

SEM III

FINANCIAL ACCOUNTING II

CC31. Ch

UNIT 4

**HIRE PURCHASE SYSTEM AND
INSTALMENT PAYMENT SYSTEM**

NOTE NO. 1

A. HIRE PURCHASE

Definition:

Hire purchase agreements are being governed by the Laws of Contracts. Section 2(c) of the Hire Purchase Act has defined a hire purchase agreement as “an agreement under which goods are let on hire and under which the hirer has an option to purchase them in accordance with the terms of the agreement and includes the agreement under which:

- i) Possession of goods is delivered by the owner thereof to a person on condition that such person pays the agreed amount in periodical instalments;
- ii) The property in the goods is to pass to such a person on payment of the last instalment; and
- iii) Such a person has a right to terminate the agreement at any time before the property passes.”

• CHARACTERISTICS:

The main characteristics are -

- The hire vendor transfers only possession of the goods to the hire purchaser immediately after the contract for the hire purchase is made.
- The property in goods is to pass to the hire purchaser on the payment of the last instalment and exercising the option conferred upon him under the agreement.
- The hire purchaser has the right to terminate the agreement at any time before the property so passes.
- Hire purchaser becomes entitled to start using the goods immediately after receiving the possession.

- The goods should be delivered by the hire vendor on the condition that a hire purchaser should pay the agreed amount in periodical instalments.
- The hire purchaser generally makes a down payment or initial payment on signing the agreement and the balance of the amount along with interest is paid in instalments at regular intervals for a specific period.
- The purchaser can terminate the agreement before the term time. The seller can seize the goods any time if the buyer becomes a defaulter.

- TERMS RELATED WITH HIRE PURCHASE

- I. **Hire Vendor:** The seller in the hire purchase agreement.
- II. **Hire Purchaser:** The buyer in the hire purchase agreement.
- III. **Cash Price:** the amount to be paid on outright purchase in cash.
- IV. **Down Payment:** Initial payment made by hire purchaser at the time of signing of the hire purchase agreement.

Hire Purchase Price: The amount to be paid if the goods are purchased under the hire purchase system. It includes the cash price and interest of future instalments.

HIRE PURCHASE PRICE=CASH PRICE+TOTAL INTEREST ; OR

**HIRE PURCHASE PRICE= DOWN PAYMENT+ INSTALMENT PAYMENT
(INCLUDING INTERST)**

B. INSTALLMENT PAYMENT SYSTEM

DEFINITION:

It is a system of credit sale in which payments are made in installments over a period of time, under this system buyer gets the possession and also ownership of the goods right at the time of signing the agreement.

If the buyer fails to pay any installment, the seller cannot take back the goods. Only he can file a suit against the buyer for the recovery of the unpaid amount.

• CHARACTERISTICS:

- The buyer gets possession of the goods immediately on signing the agreement.
- It is just like an outright credit sale.
- Buyer becomes entitled to use the goods immediately.
- Under the system the buyer gets the immediate possession as well as the ownership of goods.
- In case of default in the payment of installment, the total amount of installments already paid by the buyer cannot be forfeited.
- Under the said system the buyer can sell or mortgage the goods even before clearing all the installments.
- Risks of goods are to be borne by buyer just after signing the agreement.

• **DIFFERENCE BETWEEN HIRE PURCHASE AND INSTALMENT PAYMENT SYSTEM**

<i>HIRE PURCHASE SYSTEM</i>	<i>INSTALMENT PAYMENT SYSTEM</i>
<p>1) The ownership of title of the goods is transferred to the buyer only on payment of the last instalment.</p> <p>2) The vendor has a right to take over the goods back, if the customers fails to pay for the commodity.</p> <p>3) In this system there are two methods of accounting in books of purchaser i.e. ASSETS ACCRUAL METHOD and CREDIT PURCHASE METHOD.</p> <p>4) The vendor bears minimum risk on sale by this system.</p> <p>5) The vendor bears the responsibility of repairs and maintenance of goods.</p> <p>6) If a hire purchaser is unable to pay instalments, the seller can take back the goods considering the prepaid</p>	<p>1) The ownership passes to the buyer as soon as the sale transaction is made.</p> <p>2) The owner or seller doesn't have a right to take over the goods, if the purchaser fails to pay instalments.</p> <p>3) In this system the accounts are maintained by only one method.</p> <p>4) The vendor bears maximum risks in this system.</p> <p>5) The vendor bears no responsibility concerning repairs and maintenance of the goods.</p> <p>6) In this system the vendor only can claim in court for the</p>

instalments by purchaser as
rent.

recovery of outstanding
amount.