HIRE PURCHASE AND INSTALLMENT SALE TRANSACTIONS

TYPES OF PRICES

Cost Price Cash Price Hire Purchase Price

HIRE PURCHASE BUSINESS/TRANSACTIONS

1. SUBSTANTIAL VALUE GOODS/SALES	**2. SMALL VALUE GOODS/SALES**
I. Cash Price Method	**I.** Debtors Method
II. Interest Suspense Method	**II.** Stock and Debtors Method

IN THE BOOKS OF HIRE PURCHASER (Substantial Value Goods/Sales)

1. SUBSTANTIAL VAULE GOODS/SALES

Note: Substantial Value Goods is referred for expensive Goods

I. CASH PRICE METHOD:-

JOURNAL ENTRIES

In the Books of ***HIRE PURCHASER***

S.NO.	PARTICULARS	DR.	CR.
1.	(When Assets are purchased on **Hire Purchase** System) Assets A/c **To** Hire Vendor's A/c	***	***
2.	(When Down Payment is made) Hire Vendor's A/c **To** Bank A/c	***	***
3.	(When Interest on Hire Purchase installment becomes Due) Interest on Hire Purchase A/c **To** Hire Vendor's A/c	***	***
4.	(When Installment on Hire Purchase is paid) Hire Vendor A/c **To** Bank A/c	***	***
5.	(When Depreciation is charged on Assets) Depreciation A/c **To** Assets A/c	***	***
6.	(When Interest on Hire Purchase and Depreciation are transferred to Profit and Loss Account) **P**rofit and **L**oss A/c **To** Interest on Hire Purchase A/c **To** Depreciation A/c	***	*** ***

1. SUBSTANTIAL VALUE GOODS/SALES--------------CASH PRICE METHOD

LEDGERS

In the Books of ***Hire Purchaser***

HIRE VENDOR'S ACCOUNT

Date	Particulars	Amt.	Date	Particulars	Amt.
1st Yrs	To Bank A/c ***(Down Payment)***	***	1st Yrs	By Assets	***
" "	To Bank A/c ***(1st Installment)***	***	" "	By Interest on Hire Purchase A/c **[(Assets-Down Payment)*R%]**	***
" "	To Balance c/d	***			
		###			###
2nd Yrs	To Bank A/c ***(2nd Installment)***	***	2nd Yrs	By Balance b/d	***
" "	To Balance c/d	***	" "	By Interest on Hire Purchase A/c	***
		###			###
3rd Yrs	To Bank A/c ***(Final Installment)***	***	3rd Yrs	By Balance b/d	***
				By Interest on Hire Purchase A/c	***
		###			###

Note:

- Interest is always calculated on Balance Amount if there is down payment than the interest is calculated for first Installment after **deduction** of Down Payment.
- Interest can never become a part of Assets that's why assets are shown on **Cash Price**.
- Liability **Decreases** shown in **Debit** side of Hire Vendor's A/c and
- Liability **Increases** shown in **Credit** side of Hire Vendor's A/c

ASSETS ACCOUNT

Date	Particulars	Amt.	Date	Particulars	Amt.
1st Yrs	To Hire Vendor's A/c	***	1st Yrs	By Depreciation A/c	***
		***	" "	By Balance c/d	***
		###			###
2nd Yrs	To Balance b/d	***	2nd Yrs	By Depreciation A/c	***
		***	" "	By Balance c/d	***
		###			###
3rd Yrs	To Balance b/d	***	3rd Yrs	By Depreciation A/c	***
			" "	By Balance c/d	***
		###			###
4th Yrs	To Balance b/d	***			

INTEREST ON HIRE PURCHASE ACCOUNT

Date	Particulars	Amt.	Date	Particulars	Amt.
1st Yrs	To Hire Vendor's A/c	***	1st Yrs	By Profit and Loss A/c	***
2nd Yrs	To Hire Vendor's A/c	***	2nd Yrs	By Profit and Loss A/c	***
3rd Yrs	To Hire Vendor's A/c	***	3rd Yrs	By Profit and Loss A/c	***

DEPRECIATION ACCOUNT					
Date	**Particulars**	**Amt.**	**Date**	**Particulars**	**Amt.**
1st Yrs	To Assets A/c	***	1st Yrs	By Profit and Loss A/c	***
2nd Yrs	To Assets A/c	***	2nd Yrs	By Profit and Loss A/c	***
3rd Yrs	To Assets A/c	***	3rd Yrs	By Profit and Loss A/c	***

Note: When amount are same of both sides just draw double line and close the year.

