

## **Hire Bidding: A Neo-Micro-Finance Portfolio Investment in “Keke-Napep” Business in Nigeria, Financing the Neo-Micro-Entrepreneurs through Attainable Standard. Accountant’s View**

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### **Abstract**

*KEKE NAPEP is a “NAME” GIVEN to a “THREE WHEELER COMMUTER THREE SEATER-CAB-BUS” manufactured in INDIA, used in Nigeria for CITY-TEMPO (Movement). The merchant dealers in this business are mostly in the system of ‘Hire-Purchase Transactions’. Hire Tender Transaction is a system by which a hirer is financially assisted through installment payment in the goods intended to acquire, when his financial stability is insufficient to withstand the absolute ownership possession of the goods. The objective of this paper is to highlight the meritorious advantage of hire bidding as a neo-micro-finance portfolio investment in “Keke Napep business in Nigeria and its limitation, if any, in the supra-system. A theoretical frame-work of literature review of some specific authors were harnessed to absolutely understand the conceptual framework of hire tender transactions. Data analysis was developed through the involvement of some organizations in the business of hire tender transactions. The analysis reveals that hire tender transaction is a mass empowerment, assisting the needy individuals financially to embark on self-support employment by acquiring the property in the goods, making installment payment, which would have been difficult, if the hirer was made to purchase the goods at lump sum payment. The paper highlights an insight to the nature, scope and advantage of hire vendor transaction in Nigeria, by expanding the micro-finance methodology to a wider dimension, creating more job opportunities and enabling environment for micro-businesses.*

**Keywords:** Hire bidding, needy-individuals, installment –payment, self-support, employment, enabling – environment, “Keke Napep”, Mass-empowerment, neo-micro-finance portfolio, ownership-possession, expanding-micro-finance, methodology. Hire tender bidding is a special system of acquisition of tangible property through purchase and sale. When goods are acquired under Hire transaction, the hirer pays the price in installments, these installments may be on monthly, quarterly, six monthly, or yearly as the case may be, based on conceptual agreement between the parties. Goods are delivered to the acquirer and he becomes the owner of the goods on payment of the final installment. It is assumed that all the installments made are treated as hire, pending on when the last installment is made. This means hire transaction is a credit purchase and purchase price is paid in installments. Goods are delivered to the hirer and the hirer has the right to use the goods. The vendor remains the owner of the goods up to the time of payment of the last installment, which shows the hirer becomes the owner of the goods on the payment of the final installment.

**Historical Development and Authors Perspectives**

- When goods are acquired under “Hire Bidding”, the property in the goods or ownership remains with vendor until the last payment is made and in the event of default, he can take possession of the goods subject to legal requirements (Hire purchase Act, 1938 – England).
- “Under the Hire-Bidding” system, goods are delivered to a person who agrees to pay the vendor (Owner) by equal periodical installments, such installments to be treated as hire of the goods until a certain fixed amount has been paid, when these goods become the property of the hire” (J.R. Batliboi, 1972).
- “Hire–purchase” is the system under which the property is acquired by payments made in installments, during the period of which the title in the property remains with the Hire vendor. The payments prior to the final installment are regarded as being purely in respect of hire and the title of the property does not pass to the hirer until such final payment or some other consideration provided in the contract has been fulfilled” (Pickeles, 1981).

**Author’s Overview of Hire Bidding Transactions**

- Hire bidding transaction is credit bargaining
- The hire consideration is paid in installments
- Goods are delivered to the acquirer
- The acquirer has the right to use the goods
- The hire vendor remains the owner of the goods to the time of final installment
- Hirer becomes the owner of the goods on payment of final installment.

**Accounting Records**

Accountants have tried to develop a system of recording hire bidding transactions in two different dimensions in the books of hirer. The first dimension is based on the opinion of those hire purchasers who think that they become owner of that portion of goods for which payment has been made by them. This category of purchasers assumed that the portion of goods which payment has been made belong to them, where the goods are apportionable in a ratable basis. The second phase of recording the hire purchase transaction is made on the fact that the hire purchase transaction is treated as REAL purchase. This category of buyers assumed that the goods in the transaction belong to them once the agreement is reached to its conclusion.

