



## e-News

Monday, 21st August 2023

Newsletter No 108

# How to Series No 4 - How to Account for Hire Purchases

# HOW TO

## Bookkeeping Resource

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This is the fourth part in a series I'm calling "How-To". If you missed the first three parts, you can find them in my newsletter archive [here](#). I will be using Xero as the software, but don't worry if you use another software, the basic rules will still apply.

The fourth how-to is about how to account for hire purchases in your accounting software. A hire purchase arrangement is an agreement to purchase goods in instalments.

**Step 1** - Let's pretend that your business has purchased a new printer with all the bells and whistles for \$15K via a hire purchase agreement, plus \$5,000 interest. For the purposes of this example, the hire purchase is for 30 months without a residual

(balloon) payment at the end of the period. Note, most hire purchase agreements will include a balloon component (check your documentation). The first thing to do is collect all of the documentation. You will need the hire purchase agreement, the invoice, and the interest amortisation schedule. The hire purchase company will provide all of this to you at the point of purchase. To begin the process, create some accounts in your accounting software:

- Office Equipment (Asset GST Inc)
- Hire Purchase Unexpired Interest (Liability GST Inc)
- Hire Purchase Liability (Liability BAS Excluded)
- Interest Expense - Hire Purchase (Expense BAS Excluded)

Note, For any Hire Purchase Agreement made after 1/7/2012, both the purchase price of the asset and all interest charges and fees **are subject to GST.** (see notes at the end of the newsletter)

Now you can enter this journal which adds the purchase of the printer into the accounts:

## Posted Manual Journal #673

Posted		Print PDF		Journal Options		
Narration	Date					
Hire Purchase Journal	31 Jul 2023					
Accrual and cash basis		Amounts are <b>Tax Exclusive</b>				
Description	Account	Tax Rate	Region	Debit AUD	Credit AUD	
Hire Purchase - New printer	710 - Office Equipment	GST on Expenses		13,636.36		
Hire Purchase - Unexpired Interest	846 - Hire Purchase Unexpired Interest	GST on Expenses		4,545.45		
Hire Purchase - Liability	845 - Hire Purchase Liability	BAS Excluded			20,000.00	
				Subtotal	18,181.81	20,000.00
				Total GST 10%	1,818.19	0.00
				<b>TOTAL</b>	<b>20,000.00</b>	<b>20,000.00</b>

**Step 2** - Check your balance sheet. It should look like this:

Hire Purchase Liability	20,000.00
Hire Purchase Unexpired Interest	(4,545.45)

**Step 3** - When it comes time to record the first repayment to the finance company, your entry will look like this (assuming each repayment is \$500 (30 x \$500 = \$15K)). Note, that the tax code for the interest expense account is BAS Excluded. This is because the GST on the interest component of the hire purchase was claimed when the purchase was entered initially (see journal). Therefore the monthly repayments of interest are not reportable on the BAS.

To	Date	Reference	Total
Hire Purchase Finance	15 Aug 2023	#1 of 30	500.00

Amounts are Tax Exclusive

Item Code	Description	Quantity	Unit Price	Account	Tax Rate	Region	Amount AUD
	Hire Purchase Liability - New Printer	1.00	500.00	Hire Purchase Liability	BAS Excluded		500.00
	Hire Purchase Unexpired Interest	1.00	(151.51)	Hire Purchase Unexpired Interest	BAS Excluded		(151.51)
	Hire Purchase Interest Expense	1.00	151.51	Interest Expense - Hire Purchase	BAS Excluded		151.51
Subtotal							500.00
<b>TOTAL</b>							<b>500.00</b>

**Step 4** - Check that the balances in the balance sheet are reduced by the first repayment (sanity check to make sure you have set up your hire purchase correctly) - see below. Note that I have evenly split the interest repayments into amounts of \$151.51 for the purposes of this example (\$4,545.45 divided by 30 payments). However, you will need to enter the interest amounts as per your amortisation schedule and these won't be exactly the figures divisible by the number of repayments. Something to keep in mind!

Hire Purchase Liability	19,500.00
Hire Purchase Unexpired Interest	(4,393.94)

**Step 5** - Take note of the GST rules for hire purchase! **For hire purchase agreements entered into on or after 1 July 2012**, all components of the transaction are now subject to GST including:

- The upfront purchase price of the asset financed under the agreement
- Interest charges, and
- Any other associated fees.

***This is the case regardless of whether you account on a cash or accruals basis.***

**Note this means that taxpayers on a cash accounting basis can claim the full amount of any available GST credit at the time the first payment under the hire purchase is invoiced or paid.**

This was the last part of our How-To series. I hope you found this series useful. For further details about hire purchase agreements and GST, go to [this ATO webpage](#).

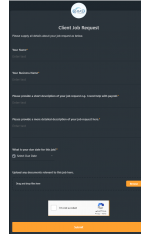
Next week I will return to normal newsletter viewing! Until then, happy bookkeeping!

# Latest Articles



## Simple Cash Flow Tool

Download our new cash flow tool.



## Job Requests

Learn how to submit job requests to us.

~~DO NOT  
INCLUDE~~

## What NOT to include in Payslips for Paid Family & Domestic Violence Leave

Something important to call out in relation to paying this leave is the information that is **prohibited** from being included on the employee's payslip.



## Xero Tips & Tricks

Here is my list of useful tips and tricks that I use when wrangling Xero. I'll try to keep adding new tips etc as I discover them. I hope you find them useful.

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