1. SUBSTANTIAL VAULE GOODS/SALES

II. INTEREST SUSPENSE METHOD:-

JOURNAL ENTRIES

In the Books of ***HIRE PURCHASER***

S.NO.	PARTICULARS	DR.	CR.
1.	(When Assets are purchased on **Hire Purchase** System) Assets A/c **To** Hire Vendor's A/c	***	***
2.	(When Down Payment is made) Hire Vendor's A/c **To** Bank A/c	***	***
3.	(When Total Interest becomes Due) Interest Suspense A/c **To** Hire Vendor's A/c		
4.	(When Interest on Hire Purchase installment is charged) Interest on Hire Purchase A/c **To** Interest Suspense A/c	***	***
5.	(When Installment on Hire Purchase is paid) Hire Vendor A/c **To** Bank A/c	***	***
6.	(When Depreciation is charged on Assets) Depreciation A/c **To** Assets A/c	***	***
7.	(When Interest on Hire Purchase and Depreciation are transferred to Profit and Loss Account) **P**rofit and **L**oss A/c **To** Interest on Hire Purchase A/c **To** Depreciation A/c	***	*** ***

1. SUBSTANTIAL VALUE GOODS/SALES--------------INTEREST SUSPENSE METHOD

LEDGERS

In the Books of ***Hire Purchaser***

HIRE VENDOR'S ACCOUNT					
Date	**Particulars**	**Amt.**	**Date**	**Particulars**	**Amt.**
1st Yrs	To Bank A/c ***(Down Payment)***	***	1st Yrs	By Assets	***
" "	To Bank A/c ***(1st Installment)***	***	" "	By Interest Suspense A/c **[Total Interest which becomes due]**	***
" "	To Balance c/d	***			
		###			###
2nd Yrs	To Bank A/c ***(2nd Installment)***	***	2nd Yrs	By Balance b/d	***
" "	To Balance c/d	***			
		###			###
3rd Yrs	To Bank A/c ***(Final Installment)***	***	3rd Yrs	By Balance b/d	***
		###			###

INTEREST SUSPENSE ACCOUNT					
Date	**Particulars**	**Amt.**	**Date**	**Particulars**	**Amt.**
1st Yrs	To Hire Vendor's A/c ***(Total Interest)***	***	1st Yrs	By Interest on Hire Purchase	***
			" "	By Balance c/d	***
		###			###
2nd Yrs	To Balance b/d	***	2nd Yrs	By Interest on Hire Purchase	***
			" "	By Balance c/d	***
		###			###
3rd Yrs	To Balance b/d	***	3rd Yrs	By Interest on Hire Purchase	***
		###			###

INTEREST ON HIRE PURCHASE ACCOUNT					
Date	**Particulars**	**Amt.**	**Date**	**Particulars**	**Amt.**
1st Yrs	To Interest Suspense A/c	***	1st Yrs	By Profit and Loss A/c	***
2nd Yrs	To Interest Suspense A/c	***	2nd Yrs	By Profit and Loss A/c	***
3rd Yrs	To Interest Suspense A/c	***	3rd Yrs	By Profit and Loss A/c	***

DEPRECIATION ACCOUNT					
Date	**Particulars**	**Amt.**	**Date**	**Particulars**	**Amt.**
1st Yrs	To Assets A/c	***	1st Yrs	By Profit and Loss A/c	***
2nd Yrs	To Assets A/c	***	2nd Yrs	By Profit and Loss A/c	***
3rd Yrs	To Assets A/c	***	3rd Yrs	By Profit and Loss A/c	***