**Data Procurement and Determination Of:**

- Interest included in installments and depreciation at diminishing balance adoption

**Data: I**

BOZNIER KEKE-NAPEP LTD Lagos, sales Keke-Napep to private as well as corporate individuals at a variable rates of interest. PZ purchased a Keke-Napep on a Hire-Purchase Agreement on 1st January 2013, paying cash N100,000 and agreeing to pay three further installments of N100,000 each on 31st December of each year. The cash price of the Keke-Napep is N375,500 and BOZNIER LTD charges interest at 5% per annum. The PZ write off 10% depreciation every year on the cash value of the Keke-Napep on the reducing balance method.

IN THE BOOKS OF PZ

**Calculation of Interest and Installments Payable**

CASH PRICE	INTEREST	INSTALLMENTS
N	N	N
372,500	1 <sup>st</sup> Year: $\frac{272,500}{5} \times 5 = 13,625$	100,000
(100,000)	100	- 13,625 Interest
272,500	2 <sup>nd</sup> Year: $\frac{186125}{5} \times 5 = 9306.25$	86,375 KEKE-NAPEP
- 86,375	100	
186125.00	3 <sup>rd</sup> Year: This is the last year, the rate of interest will not be used for calculation of interest, but the interest is found out in this manner:	100,000
(-)90693.75	100,000 – 95431.25 →	-9,306.25 Interest
9,5431.25	= 4563.75 →	90693.75 KEKE-NAPEP
		KEKE-NAPEP
		INTEREST

**Interest and Depreciation Payable at Fixed Installment**

When payment is made in installments and interest is not included in the installment, interest is calculated on unpaid cash consideration every year and the yearly interest is added in installment.

**DATA: II**

PZ agreed to purchase the KEEKE-NAPEP on hire – purchase for N460,000, N60,000 was paid when keke-Napep was acquired on 1st Jan. 2013 and the balance was to be paid annual installments of N80,000 plus interest at 5% per annum. PZ depreciates the Keke – Napep each year by 10% on the original cost.

**Calculation of Interest**

Price Consideration N	Interest	N	Installments
460,000	1 <sup>st</sup> year $400,000 \times 5$	80,000	Keke –Napep
<u>- 60,000</u>	100	20,000	Interest Installment
	N20,000	<u>100,000</u>	
400,000	2 <sup>nd</sup> year $320,000 \times 5$	80,000	Keke-Napep
<u>-80,000</u>	100	<u>16,000</u>	Interest
	N16,000	<u>96,000</u>	Installment
320,000	3 <sup>rd</sup> year $240,000 \times 5 =$	80,000	Keke-Napep
<u>-80,000</u>	100	<u>12,000</u>	Interest
	N12,000	<u>92,000</u>	Installment
240,000	4 <sup>th</sup> year $160,000 \times 5$	80,000	Keke-Napep
<u>-80,000</u>	100 =	<u>8,000</u>	Interest
	N8,000	<u>88,000</u>	Installment
160,000	5 <sup>th</sup> year $80,000 \times 5$	80,000	Keke-Napep
<u>-80,000</u>	100	<u>4,000</u>	Interest
80,000	N4,000	<u>84,000</u>	Installment

**In The Books of Pz (Purchaser)****Keke-Napep Account**

2013:	N	2013:	N
Jan. 1 Cash A/C	60,000	Dec. 31 Depreciation	
Dec. 31 Boznier A/C	80,000	(10% on N460,000)	46,000
	<u>140,000</u>	Dec. 31 Bal. c/d	94,000
2014:			<u>140,000</u>
Jan. 1 Balance b/d	94,000	2014: Dec. 31 Depreciation	
Boznier Ltd	80,000	(10% on N460,000)	46,000
	<u>174,000</u>	Dec. 31. Bal. c/d	<u>128,000</u>
2015:			<u>174,000</u>
Jan. 1 Bal. B/d	128,000	2015: Dec. 31 Depreciation	
Dec. 31 Boznier Ltd	<u>80,000</u>	(10% of N460,000)	46,000
	<u>208,000</u>	Dec. 31 Bal. c/d	162,000
2016:			208,000
Jan. 1 Bal b/d	162,000	2016: Dec. 31 Depreciation	
Dec. 31 Boznier Ltd	<u>80,000</u>	(10% on N460,000)	46,000
	<u>242,000</u>	Dec. 31. Bal. c/d	<u>196,000</u>
2017:			<u>242,000</u>
JAN. Bal. b/d	196,000	2017: Dec. 31 Depreciation	
Dec. 31 Boznier Ltd	<u>80,000</u>	(10% on N460,000)	46,000
	<u>276,000</u>	Dec. 31. Bal. c/d	<u>230,000</u>
			<u>276,000</u>

**Payment by Half – Yearly Installments**

When payment is made by half –yearly installments, interest is calculated on the basis of six months' period. Depreciation is calculated yearly and transfer of interest and the depreciation to profit and loss account should take place annually; unless otherwise stated.

