

Cash purchase- the seller sells goods in consideration of money to the buyer. The transfer of ownership happens immediately.

Credit purchase- the seller [creditor] sells the goods to the buyer [debtor] on the promise that buyer will pay the full amount of goods in future. The buyer does not pay immediately but get the ownership of goods immediately.

Hire Purchase- the seller [hire vendor] gives the possession of goods immediately to the buyer [hire purchaser] on signing the agreement on the condition that the price of goods should be paid in instalments and the ownership of the goods will be passed on to the buyer on the last payment of the instalment. Here the buyer has the option to purchase the goods at the end and not the obligation.

The Hire purchase transactions in India are governed by Hire Purchase Act of 1972.

Basic Terminologies:

- Hire Vendor: the person who sells goods on hire. He delivers goods along with its possession to the hire purchaser.
- Hire Purchaser: the person who purchases goods on hire and pays in instalments. He obtains the goods and the rights to use them.
- Hire Purchase agreement: Hire Purchase Act of 1972 defines 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.
- Hire Purchase Price: it is the total amount payable by the Hire purchaser in instalments to obtain the ownership of the asset purchased under hire purchase agreement.

Hire purchase price = cash price + interest

- Cash Price: the amount for which an asset/goods can be purchased immediately by making a lumpsum payment.
- Interest: as the payment under Hire purchase agreement is paid at regular intervals over a specified period of time and not in lumpsum, an interest is charged on the outstanding balance [unpaid amount]
- Down payment: an amount i.e., part of the purchase price which the hire purchaser is required to pay at the time of signing the hire purchase agreement.
- Hire Purchase Instalment: it is the amount which the hire purchaser has to pay after a regular interval up to a certain period specified in agreement to obtain the ownership of the asset.

Hire purchase instalment= Principle amount + Interest on the unpaid amount.

Features of Hire Purchase System:

1. Hire purchase means a transaction of purchase or sale on credit.
2. Hire purchaser pays the price in instalments and not in one lumpsum.
3. Hire purchaser makes a down payment on signing the hire purchase agreement.
4. Every instalment paid prior to the last instalment will be treated as rent and not the part payment of the purchase price.
5. Hire purchaser gets the possession or delivery of the goods immediately on signing the hire purchase agreement. Hence, he gets the right to use the goods.
6. The seller continues to be the owner of the goods up to the time of payment of the last instalment. The legal ownership of the goods is passed on to the purchaser only on the payment of the final instalment.
7. The hire seller has the obligation to sell the goods but the hire purchaser has the option or choice to buy. The hire purchaser can terminate the agreement at any time before the last instalment is paid. He also has the option to return the goods at any time and need not pay the instalments due after the return.
8. If the hire purchaser fails to pay any instalment, including the last instalment, the hire vendor has the right to get back the goods and adjust the money paid by the hire purchaser against the hire charges for use of goods.
9. If the hire purchaser fails to pay the instalment or returns the goods to the hire seller, the hire purchaser cannot recover the amounts already paid in instalments from the hire seller. Such sums will be then treated as Hire Charges for the use of goods.
10. It is the duty of the seller to keep the goods in good condition and bear the expenses of repairs till the last instalment is paid.
11. Each instalment consists partly cash price [of capital nature] and partly of interest [financial nature].
12. The hire purchase price is always more than the cash price of the goods because in addition to cash price, interest for the unpaid value of cash price of the goods is also payable.
13. The hire purchaser, during the period when he is in the possession of the goods has to act as a Bailee of the goods [meaning, he cannot damage, destroy, pledge, or sell the goods] he must take reasonable care of goods in his possession.
14. Section 3 of Hire Purchase Act 1972 requires that every hire purchase agreement should be in writing.