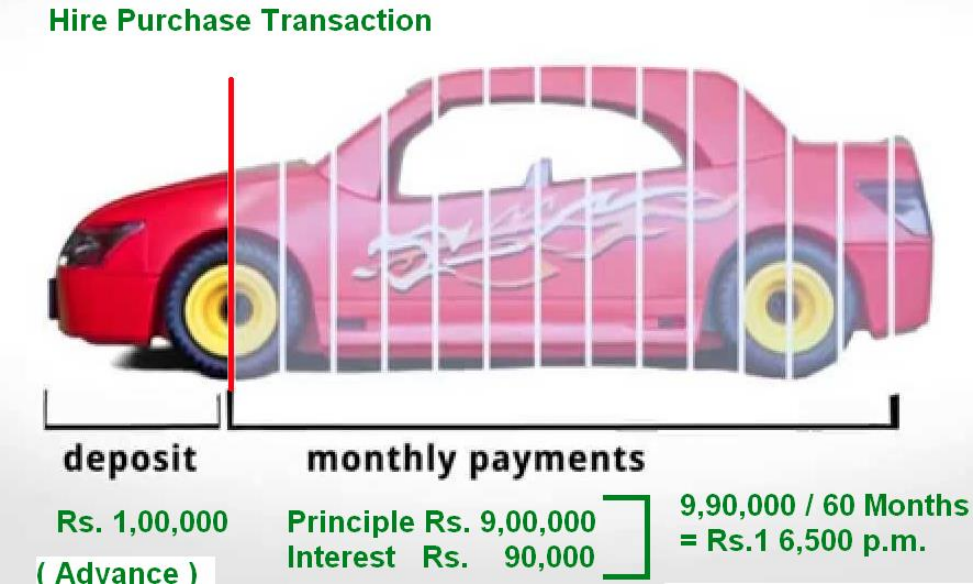
Hire Purchase:

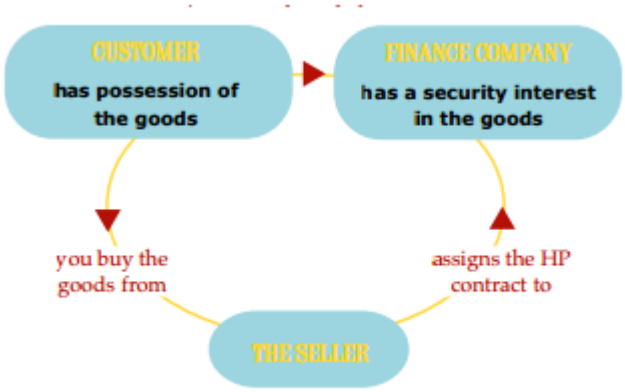
A Hire purchase is an arrangement whereby a customer agrees to a contract to acquire an asset by paying an initial instalment (e.g., 40% of the total) and repaying the balance of the price of the asset plus interest over a period.

In simple words, hire purchase is an arrangement for buying Capital Assets, where the buyer makes an initial down payment and pays the balance with interest in instalments. Title of the Asset Transfer to Buyer on Payment of the last Instalment.



Hire Purchase Agreement:

A hire purchase agreement commonly refers to a contractual arrangement whereby a person or entity (the hirer) acquires from another person or entity (the hire vendor), the right to use an asset and a subsequent right or obligation to purchase the asset.
For example, Person A providing Person B with a car for hire and at some future point in time the right or obligation to purchase that car.



According to tax legislation, a Hire Purchase Agreement is constituted by the following:

- A contract for the hire of goods.
- The hirer has the right or obligation to buy the goods.

- The charge that is or may be made for the hire, together with any other amount payable under the contract exceeds the price of the goods.
- Title to the goods does not pass to the hirer until the option to purchase is exercised or an agreement for the purchase of goods by instalment where title in the goods does not pass until the final instalment is paid.

Example

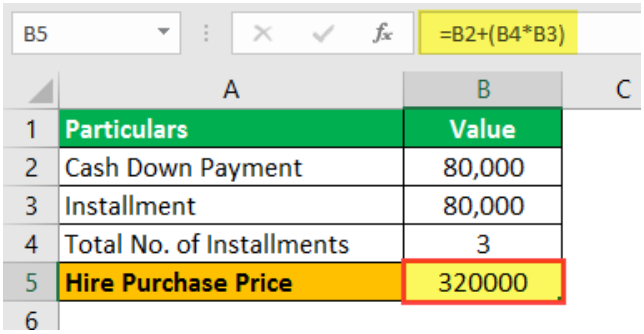
On January 1, 2018, B Pty Ltd purchased a machine on hire purchase from Z Pty Ltd. B Pty Ltd paid $80,000 immediately and agreed to three annual instalments of $80,000 each. The instalments will be paid on December 31 of every year. The loan establishment fees of $600 also paid by B Pty Ltd at the time of loan agreement signed on January 1, 2018.

The machine's purchase price is $298,000. If the vendor charges 4.966% interest per annum, calculate the purchase price, total interest, and the breakdown of principal and interest paid by the buyer.

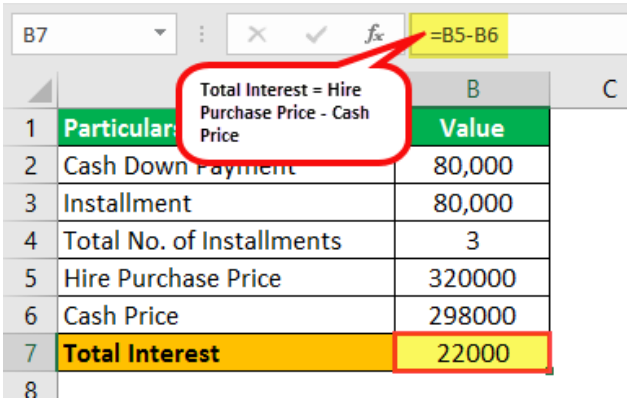
Solution:

Interest expenses can be calculated as follows:

#1 – Hire Purchase Price



#2 – Total Interest



#3 – Principal and Interest Paid Every Year

The **outstanding cash price** at the time of the first instalment is computed as follows:
Total Purchase Price – Down Payment = $298,000 – 80,000 = $ 218,000

First Instalment:

- **Interest charged** on the first instalment:

Interest = 4.966% of Outstanding cash price = 4.966% of $218,000 = $10,825

- **The principal amount paid** in the first instalment:

First Instalment – Interest Paid = $80,000 – $10,825 = $69,175

- **Outstanding amount** after the first instalment

Total Outstanding Amount – Principal amount paid in first instalment = $218,000 – $69,175 = $148,825

Second Instalment:

- **Interest paid on second instalment =** 4.966% of $148,825 = $7,390

- **Principal Repaid in Second Instalment** = $80,000 – $7,390 = $72,610

- **Outstanding amount after the second instalment**
  Total Outstanding Amount – Principal amount paid in second instalment = $148,825 – $72,610 = $76,215

Third Instalment:

- **Interest paid in the Third Instalment** = 4.966% of $76,215 = $3,785

- **Principal Repaid in Third Instalment** = $80,000 – $3,785 = $76,215

- **Outstanding amount after the third instalment**
  Total Outstanding Amount – Principal amount paid in second instalment = $76,215 – $76,215 = $0.