IN THE BOOKS OF HIRE VENDOR (Substantial Value Goods/Sales)

1. SUBSTANTIAL VAULE GOODS/SALES

I. SALES METHOD (HERE CALLED **SALES METHOD** *INSTEAD* OF "CASH PRICE METHOD"):-

JOURNAL ENTRIES

In the Books of ***Hire Vendor***

S.NO.	PARTICULARS	DR.	CR.
1.	(When Assets/Goods are sold on **Hire Purchase** System) Hire Purchaser's A/c **To** Hire Purchase Sales A/c	***	***
2.	(When Down Payment is received) Bank A/c **To** Hire Purchaser's A/c	***	***
3.	(When Interest on Hire Purchase installment is charged) Hire Purchaser's A/c **To** Interest on Hire Purchase A/c	***	***
4.	(When Installment on Hire Purchase is received) Bank A/c **To** Hire Purchaser's A/c	***	***
5.	(When Interest on Hire Purchase is transferred to Profit and Loss Account) Interest on Hire Purchase A/c **To P**rofit and **L**oss A/c	***	***

1. SUBSTANTIAL VALUE GOODS/SALES---------------SALES METHOD

LEDGERS

In the Books of ***Hire Vendor***

HIRE PURCHASER'S ACCOUNT

Date	Particulars	Amt.	Date	Particulars	Amt.
1st Yrs	To Hire Purchase Sales A/c	***	1st Yrs	By Bank A/c ***(Down Payment)***	***
" "	To Interest on Hire Purchase A/c **[(Assets-Down Payment)*R%]**	***	" "	By Bank A/c ***(1st Installment)***	***
" "				By Balance c/d	***
		###			###
2nd Yrs	To Balance b/d	***	2nd Yrs	By Bank A/c ***(2nd Installment)***	***
" "	To Interest on Hire Purchase A/c	***	" "	By Balance c/d	***
		###			###
3rd Yrs	To Balance b/d	***	3rd Yrs	By Bank A/c ***(Final Installment)***	***
	To Interest on Hire Purchase A/c	***			
		###			###

Note: 1. Increasing in Debtors shown in Debit Side. **2.** After Last Installment both sides are equal.

INTEREST ON HIRE PURCHASE ACCOUNT					
Date	**Particulars**	**Amt.**	**Date**	**Particulars**	**Amt.**
1st Yrs	To Profit and Loss A/c	***	1st Yrs	By Hire Purchaser's A/c	***
2nd Yrs	To Profit and Loss A/c	***	2nd Yrs	By Hire Purchaser's A/c	***
3rd Yrs	To Profit and Loss A/c	***	3rd Yrs	By Hire Purchaser's A/c	***

1. SUBSTANTIAL VAULE GOODS/SALES

II. INTEREST SUSPENSE METHOD:-

JOURNAL ENTRIES

In the Books of **HIRE VENDOR**

S.NO.	PARTICULARS	DR.	CR.
1.	(When Assets/Goods are sold on **Hire Purchase** System) Hire Purchaser's A/c **To** Hire Purchase Sales A/c	***	***
2.	(When Down Payment is received) Bank A/c **To** Hire Purchaser's A/c	***	***
3.	(When Total Interest on Hire Purchase is charged) Hire Purchaser's A/c **To** Interest Suspense A/c	***	***
4.	(When Interest is Charged on Interest Suspense A/c) Interest Suspense A/c **To** Interest on Hire Purchase A/c	***	***
5.	(When Interest on Hire Purchase is transferred to Profit and Loss Account) Interest on Hire Purchase A/c **To P**rofit and **L**oss A/c	***	***
6.	(When Installment is Received) Bank A/c **To** Hire Purchaser's A/c	***	***

1. SUBSTANTIAL VALUE GOODS/SALES---------------INTEREST SUSPENSE METHOD

LEDGERS

In the Books of ***Hire Vendor***

(To be Continue on Next Page……….)

