are treated as capital expenditure and taken as a part of the cost of such fixed asset.

Each and every enterprise receives some amount every year. The amount received are divided into two categories:

(i) Capital receipts; and

(ii) Revenue receipts.

3 **Capital Receipts:** Capital receipts are receipts by the business from the owner towards the capital of the firm and also any sum received as any loan and the proceeds of sale of any fixed assets of a business enterprise. They are non-recurring in nature. For example, capital introduced, loan taken, amount realised by sale of assets.

4 **Revenue Receipts:** Revenue receipts are the receipts which are the result of a firm's activity in the accounting period, part of its rewards for offering goods or services to the public. For example; amount received against sales, commission, interest on investment, etc. They are recurring in nature i.e. they are received from year to year. For example, dividend received, discount received, commission received.

Accounting treatments:

While preparing final accounts all revenue items and the portion of deferred revenue expenditure chargeable to the current year are taken to Trading/ Profit and Loss Account while Capital receipts and Capital payments are considered while preparing the Balance Sheet.

5 **Distinction between Capital Receipts and Revenue Receipts**

Points of Distinction	*Capital Receipts*	*Revenue Receipts*
1. *Meaning*	The amount received in the form of capital introduced, loans taken and sale proceeds of the fixed assets are known as Capital Receipts.	The amount received mainly by selling of goods and services is known as Revenue Receipts.
2. *Nature*	These incomes are non-recurring in nature.	These receipts are recurring in nature.
3. *Presentation in final account*	These receipts are shown in the Liabilities side of Balance Sheet or shown as deduction from fixed assets.	These receipts give rise to income and hence they are shown on the credit of either Trading account or Profit and Loss account.

Financial Accounting (F.A)
Unit 4

Q-(1)-(a) What is meant by Hire Purchase system?
(b) What are the features of Hire Purchase system?
(c) What are the advantages of hire purchase system?
(d) Mention 5 rights of hire vendor and hire buyer under Hire Purchase Act 1972.

Ans-1-(a) Hire Purchase system refers to a system where the buyer agrees to pay the price of the goods bought by a number of periodical instalments. It may be yearly, half yearly, quarterly or monthly which includes both a portion of the cost of goods and interest for deferred payment to acquire the position immediately. Under this system, the title passes to the buyer i.e. ownership only on the payment of last instalment. Usually, under the terms and condition, a provision for payment of an initial amount on the date of delivery or agreement is made. This payment is usually known as the "down payment" or "initial payment". There are two parties in hire purchase transaction, they are – i) The Hire Vendor , ii) The Hire purchaser.

Ans-(b) Following are features of Hire purchase system:-

a. **Agreement:** It is an agreement to sell but not a contract of sale. Actual sales takes place in future date on the payment of last installment.

b. **Position of goods:** The hire purchase system grants the right of immediate position of the goods to the buyer from the seller on signing the agreement.

c. **Ownership:** The ownership of the goods sold by the hire purchase system remains with the seller till the payment of last instalment. The buyer can become the owner only on the payment of last instalment.

d. **Right of re-possession:** The hire purchase system ensure the right of re-possession of the goods to the seller if the buyer makes any default in the payment of any instalment.

e. **Right to return goods:** The buyer has an option to return the goods if it is found to be defect in the quality of goods before the payment of lastinstalment.

Ans-(c)Under hire purchase system both the parties enjoy some advantages. They are:

From the point of view of Hire vendor –

a. **Increase in the volume of sales:** this system of sales has created a new horizon of business for the sellers. It provides an opportunity to the sellers to increase their volume of turnover and consequently to earn more profit.

b. **Security of Payment:** Under this system the seller is entitled to take away the goods from the buyer at any point of time if he makes default in the payment of any instalment. Thus, this had provided a sense of security to the seller against bad debts.

c. **Interest:** The seller is entitled to receive interest on unpaid amount at an agreed rate, so the seller gets compensation for fund blocked for long time.

From the point of view of Purchaser -

a. **Immediate possession:** As the hire purchaser gets the immediate possession of the goods, he can enjoy the goods before the full payment is made.

b. **Option to return the goods:** The hire purchase has an opportunity to use the foods and test the quality through actual use and if the goods are found to be defective or fails to satisfy the needs, he has the option to return the goods.

c. **Payment of instalment through earning:** The buyer can use the goods productivity and the fund generated therein can be utilized in the payment of instalment and consequently he can obtain the ownership of the goods.

Ans-(d) **Right of Hire Vendor -**

a. **Right to get payment:** A hire vendor has the right to get the full agreed amount from the hire buyer by installments on due dates.

b. **Right to charge interest** – A hire vendor has the right to charge interest on the outstanding amount.

c. **Right to re-possess:** A hire vendor has the right to re-possess the goods if the buyer fails to pay any installment.

d. **Right to treat the installment as rent:** A hire vendor has right to treat the instalment paid by the buyer as rent for the use of goods if the buyer fails to pay an instalment.

e. **Buyer as a bailee of the goods:** A hire vendor has the right to treat the hire buyer as the bailee of the goods.

