How to Handle a Down Payment for Equipment Purchases
**Introduction**

My customer made a down payment on a piece of equipment. What is the best way to track and apply the down payment?

The first step is to create a Liability Account in General Ledger for Down Payments. Until the product is delivered to the customer there is a liability since the down payment could theoretically be returned if you were unable to deliver the product.

After the Liability Account is set up in the General Ledger, a Control Account will need to be set up to be used for the Inventory item that will be built.

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<th>Credit</th>
<th>Down Payments</th>
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<tr>
<td>Debit</td>
<td>Accounts Receivable</td>
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You can use the same General Ledger accounts as would normally be used except instead of posting to hardgood sales, you will post to the Liability Account for down payments. The Cost of Goods Sold and Discount Sections can be set to Debit and Credit the same account so that they will offset each other.

Next, create an item in inventory called Down Payments. Use the Control Account that was created above. Under the Miscellaneous Tab, flag the item as Non-Stocked so that it will not show up on the Inventory Count sheets.

Now create an invoice for the down payment using the item that was just set up in Inventory. Then apply the down payment received as payment against the invoice.

When the product is delivered to the customer and the final invoice is issued, apply the down payment to the invoice by entering a line item for the down payment as a negative line on the invoice.

The inventory item for down payments will show sales in the amount of the down payment when the down payment invoice is generated. The General Ledger Liability Account will increase by the amount of the down payment. When the negative line amount is entered, Inventory Sales and the General Ledger Liability Account will be reduced by the amount that was entered. The net effect is when a down payment has been entered and used, the sales (inventory – down payments) and the General Ledger balances will be zero (assuming there was only one down payment). If the down payment has not been applied to the invoice yet, then the Liability Account and Inventory Sales for the item will both reflect the liability.

Since there is no cost, your inventory valuation is not impacted.
If there’s a need to see what makes up the liability, then simply search the Investigator for Down Payments. You will be able to see every time one was entered and every time it was used (entered as a negative).

Have questions? Feel free to send us an email, we welcome the questions!