

Instalment Payment System

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Meaning

- Goods purchased on credit
- Purchase price is paid in installments
- Goods are delivered
- Ownership transferred on payment agreement
- On default of payment, seller cannot take back the goods,

Characteristic

- Goods are sold and delivered at the time of sale
- Payment of Purchase Price in instalment
- On default of payment, seller cannot take back the goods, only file a suit for the amount due.
- If buyer sells these goods before payment of the last instalment to the third party , third party gets better title

Differences between Hire-purchase system and Instalment payment system

- In Hire-purchase system, the transfer of ownership takes place after the payment of all instalments while in case of Instalment payment system, the ownership is transferred immediately at the time of agreement.
- In Hire-purchase system, the hire-purchase agreement is like a contract of hire though later on it may become a purchase after the payment of last instalment while in Instalment payment system, the agreement is like a contract of credit purchase.

Differences between Hire-purchase system and Instalment payment system

- In case of default in payment , in Hire-purchase system the vendor has a right to back goods from the possession of the hire-purchaser while in case of Instalment payment system, the vendor has no right to take back the goods from the possession of the purchaser; he can simply sue for the balance due.
- In Hire-purchase system, if the purchaser sells the goods to a third party before the payment of last instalment, the third party does not get a better title on the goods purchased. But in case of Instalment payment system, the third party gets a better title on the goods purchased.

Journal Entries

- **On Purchase :**

Asset A/c Dr. (Amount of down payment)

Interest suspense A/c Dr.

To Vendor A/c

- **On making the down payment (if any)**

Vendor A/c Dr. (Amount of down payment)

To Cash/Bank A/c

Journal Entries

- **On Interest due**

Interest A/c Dr. (Amt. of Int.)
 To Interest Suspense A/c

- **On payment of Instalment:**

Vendor A/c Dr. (Amt. of Instalment)
 To Cash/Bank A/c.

Journal Entries

- **On charging the Depreciation:**

Depreciation A/c Dr. (Amt. of Depreciation)
 To Asset A/c

- **On Transfer of interest and depreciation to P/L A/c:**

P/L A/c. (Total amt.)
 To Interest A/c (Bal. of Int. A/c.)
 To Depreciation A/c. (Bal. of Dep. A/c.)

Vendor

Journal Entries

- **On sale:**

Purchaser A/c Dr.
 To Sales A/c.

Cash Price

To interest Suspense A/c

- **On receipt of cash at the time of agreement (down payment), if any:**

Cash/Bank A/c. Dr.
 To Purchaser

(Amt. of down payment)

Vendor

- **On interest being due:**

Interest Suspense A/c Dr.(Amt. of Interest)
To Interest A/c

- **On receipt of instalment:**

Cash/bank A/c. (Amt. of Instalment)
To Purchaser

Vendor

- **On Transfer of Balance of Hire-Sales A/c. to Trading A/c. (at the end of first year only):**

Sales A/c Dr.
 To Trading A/c.

Cash Price

- **On Transfer of amount of interest to P/L A/c**

Interest A/c Dr.
 To P/L A/c.

(Balance of Int. A/c.)

THANKS