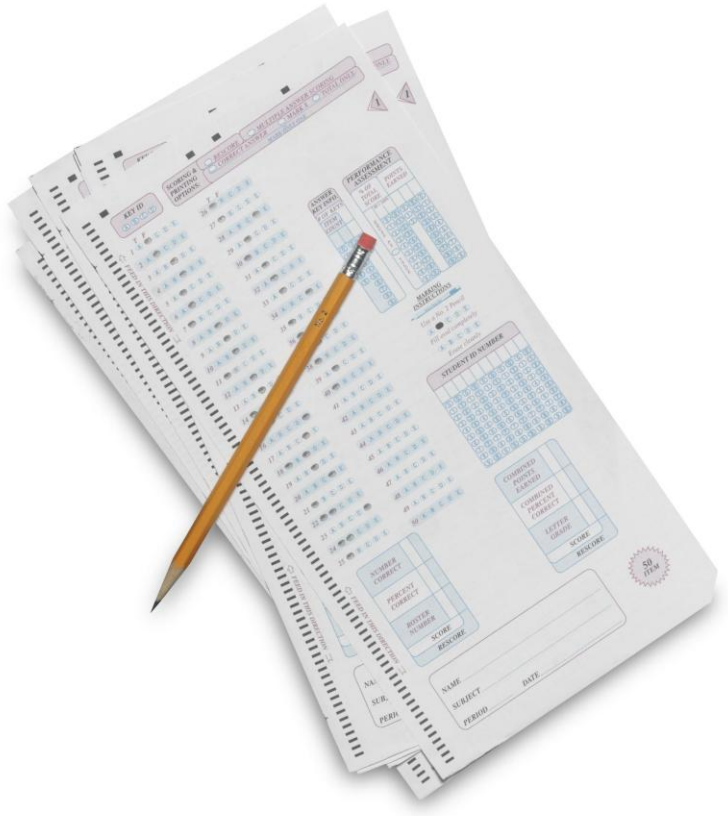
HIRE PURCHASE (HP) AS PER ATO AND JOURNAL ENTRIES

Accounting practices and compliance for hire purchase agreements

INTRODUCTION TO HIRE PURCHASE (HP)

OVERVIEW OF HIRE PURCHASE AND ATO TREATMENT



Hire Purchase Basics

Hire Purchase allows asset acquisition via installments with ownership transferring after final payment.

ATO Treatment of HP

ATO treats hire purchase as a purchase, requiring recording of asset and liability at inception.

GST and Depreciation

GST on full purchase price is claimable upfront; depreciation is calculated on asset cost.

Principal and Interest Classification

Accurate classification of principal and interest is vital for tax reporting and bookkeeping compliance.

LOAN DETAILS FROM SCHEDULE

KEY FIGURES AND STRUCTURE

LOAN COMPONENT	AMOUNT (AUD)
Principal	43,140.00
Total Interest	5,986.20
Monthly Payment	603.07
Balloon Payment	12,942.00
Term	60 months
Interest Rate	4.21%

JOURNAL ENTRIES FOR HP



ENTRIES AT INCEPTION AND DURING TERM

Initial Asset and Liability Recording

At inception, the asset is recorded at purchase price, and a matching liability is recognized for the hire purchase obligation.

Monthly Repayment Allocation

Monthly payments are allocated between interest expense and principal reduction, ensuring accurate financial reporting.

Balloon Payment Recording

At term end, the balloon payment reduces the hire purchase liability and is recorded as a bank credit.

Compliance and Reporting Accuracy

Proper allocation aligns with tax guidelines and ensures compliance for GST and interest deductibility.

KEY POINTS SUMMARY

ESSENTIAL TAKEAWAYS



Recognition of Asset and Liability

Record both the asset and liability upfront according to Hire Purchase agreement requirements under ATO rules.

Splitting Repayments

Separate repayments into principal and interest components for accurate financial reporting and tax treatment.

GST Compliance

Claim GST on the full purchase price and ensure compliance with tax regulations throughout the agreement term.

Accounting Balloon Payments

Account for balloon payments at the end of the hire purchase term in financial statements correctly.