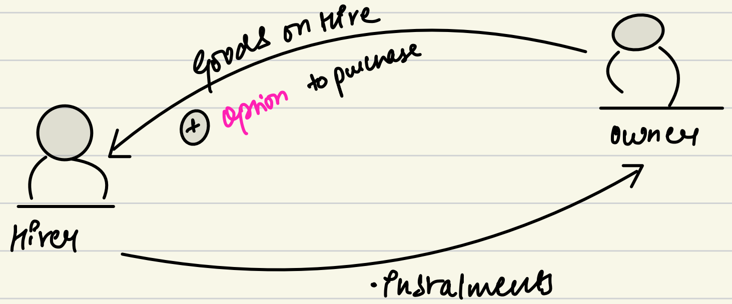
Hire Purchase (H.P.)



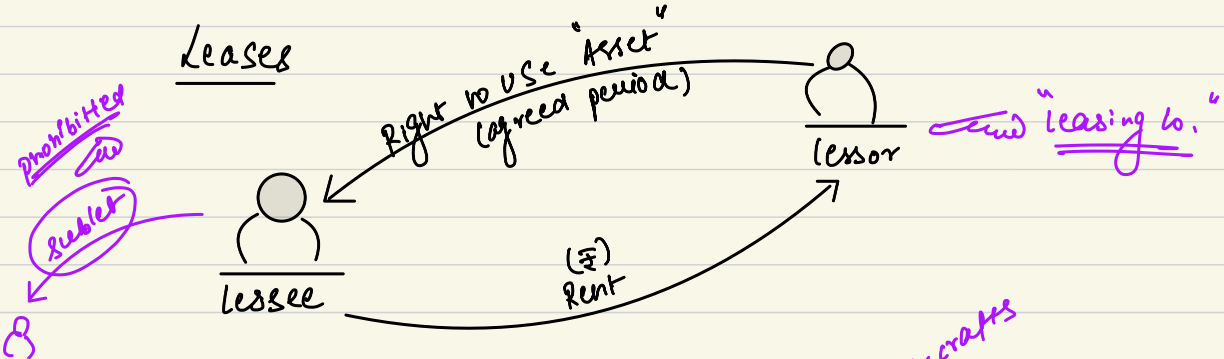
- property in Goods trfr to Hirer on last instalment
- Terminate contract anytime before last instalment.

H.P. Agreement ⇒ Auditor check?

(Basic) In writing & signed by all parties.
⇓

- Date of agreement
- Goods to which agreement relates.
- Prices → Cash Price of goods (Purchase Price)
  → H.P. Price (Instalments)
  ↓
- No. of instalments [amount, date, Person & Place payable]

Leases



Audit of Leasing Co.

1. Study objects clause "M.o.A" of Co. → capital / consumer goods etc for which Co. can do leasing Acts. (Machinery / Aircrafts; durables)
   → whether Co. can do finance Acts.?

Imp
Lease Agreement i) description of lessor, lessee, equipment, location of installation.

Time { ii) Tenure of lease, Dates of payment, late charges, security deposits etc.

iii) whether equipment returned to lessor on agreement completion

Equipment

&

cost borne by lessee.

iv) whether Agreement prohibits lessee from subletting equipment.

Example:

① Lease Proposal form (Lessee → Lessor) → ② Credit Analysis of Lessee (ability to meet lease commitment, past credit record, collateral availability etc.) → ③ Agreement → ④ Board Resolution (Authorising director of lessee to execute lease agreement) → ⑤ Acceptance letter (Equipment recd.) → ⑥ Insurance Policies (obtained by lessor for records.)

Lease

Operating "Rent"

- Coffee machine (2 years)
- ↓ "Rent"
- ↓ "Op. Expense"

Finance "Purchase EMI"

- "Spl. machinery" (useful life 10 years)
- ↓ lease 10 years.
- ↓ "P.V. Payments = F.V. of Asset"
  - Asset ↓ Depn (Tax Adv)
  - Payments ↓ Finance Cost

Finance Lease (Loan Arrangement)

Ownership
- trfr of ownership to lessee at the end of lease term
  ↓
- lessee has option to purchase asset at sufficiently lower price than fair value.

Lease Term is for major part of economic life of asset.

(₹) At start of lease, P.V. of minimum lease payments = Fair value of Asset.

Leased Asset is of specialised nature that only lessee can use.