HIRE PURCHASER'S ACCOUNT					
Date	**Particulars**	**Amt.**	**Date**	**Particulars**	**Amt.**
1st Yrs	To Hire Purchase Sales A/c	***	1st Yrs	By Bank A/c ***(Down Payment)***	***
" "	To Interest Suspense A/c **[Full Interest Charged on H.P]**	***	" "	By Bank A/c ***(1st Installment)***	***
				By Balance c/d	***
		###			###
2nd Yrs	To Balance b/d	***	2nd Yrs	By Bank A/c ***(2nd Installment)***	***
			" "	By Balance c/d	***
		###			###
3rd Yrs	To Balance b/d	***	3rd Yrs	By Bank A/c ***(Final Installment)***	***
		###			###

INTEREST SUSPENSE ACCOUNT					
Date	**Particulars**	**Amt.**	**Date**	**Particulars**	**Amt.**
1st Yrs	To Interest on Hire Purchase A/c	***	1st Yrs	By Hire Purchaser's A/c	***
	To Balance c/d	***			***
		###			###
2nd Yrs	To Interest on Hire Purchase A/c	***	2nd Yrs	By Balance b/d	***
	To Balance c/d				
		###			###
3rd Yrs	To Interest on Hire Purchase A/c	***	3rd Yrs	By Balance b/d	***
		###			###

INTEREST ON HIRE PURCHASE ACCOUNT					
Date	**Particulars**	**Amt.**	**Date**	**Particulars**	**Amt.**
1st Yrs	To Profit and Loss A/c	***	1st Yrs	By Interest Suspense A/c	***
2nd Yrs	To Profit and Loss A/c	***	2nd Yrs	By Interest Suspense A/c	***
3rd Yrs	To Profit and Loss A/c	***	3rd Yrs	By Interest Suspense A/c	***

2. SMALL VALUE GOODS/SALES METHOD

LEDGERS

I. Debtors Method/System (In the Books of Hire Vendor)

HIRE PURCHASE TRADING A/C (AT COST)					
Date	**Particulars**	**Amt.**	**Date**	**Particulars**	**Amt.**
	To Shop Stock A/c	***		By Cash A/c	***
	To Installment Not Due	***		By Goods Repossessed (Market Value)	***
	To Installment Due	***		By Shop Stock A/c	***
	Purchase A/c	***		By Installment Not Due	***
	To Hire Expenses	***		By Installment Due	***
	To Profit	***			
		###			###

HIRE PURCHASE TRADING A/C (AT HIRE PURCHASE PRICE)					
Date	Particulars	Amt.	Date	Particulars	Amt.
	To Installment Not Due (HPP)	***		By Cash A/c	***
	To Installment Due	***		By Stock Reserve (Loading)	***
	To Goods Sold on Hire Purchase (HPP)	***		By Goods Sold on Hire Purchase (Loading)	***
	To Stock Reserve (Loading)	***		By Goods Repossessed (Market Value)	***
	To Hire Expenses	***		By Installment Not Due (HPP)	***
	To Profit	***		By Installment Due	
				By Profit on Sale of Goods Repossessed	***
		###			###

WORKING:

1. CALCULATION OF GOODS SOLD ON HIRE PURCHASE

	Opening Stock at Shop	***
Add:	Purchases	***
	Stock Available	**###**
Less:	Closing Stock at Shop	***
	Cost of Goods Sold on Hire Purchase	**###**
Add:	Loading	***
	Goods Sold on Hire Purchase	**###**

(To Find Out Any Missing Figure We Have To Make the Following Accounts)

