

HIRE PURCHASE & INSTALLMENT PAYMENT SYSTEM

Hire Purchase

- Possession - Immediate
- Ownership - pymt of last installment
- Right to repossess goods (non pymt)
- HP vendor → HP buyer (seller) (buyer)

Installment Payment Sys

both immediate & delayed.

$$HPP = \text{cash price} + \text{interest}$$

$$= \text{downpayment} + [\text{no of installments} \times \text{amt per installment}]$$

$$\text{cash price (Opn)} = DP + \text{present value of all installments} [AFX \text{ amt per installment}]$$

$$\text{Opn CP}_1 \quad \text{installment}_2 \quad \text{int}_3 \quad \text{CP}_4 \quad \text{Cl-CP}_5 \quad \text{Year}$$

$\text{Opn CP}_1 \times \text{ROI}$ inst-int_2 Opn-CP_5

$\text{inst} = \text{principal} + \text{int}$ (because quarterly/half yearly)

• if no ROI → appportion interest over the years in the ratio of balance HPP o/s

[1:2:3:4 ... n years (mostly)]

$$\frac{[\text{Cl-CP} + \text{installment}] \times \text{ROI}}{100 + \text{ROI}} = \text{int (backward calculation)} \quad (\text{Cl-CP} + \text{inst}) \times \frac{\text{ROI}}{100 + \text{ROI}}$$

Accounting treatment

CASH PRICE METHOD

(Buyer's books)

1) Purchase asset:
Asset on HP cash due
To HP vendor CP

2) D.P / Payment of inst.
HP vendor
To Bank

3) int due: (int)
[int in Int A/c
installment amt] To HP vendor

4) Depn.
Depn
To Asset on HP

5) Trans int + depn to P&L
P&L
To int
To depn

6) Repossession.
HP vendor Agreed value
loss on repossession Book value
may be bal in HP vendor also.
To Asset on HP (asset)

Int suspense method

Purchase asset

Asset on HP CP

Int suspense Total int

To HP vendor HPP

DP + inst - payment
HP vendor
To cash/bank

Int due: int (int in depn inst)
To int suspense

dep + trans for entirely same as cash price method.

• Hire charges = Income in P&L

volume of depn ↑
value of inst ↓

debtors method

HP trading A/c

(* always reverse loading)

stock

debtors method

Debtors method

HP Trading A/c

To Opn stock
(inst x due in LV)

To goods sold on
HP Trading A/c
(normal)

To expenses

To Bad debts

To loss on deposs

To stock reserve

To P&L

By stock reserve (Opn)

By HP sales
DP (x reserve loading)
inst due
(debt + x reserve)

By depossed goods

By stock
(inst x due)

Repossed goods

Repos goods Agreed value
profit in ID-NR

HP head
Bad debts

Loss on deposs

↓
To inst due NR (not due)
To inst Not due (only cost)
[IDNR + IND]

Repossed goods

inst DNR
inst ND
cash emp
P/L
HP trading

Cash (Sales)

Stock & debtors method

HP stock - HPP

HP stock adj - loading, Baddebt, loss, Exp

HP debtors - inst

Shop stock - gene. trading A/c

bal fig

ins. N.D.

P/L on HP

ins DNR

P/L on CPS.

① Cost of goods sold on HP:

HP stock

HPP

To shop stock

To HP stock adj

Cost

Profit

② D/P of inst:

HP debtors

ID

To HP sales

BANK

IDR

To HP debtors

HP sales

To HP stock

③ stock reserve.

④ Repressed goods:

Repressed goods

A.V

HP stock adj A/c

Baddebt

To HP debtors

IDNR.

To HP stock

IND.