



# THIRUTHANGAL NADAR COLLEGE

(Belongs to the Chennaivazh Thiruthangal Hindu Nadar Uravinmurai Dharma Fund)

Selavayal, Chennai-51.

A Self-Financing Co-educational College of Arts & Science

Affiliated to the University of Madras

Accredited with 'B' Grade by NAAC

An ISO 9001: 2015 Certified Institution

**NAME OF THE DEPARTMENT: PG DEPARTMENT OF COMMERCE (G)**

**SUBJECT : ADVANCED FINANCIAL ACCOUNTING**

**TOPIC : HIRE PURCHASE SYSTEM**

**STAFF NAME :MRS.ANITHA.K**

## COURSE OUTCOME :

To know about the hire purchase system and calculation of interest.

# UNIT – III

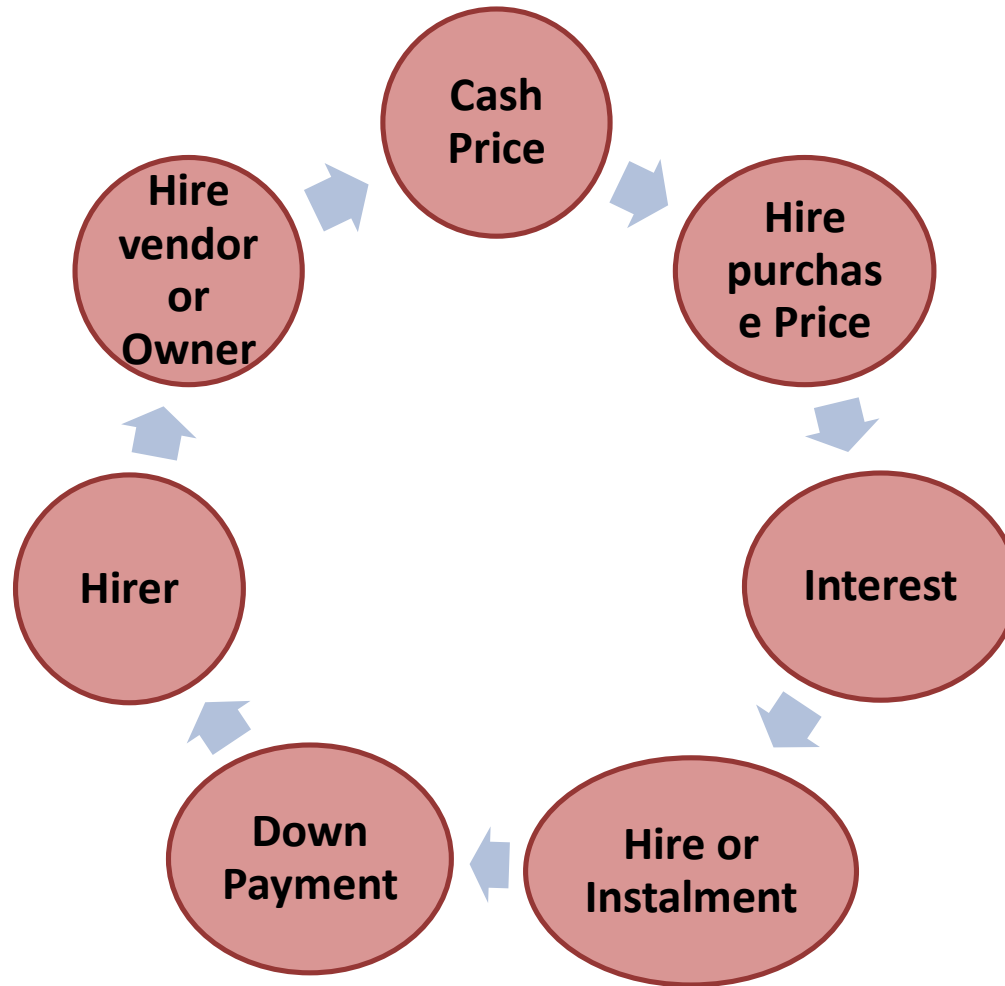
- ❖ Hire Purchase & Instalment
- ❖ Default & Repossession
- ❖ Stock & Debtors System
- ❖ Hire Purchase Trading Account
- ❖ Instalment purchase system



# Definition – Hire Purchase System

- According to the Hire Purchase Act 1972 Section 2(c) “ Hire purchase agreement is 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 an agreement under which -
  - Possession of goods is delivered by the owner & amount in periodical instalments.
  - The property is passed only on the payment of the last of such instalments.
  - Such person has a right to terminate the agreement at any time before the property so passes.”

# HP System - Important terms



# HP System - Features

- The hirer gets possession of the goods on signing the agreement and has the right to use them.
- The ownership continues to be with the seller or hire vendor. The buyer gets ownership on payment of the last instalment.
- The hirer has the duty to keep the goods in good condition.
- Each instalment is treated as hire charges.

# HP System - Features

- The hirer has the option to return the goods before the last instalment is paid
- The hire vendor can repossess the goods if the buyer fails to pay any instalment on the due date.
- If goods are repossessed, the value of goods on that date and the instalment paid are added and the total hire purchase price is reduced.  
The balance is payable by the hire vendor to the hirer.

# Instalment purchase system

- An agreement is entered into by the seller and buyer.
- Down payment is paid and possession as well as ownership in the goods is transferred to the buyer.
- If buyer fails to pay any instalment, the seller cannot repossess the goods.
- He can only sue the buyer in a court for recovery of the dues.



# Distinction between HP & IP System

- Nature of agreement
- Transfer of ownership
- Name of the parties
- Relationship
- Risk of loss
- Right of sale
- Repossession of goods
- Termination of agreement
- Instalment
- Governing

# Calculation of Interest

- The hire purchase price is always greater than the cash price. Calculations under the following circumstances:
  - ✓ When the rate of interest, the cash price and the instalments are given
  - ✓ When the rate of interest is not given
  - ✓ When the total cash price is not given
  - ✓ When the instalment price is not given
  - ✓ When cash price is calculated by annuity method

# Default & Repossession

## • Default

- If the hire purchaser fails to make payment of any instalment, it is called default.

## Repossession

- ✓ The hire vendor has the right to take away the goods sold on hire purchase in the event of default made by the hire purchaser.
- ✓ The hire vendor can repair or recondition the repossessed goods and sell them to anyone else.

# Repossession - Types

## Complete Repossession

The hire vendor may **take away all the goods** on which there is default of instalment.

## Partial Repossession

Hire vendor may **take away only a portion of the goods** on which there is default of instalment.