**Data: III**

PZ agreed to purchase KEKE-NAPEPE on Hire Purchase system over a term of two years starting on 1st Jan. 2013. The installments of N40,000 each are payable ½ yearly. The present cash value of KEKE-NAPEP IS N148,000.

**Determination Of Interest Payable**

Cash Price	Interest	Installments
N 148,000	$148,000 \times \frac{6}{100} \times \frac{6}{12} = N4440$	N 40,000.00
<u>-35,560</u>		-4,440 – Interest
112, 440,00		<u>35,560</u> – Keke-Napepe
		40,000.00
<u>-36,626.80</u>	$112,440 \times \frac{6}{100} \times \frac{6}{12} = N3373.20$	-3,373.20 Interest
75,813.20		<u>366,26.80</u> – keke-Napep
		40,000.00
<u>-37,725.60</u>	$75,813.20 \times \frac{6}{100} \times \frac{6}{12} = N2274.40$	-2,274.40 – Interest
38,087.60		<u>37,725.40</u> –Keke–Napep
	Interest for the final year will not be calculated, but can be determined in this way;	
	N40,000 – N38,087.60 ___Keke-Napep	
	= N1912.40 --- Interest	

**In The Books Of Pz (Hire Purchaser) (Keke-Napep A/C**

2013	N	2013	
June 30 Boznier Ltd	35,560	Dec. 31 bal. c/d	72,186.80
Dec. 31 Boznier Ltd	<u>36,626.80</u>		
	<u>72,186.80</u>		<u>72,186.80</u>
2014		2014	
June 30 bal. b/d	72,186.80	Dec. 31 c/d	148,000
June 30 Boznier Ltd	37,725.60		
Dec. 31 Boznier Ltd	<u>38,087.60</u>		<u>148,000</u>
	<u>148,000</u>		

**Determination of Cash Price by Annuity Approach**

When in place of cash price, hire purchase price and annuity rate is given, cash price is calculated on the basis of annuity rate and interest is determined.

**DATA IV:**

On 1st Jan. 2013, PZ bought KEKE-NAPEP on hire-purchase for N240,000, payable be three equal annual installments combining principle and interest, the latter being a normal rate of 5% per annum. The present value of an annuity of one naira for three years at 5% is N2.72325.

**Cash Value Of Keke-Napep With The Help Of Annuity Rate**

The present value of annuity of N 1 paid for 3year @ 5% = N2.723265. the present value of annuity of N(240,000) or N80,000) 3

$$= N2.72325 \times 80,000$$

$$= N217,860$$

**Calculation of Interest**

Cash price	$\frac{217,860 \times 5}{100}$	N	
217,860		80,000	
<u>-69,107</u>		<u>- 10,893</u>	Interest
148,753.00	= N10893	<u>69,107</u>	KEKE-NAPEP
<u>-72,562.35</u>		80,000	
	$\frac{148,753 \times 5}{100}$	-7,437.65	Interest
	= N7437.65	7256.35	KEKE-NAPEP
76190.65	Interest of installments is		
	calculation as		
	N80,000 – 76190.65		Keke –Napep
	= N3809.35		Interest

**Test of Validity**

Yr	Installments N	Interest N	Cash Value of Keke-Napep
2013	80,000	10,893.00	69,107.00
2014	80,000	7,437.65	72,562.35
2015	80,000	3,809.35	76,190.65
	240,000	22,140.00	217,860.00

**Determination of Prize Consideration on the Basis of Rate of Interest**

When the amount of each installment which includes interest is given (specified) and the rate of interest is specified, cash/ price consideration can be determined by the following adoption:

- Cash price of last installments should be calculated: i.e

$$\text{Amount of last installments} \times \frac{\text{Rate of interest}}{100 + \text{rate of interest}}$$

This is equal to interest included in the last installment. This interest is deducted from last installments and cash price of the last installments is determined.