2. INSTALLMENTS NOT DUE A/C

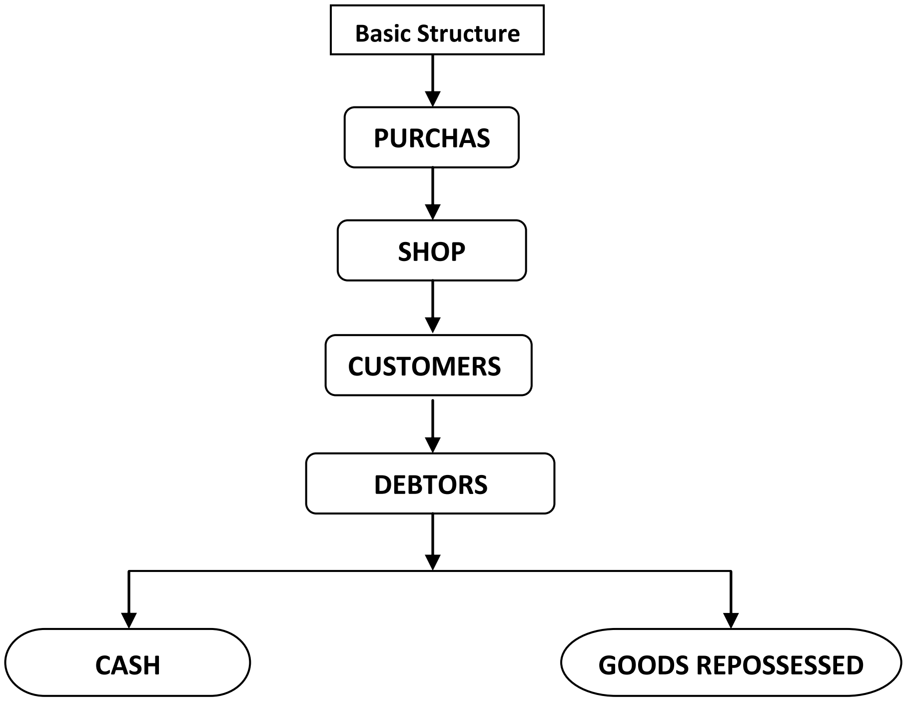
INSTALLMENT NOT DUE A/C					
Date	Particulars	Amt.	Date	Particulars	Amt.
	To Balance b/d	***		By Installment Due A/c	***
	To Goods Sold on Hire Purchase	***		By Goods Repossessed A/c (Original Value) Note: (Normally not comes in this account but in few cases)	***
		###			###

3. INSTALLMENTS DUE A/C

INSTALLMENT NOT DUE A/C					
Date	Particulars	Amt.	Date	Particulars	Amt.
	To Balance b/d	***		By Cash A/c	***
	To Installment Not Due A/c	***		By Goods Repossessed A/c (Original Value)	***
				By Balance c/d	***
		###			###

2. SMALL VALUE GOODS/SALES METHOD

II. Stock and Debtors System (In the Books of Hire Vendor)



NOTE: Here **"Installment Not Due A/c"** *is called* **"Hire Purchase Stock A/c"** and "**Installment Due A/c"** *is called* **"Hire Purchase Debtors A/c"**

JOURNAL ENTRIES

S.NO.	PARTICULARS	DR.	CR.
1.	(When Goods are Purchased) Purchases A/c **To** Creditors A/c**/**Suppliers A/c**/**Bank A/c	***	***
2.	(When Goods are kept in Shop) Shop Stock A/c **To** Purchases A/c	***	***
3.	(When Goods are sold on Hire Purchase) Hire Purchase Stock A/c **To** Shop Stock A/c To Hire Purchase Adjustment A/c	***	***
4.	(When Installment becomes due) Hire Purchase Debtors A/c **To** Hire Purchases Stock A/c	***	***

5.	(When Cash received from Hire Purchase Debtors) Cash A/c **To** Hire Purchases Debtors A/c	***	***
6.	(When Goods are repossessed on Account of Non-Payment of Installment) Goods Repossessed A/c Hire Purchase Adjustment A/c **To** Hire Purchase Debtors A/c	*** ***	***
7.	(When Goods Repossessed are repaired) Goods Repossessed A/c **To** Bank A/c	***	***
8.	(When Goods Repossessed are re-sold) Bank A/c **To** Goods Repossessed A/c	***	***
9.	(For recording of Profit/Loss on Sale of Goods repossessed) **(a) In Case of Profit:-** Goods Repossessed A/c **To** Hire Purchase Adjustment A/c	***	***
	(b) In Case of Loss:- Hire Purchase Adjustment A/c **To** Goods Repossessed A/c	***	***
10.	(For Recording of Loading on Opening Stock of Hire Purchase A/c) Stock Reserve A/c **To** Hire Purchase Adjustment A/c	***	***
11.	(For Recording of Loading on Closing Stock of Hire Purchase A/c) Hire Purchase Adjustment A/c **To** Stock Reserve A/c	***	***

