



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: CORPORATE SECRETARYSHIP

SUBJECT : ADVANCED FINANCIAL ACCOUNTING

TOPIC : HIRE PURCHASE SYSTEM

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HIRE PURCHASE SYSTEM



overview

- Meaning of hire purchase system
- Features of HPS
- Installment purchase system
- Difference between HPS & IPS
- Difference between sale & hire purchase
- Important terms used in Hire purchase
- Rights of hire vendor and hire purchaser
- Bibliography

Hire purchase system

When goods are sold on credit, for which payment is made by the buyer in instalment over a period of time, it is called Hire Purchase system.



Hire purchase system

Hire purchase system refers to the system wherein, the seller of goods delivers the goods to the buyer without transferring the ownership of goods.



Hire purchase system

The payment for the goods will be made by the buyer in instalments.



Hire purchase system

If the buyer pays all the instalments, the ownership of goods will be transferred, on the payment of last instalment.



Hire purchase system

If the buyer does not pay for any instalments, the goods will be repossessed (taken back) by the seller.



Hire purchase system

The money paid on earlier instalments will be treated as hire charges for using the goods.



Hire purchase system

Hire purchase system refers to the system wherein, the seller delivers the goods to the buyer without transferring the ownership of goods. The payment for the goods will be made by the buyer in instalments. If the buyer pays all the instalments, the ownership of goods will be transferred, on the payment of last instalment. If the buyer does not pay for any instalments, the goods will be repossessed (taken back) by the seller and the money paid on earlier instalments will be treated as hire charges for using the goods. The system is called *Hire Purchase System*

Features of Hire purchase system

- Hire purchase is an agreement between two parties called hire vendor and hire purchaser.
- The payment for the goods will be made by hire purchaser in Instalments.
- If the buyer pays all the instalments, the ownership of goods will be transferred, on the payment of last instalment.
- If the buyer stops paying the instalments, the goods will be repossessed (taken back) by the seller.
- In case transaction resulting in purchase each instalment includes
 - (a) payment towards price of the goods (principal amount)
 - (b) payment of interest

Instalment purchase system

The possession as well as ownership passes from the seller to buyer immediately on entering the agreement.



Instalment purchase system

Buyer agrees to pay the total price in instalments.



Instalment purchase system

If the buyer does not pay for any instalment the seller has no right to repossess the goods. but the seller can file a suit in the court of law for recovery of price.



Instalment purchase system

Under instalment purchase system, the possession as well as ownership passes from the seller to buyer immediately on entering the agreement but buyer agrees to pay the total price in instalments. If the buyer does not pay for any instalment the seller has no right to repossess the goods. The seller can file a suit in the court of law for recovery of price.

Difference between HPS and IPS

Basis of difference	Hire purchase system	Installment purchase system
1. Nature of contract	It is a contract of hiring	It is a contract of sale
2. Ownership	It is transferred by seller to buyer only after payment of all installments.	It is transferred by seller to buyer immediately on signing the contract
3. Repossession	On default of payment of any installment by the buyer, seller can repossess the goods	On default of payment of any installment by the buyer, seller cannot repossess the goods but seller can file a suit in the court of law for recovery of price.

Basis of difference	Hire purchase system	Installment purchase system
4. Return of goods	The buyer can exercise the option of return of goods	The buyer cannot exercise the option of return of goods
5. Right of disposal	The buyer cannot dispose the goods until the payment of last installment	The buyer has the right to dispose the goods, even if all installments are not yet paid

Difference between Sale and Hire purchase

Sale	Hire purchase
1. In case of sale, the ownership of the goods is transferred to the buyer immediately	In case of hire purchase, the ownership of goods is transferred to buyer on payment of all installments.
2. Buyer makes payment in lump sum.	Payment is made in installment
3. The buyer pays only for price of goods	Hire purchaser pays price of goods + interest
4. Seller cannot take back the goods	On non payment of any installment, seller can take back the goods
5. The seller or the buyer cannot terminate the contract	The seller or the buyer can terminate the contract

Important terms under hire purchase

1. hire purchaser:

Hire purchaser is defined as “ a person who purchases the goods under Hire Purchase with intention to use it and makes the payment in different installments”.

2. Hire vendor:

A person who sells the goods to the buyer under hire purchase system is known as hire vendor.

3. Cash price:

it is a price of an asset which excludes the Hire charges (Interest). In other words it is a real price of an asset at which the asset is sold out under “ sale agreement”.

Important terms under hire purchase

4. hire purchase price:

It refers to the price at which goods are sold under “hire purchase system”. It includes cash price and interest .

5. Instalment money:

It refers to a part of hire purchase price paid by hire purchaser in periodic intervals.

6. Net cash price:

It refers to the difference between cash price of the goods and deposit (down payment).

It is the balance amount of cash price after deducting down payment from total cash price of an asset.

Important terms under hire purchase

7. hire purchase charges:

It refers to the difference between net hire purchase price and net cash price of the goods. It is also referred as interest.

Rights of hire vendor

1. Right to receive down payment and Instalment money from buyer
2. he has the right to charge hire charges (interest)
3. He has the right to repossess the goods on non payment of any instalment money.

Rights of hire purchaser

1. Right to receive the asset on with or without payment of down payment
2. Right to return the asset
3. Right to receive the statement for the payment of installments from hire vendor

Thank you