Right of hire buyer / purchaser –

a. **Right to get possession of the goods:** a hire buyer has the right to get possession of the goods as soon as he enters into an agreement to hire purchase.

b. **Right to return the goods:** A hire buyer has the right to return the goods before he pays the last installment.

c. **Right to get notice of termination:** A hire buyer has the right to get notice form the hire vendor, a written notice of termination of the hire purchase agreement when he does not pay an installment.

d. **Right to receive statement of amount:** A hire buyer has the right to receive from the hire vendor a statement showing the amount paid by or to be paid together with interest and the dates of payment etc.

e. **Court's sanction:** In certain cases, the hire buyer can seek the court's sanction from the vendor.

Q-2-(a) Distinction between Hire Purchase and Credit Sale.

(b) Distinguish between Hire Purchase and instalment Purchase system.

(c) What is instalment purchase system?

(d) State the features of instalment purchase system.

Ans-2-(a) Following are the points of distinctions between **Hire Purchase and Credit Sale.**

Points of distinction	**Hire Purchase**	**Credit Sale**
Governing Law	It is governed by Hire Purchase Act, 1972	It is governed by Sale of Goods Act, 1930.
Nature of contract	Hire Purchase is in the nature of agreement to sale.	Credit sales is a contract of sale of goods.
Ownership of goods	The buyer immediately does not become the owner of the goods until he pays the last instalments.	The buyer becomes the owners of goods as soon as the transaction for sale in compelled.
Re-possession of goods	The Hire vendor has the right to re-possess the goods if the hire buyer makes default in the payment of any instalment.	The seller has no right to re-possess the goods but can sue the buyer to recover the outstanding balance.
Returns of goods	The buyer has the option to retain or return the goods at any time before the last instalment is paid.	Generaliy the goods sold cannot be returned by the buyer unless the seller agree to accept.
Disposal of goods	The buyer has no right to dispose off until he pays the last instalment.	The buyer has the right to dispose off the goods bought in after the contract of sale is completed.
Discount	No discount is allowed by the hire vendor on timely payment of the instalment.	Discount is allowed on bulk purchase and on timely payment of price.

Ans-(b) Following are the points of distinctions between**Hire Purchase and instalment Purchase system.**

Points of distinction	**Hire Purchase**	**Instalment Purchase system**
Nature of Contract	It is in the nature of agreement to sale.	It is a contract for sale of goods
Governing Law	It is governed by the Hire Purchase Act, 1972	It is not governed by any such Act.
Ownership of goods	The ownership of goods passes to the buyer only on the payment of last instalment.	The ownership of the goods passes to the buyer as soon as the contract for sale is computed.
Repossession of goods	The seller has the right to repossess the goods from the buyer, if he makes default in the payment of any instalment.	The seller can not repossess the goods from the buyer if he makes default in payment but can sue the buyer to recover the outstanding amount.
Disposal of goods	The buyer has no right to dispose off until he pays the last instalment.	He can dispose off the goods before the last instalment is paid because he is the owner.
Position of the buyer	The position of the buyer in that of bailee.	The position of the buyer is that of owner.

Ans-(c) The installment purchase system indicates a system of sale under which the payment for the goods together with interest on the price is made by periodical instalments. But the buyer acquires the title of the goods and the possession thereof as soon as the transaction is completed. Therefore, like a contract of sale, the ownership passes to the buyer under instalment purchase system as soon as the transaction is completed.

Ans-(d) The features of instalment purchase system are as follows –

a. **Nature of sale** – installment purchase system is a type of credit sale where the price of the goods is paid in periodical installment.

b. **Ownership** – The ownership of the goods purchased passes from the seller to the buyer when the transaction is completed.

c. **Payment of interest** – Every installment is paid along with interest on unpaid balance for different period.

d. **Non returning of goods** – The buyer has no option to return the goods unless and otherwise the seller agrees.

e. **Right to deal with goods** – The buyer has the right to deal with the goods as he like viz—sale, mortgage, renting, etc.

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① What do you mean by Instalment Purchase / Payment System?
Ans: Instalment Purchase System is a system of sale under which the price of the goods is paid by the buyer in periodical instalments along with interest on the outstanding balance for different period. In case of instalment system, the ownership of the property in the goods passes to the buyer on signing the agreement and delivery of the goods.

② What do you mean by Interest Suspense A/C?
Ans: Under instalment payment system, an 'Interest Suspense Account' is to be opened in the books of both the buyer and the seller with the total amount of interest. It consists of total interest payable by the buyer along with different instalments during the period of contract.

③ Explain the following terms with reference to the Hire Purchase System.
ⓐ Hire Vendor = The person who sells the goods under a hire purchase agreement is called hire vendor.

ⓑ Hire Purchaser = The buyer of goods under a hire purchase agreement is called a hirer or hire purchaser.

ⓒ Cash Price = Cash price is the price or total amount to be paid on purchase of goods in cash. The cash price does not include any interest or hire charges.

ⓓ Hire Purchase Price = It is the total amount payable by the hire purchaser as per hire purchase agreement in order to complete the transaction

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relating to hire purchase of the goods.

(e) Down Payment = Down Payment is the amount of initial payment made by a hire purchaser at the time of signing an agreement and taking delivery of the goods under a hire purchase agreement.

(f) Hire Charge = Hire charge is the sum payable periodically by the hirer under the hire purchase agreement.

(g) Instalment = Instalment is the amount which is payable at periodical intervals towards the payment of hire charges under hire purchase agreement. It includes both principal and interest.

(h) Hire Purchase Agreement = According to Sec 2(c) of the Hire Purchase Act, 1972, a 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