LEDGERS

SHOP STOCK A/C

Date	Particulars	Amt.	Date	Particulars	Amt.
	To Balance b/d	***		By Hire Purchase Stock A/c **(At Cost)**	***
	To Purchases A/c	***		By Balance c/d	***
		###			###

HIRE PURCHASE STOCK A/C

Date	Particulars	Amt.	Date	Particulars	Amt.
	To Balance b/d	***		By Hire Purchase Debtors A/c	***
	To Shop Stock A/c	***		By Goods Repossessed A/c (Some time here Goods can be repossessed but normally in H.P Debtors A/c)	***
	To Hire Purchases Adj. A/c	***		By Balance c/d	***
		###			###

HPP

Hire Purchases Adj. A/c is the **Loading** of the **H.P Stock A/c**

HIRE PURCHASE DEBTORS A/C					
Date	Particulars	Amt.	Date	Particulars	Amt.
	To Balance b/d	***		By Cash A/c	***
	To Hire Purchase Stock A/c	***		By Goods Repossessed A/c **(M.V)**	***
				By Hire Purchase Adj. A/c	***
				By Balance c/d	***
		###			###

HIRE PURCHASE ADJUSTMENT A/C					
Date	Particulars	Amt.	Date	Particulars	Amt.
	To Stock Reserve A/c	***		By Stock Reserve A/c	***
	To Hire Purchase Debtors A/c	***		By Hire Purchase Stock A/c	***
	To Profit	***		By Goods Repossessed A/c **(Profit on Sale)**	***
		###			###

GOODS REPOSSESSED A/C					
Date	Particulars	Amt.	Date	Particulars	Amt.
	To Hire Purchase Debtors A/c	***		By Bank **(Sale)**	***
	To Bank A/c	***			
	To Hire Purchase Adjustment A/c **(Profit on Sale of Repossessed Goods)**	***			
		###			###

PROBLEMS IN HIRE PURCHASE (SOME IMPORTANT POINTS)

1. When Rate of Interest is not given. (Calculation of Amount of Interest)

Problem: Cash Price of the Assets is Rs. 56,000, Hire Purchase price of the Assets is Rs. 60,000 payable in Rs. 15,000 Down and 3 Equal Installment of Rs. 15,000.

Calculate the Amount of Interest of each Installment.

Sol.: Calculation of Amount of Interest for each installment

Installment	Amount Due	Ratio	Amount of Interest
I	45000	3	4000*3/6=2000
II	30000	2	4000*2/6=1333
III	15000	1	4000*1/6=667

2. When Cash Price is not given. (Calculation of Cash Price)

Problem: Hire Purchase price of the Assets is Rs. 5000 payable as Rs. 800 down and 3 Equal Annual Installment of Rs. 1200, 2200 and Rs. 800 respectively, rate of interest is 10% pa.

Sol.: Calculation of Cash Price.

Interest paid= $\text{Amt. Due+Installment Amt.} \times \dfrac{\text{Rate of Interest}}{\text{100+Rate of Interest}}$

3. $800 \times \dfrac{10}{110} = 73$

$\text{CP}=800-73=727$

2. $2200 + 727 = 2927 \times \dfrac{10}{110} = 266$

$\text{CP}=2200-266=1934$

1. $1200 + 1934 + 727 = 3861 \times \dfrac{10}{110} = 351$

$\text{CP}=1200-351=849$

Total Cash Price=800+849+1934+727=**Rs. 4310**