

Ques-2. Distinguish between hire purchase system and instalment system.

Ans.

Hire purchase system → The hire purchase system the customer (hire purchase) obtains possession of the goods at the outset and can use it, while paying for it by installments over an agreed period of time.

However, the ownership of the goods remain with the seller (Hire vendor) until the hire purchase has made all the payments. Each installment paid by the hire purchaser is considered as hire charging for using the asset. If the (hire purchaser) fails to pay any of the installments (even the last one) the hire vendor will take back his goods without compensating the buyer i.e., the hire vendor is not going to payback a part or whole of the amount received through installment from the buyer.

Hire purchase system of buying goods by making regular payment until the full price is paid.

Instalment payment system → It is a system of credit sale in which payments are made in installment 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 defaults, the seller cannot repossess the goods but he can sue the buyer for the amount due.

Instalment system of credit sale in which a sum of money or debt is paid regularly in installment.

* Distinguish between hire purchase and installment payment system

S. No.	Base	Hire purchase	Installment system.
(i)	Nature of contract	It is an agreement of hiring.	It is an agreement of sale.
(ii)	Passing of title (ownership)	The title of the goods is passed on the buyer after the payment of the final installment.	The title of goods passes immediately (i.e., at the time of signing the agreement) as in the case of usual sale.
(iii)	Rights of seller	If the buyer fails to pay any of installment, the goods can be re repossessed by the seller.	The seller cannot repossess the goods. He can re sue the buyer for the amount due.
(iv)	Right of disposal	The buyer cannot hire out, sell, transfer, destroy, pledge the goods.	The buyer can hire out, sell, transfer, destroy, pledge the goods and the bonafide purchaser can get good title.
(v)	Returns of goods	The buyer may return the goods without further payment, except for accrued installment.	Except seller's default goods cannot be returned.
(vi)	Forfeiture of amount received	In case of default, the total amount of installment paid is not forfeited and considered as hire charges.	In case of default, the total amount of installment paid by the buyer cannot be forfeited.