

RECORDING OF HIRE PURCHASE TRANSACTIONS IN THE BOOKS OF HIRE VENDOR

There are 2 methods of recording hire purchase transactions in the books of hire vendor. They are:

- Credit sales method
- Interest suspense method

CREDIT SALES METHOD:

Under this method the hire sale is considered as credit sale and recorded as such on the date of signing the hire sale agreement. All subsequent receipts (in the form of down payment and instalments) are treated as repayment of this loan with interest. The amount due at the end of the year from hire sale is shown in the balance sheet on the assets side as Hire Purchase Debtors.

Accounting treatment:

Journal entries in the books of Hire Vendor.

1. On signing hire purchase agreement: Hire Purchaser's a/c Dr To Hire Sale a/c	With full amount of cash price of the asset.
2. Down payment, if any: Bank a/c Dr To Hire Purchaser's a/c	With the amount received towards down payment
3. Instalment interest due: Hire Purchaser's a/c Dr To Interest a/c	With the instalment interest due
4. Receipt of instalment amount: Bank a/c Dr To Hire Purchaser's a/c	With the amount of instalment received
5. Transfer of interest to profit or loss account: Interest a/c Dr To Profit or Loss a/c	With the amount of interest
6. Transfer of hire sale to trading account at the end of the first year: Hire Sales a/c Dr To Trading a/c	With the amount of hire sale

INTEREST SUSPENSE METHOD:

Under this method, at the time of transfer of possession of asset i.e., on signing the hire purchase agreement, hire purchaser's a/c is debited with full cash price and the total interest included in the hire selling price. Credit is given to the Hire Sale a/c and Interest Suspense a/c. In the latter years, as and when the interest becomes due, interest suspense a/c is debited and interest a/c is credited. When instalment is received, bank a/c is debited and hire purchaser's a/c is credited.

Accounting treatment:

Journal entries in the books of Hire vendor:

1. On signing hire purchase agreement: Hire Purchaser's a/c To Hire sale a/c To Interest Suspense a/c	Dr	With full amount of cash price of the asset. With full amount of cash price of the asset. With the amount of total interest
2. Down payment received, if any: Bank a/c To Hire purchaser's a/c	Dr	With the amount received towards down payment
3. Instalment interest due: Interest Suspense a/c To Interest a/c	Dr	With the interest amount due
4. Receipt of instalment amount: Bank a/c To Hire purchaser's a/c	Dr	With the amount of instalment received
5. Transfer of interest to profit or loss a/c: Interest a/c To Profit or Loss a/c	Dr	With the amount of interest
6. Transfer of hire sale to trading a/c at the end of first year: Hire Sales a/c To Trading a/c	Dr	With the amount of hire sale

Note: In the Balance sheet, the balance in interest suspense account is deducted from hire purchase debtors on the asset side.