- (Cash price of the last installments (+) amount of prior installment) X rate of interest / 100 + rate of interest

This is equal to interest of the prior installment; when this interest is deducted from prior installment, cash price of the prior installments is found out.

- The same process is repeated for the earlier installments

DATA V, MR PZ purchased a KEKE-NAPEPE by hire –purchase. He paid N60,000 cash down, N64,000 at the end of the 1st yr, N89,000 at the end of the 2nd yr, and N88,000 at the end of the 3rd yr. The interest on the cash price is 10% p.a.

**Calculation of Cash Price**

Cash price is determined in the following manner:

- Last installments is ₦88,000, rate of interest on cash price is 10%, therefore, interest in the last installments=  $88,000 \times \frac{10}{100} = ₦8,800$

$$100 + 10$$





Installment	Ratio of Interest	Interest
On 1 <sup>st</sup> installments 4	4/10	40,000 x 4/10 = N16,000
On 2 <sup>nd</sup> installments 3	3/10	40,000 x 3/10 = N12,000
On 3 <sup>rd</sup> installments 2	2/10	40,000 x 2/10 = N8,000
On 4 <sup>th</sup> installments 1	1/10	40,000 x 1/10 = <u>N4,000</u>
Total 10		<u>N40,000</u>

DATA VIII: The Cash Price of a Keke-Napep which is sold on hire purchase on 1st Jan. 2013 is N350,000, N50,000 paid on the spot and the balance in four (4) equal quarterly installments of N80,000 each.

Adoption of Inverse Progression Approach

It should be noted that each of these installments includes interest on outstanding balance.

Hence: N80,000 x 4 = N320,000

N 320,000(+) N50,000 = N370,000

Hire Purchase Price is N370, 000 (-) N350,000 (cash price) = N20,000 interest

Installment	No of outstanding installments	Ratio	Interest	N
1 <sup>st</sup>	4	$\frac{4}{10}$	<u>20,000</u> x 4	8000
		$\frac{3}{10}$	10	6000
2 <sup>nd</sup>	3	$\frac{2}{10}$	<u>20,000</u> x 3	4000
		$\frac{1}{10}$	10	2000
3 <sup>rd</sup>	2		<u>20,000</u> x 2	N20,000
			10	
4 <sup>th</sup>	1		<u>20,000</u> x 1	
			10	
Total	10			

### Test of Validity

Installments	Cash Price of Keke-Napep	Interest N	Total N
Cash Down	50,000	-	50,000
1 <sup>st</sup> installment	72,000	8000	80,000
2 <sup>nd</sup> installment	74,000	6000	80,000
3 <sup>rd</sup> installment	76,000	4000	80,000
4 <sup>th</sup> installment	78,000	2000	80,000
<b>Total</b>	<b>350,000</b>	<b>20,000</b>	<b>370,000</b>

If the four installments are paid, hire vendor's account is closed at the end of the year.

Without rate of Interest and Amounts of Installments Differ

When Cash Price and Hire-Purchase Price are given, amount of cash installments is given, but the amount of these installments differ, rate of interest is given. Hire purchase price(-) cash price = total interest. Deduct the amount of 1st installments from hire-purchase price and the amount of 2nd installment from the balance etc. make a total of balance amounts.

$$\frac{\text{Total Interest} \times \text{Balance Amount}}{\text{Total Balance}} = \text{Interest}$$

DATA VIII: PZ purchased on hire purchase basis a "Tokunbo" motor cycle. Cash price of the machine is N37,400 on 1st Jan. 2013. The hire purchase price is said to be N50,000.

The hire purchase price is paid in five (5) installments in a span of one year as follows N15,000 at the end of April, N12000 at the end of June; N10,000 at the end of August; N8000 at the end of October and N5000 at the end of December 2013.

Hire Purchase Price (-) Cash Value = Interest Calculation of Interest in Installment

No of Installments	Unpaid Amount	Calculation of Interest	Installment(-) Interest = cash price N
	₦	₦	= Cash Price ₦
1 <sup>st</sup>	= 50,000	$\frac{12,600 \times 50,000}{126,000} = 5000$	15,000-5000=10,000
2 <sup>nd</sup>	50,000-15,000= 35000	$\frac{12,600 \times 35,000}{126,000} = 3,500$	12000-3500=8500
3 <sup>rd</sup>	35000-12000= 23000	$\frac{12,600 \times 23,000}{126,000} = 2,300$	10,000-2300 = 7700
4 <sup>th</sup>	23000-10,000= 13000	$\frac{12,600 \times 13,000}{126,000} = 1,300$	8000-1300 = 6700
5 <sup>th</sup>	13000-8000= 5,000	$\frac{12,600 \times 5,000}{126,000} = 500$	5000-500=4500
	₦126,000		₦50,000-12600 = 37,400

**Determination of interest and amount of installments**

When the cash price of the goods under hire purchase is given and the rate of interest is also given and the hire-purchase price is said to be paid in equal installments. The interest and amount of each installment can be determined.

DATA IX: PZ purchased a machine on 1st Jan. 2013 on hire purchase system. Cash price of the machine is ₦50,000. Rate of interest is 10% p.a. Hire purchase price is paid in 3 yearly installments of equal amount.

Interest for 2013 =  $50,00 \times \frac{10}{100} = \text{₦}5000$

Suppose Hire Purchase Price is x, each installments= x/3

x/3(-)Interest (₦5000) is the Cash Price of the 1st Installment

Interest for 2014 =  $\{50,000 - (x/3 - 5000)\} \times \frac{10}{100} = \text{₦}5500 - x/30$

x/3 - (5500 - x/3) is the cash price of the 2nd installment.

Interest for 2015 =  $\{(50,000 - (x/3 - 5000)) - \{x/3 - (5500 - x/3)\}\} \times \frac{10}{100}$   
 $= \{60,500 - 2x/3 - x/30\} \times \frac{10}{100} = 6050 - 2x/30 - x/300$

x/3 - (6050 - 2x/3 - x/300) is the cash price of the 3rd installment

(cash price of 1st installment) + (cash price of 2nd installment) + (cash price of 3rd installment) = 50,000

$(x/3 - 5000) + (x/3 - 5500 + x/30) + (x/3 - 6050 + 2x/30 + x/300) = 50,000$

$3x/3 + 3x/30 + x/300 = 50,000 + 16,550$

X = N60,317.22 Approximately

Hire purchase price = N60,317.22 (-) cash price (N50,000)  
 N10,317.22 interest

Each installment =N60,317.22

$\frac{60,317.22}{3}$   
 = N20,105.74

**Cash Price of each Installment**

Cash Price ₦	Interest ₦	Installment ₦	Cash Price of each Installments ₦
50,000.00	$\frac{50,000}{100} = 5000$	20,105.74	
-15,105.74		<u>-5,000.00</u>	15,105.74
34,894.26	$\frac{34,894.26 \times 10}{100} = 3489.43$	20,105.74	
-16,616.31		<u>-3489.43</u>	16,616.31
18277.95	$\frac{18,277.95 \times 10}{100} = 1827.79$	20,105.74	
		<u>-1,827.79</u>	18,277.95
		Total cash price	50,000.00

### ***Benefits of Hire Bidding System***

- The hire purchaser is financially assisted by making payment through installments which would have been difficult in case of lump sum financing.
- The hirer has the freedom to make use of the goods in a hire purchase in a most profitable way he thinks best, harnessing his best knowledge and skill to achieve his objective in the hire purchase transaction.

### ***General Overview***

Hire purchase system, in absolute term, means the hirer is enabled to acquire the property in the goods with minimum effort, paying for the goods in installments. It is a financial assistance designed to empower the hirer financially. It allow hirer to acquire the property in the goods through “trust. This implies hire purchase is a business of trust. In NIGERIA, hire purchase system is passing through the “TEST” OF infancy.

Recommendation: Non-Government Organizations (NGOs) can embark on this venture, harnessing the potential resources of the organization to a more fruitful area such as empowering the members and the public at large. By so doing, will redefine the backward economy. The rate of interest chargeable should be made minimal to allow the individuals involved to achieve their objectives of hire purchase business. The idea of hire purchase business should not be realized on the basis of profit maximization by the hire vendors, it should aim at harnessing the potential advantages of micro-entrepreneurs who are financially handicapped, to support their efforts in search of means to self-employment.

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