

COMPARATIVE OVERVIEWS
OF
LEASING AND HIRE PURCHASE

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PREFACE

This research paper is a partial fulfillment of the requirement of the Advanced Diploma In Accountancy. The topic of this paper is " The comparative overviews of leasing and hire purchase". As the topic suggests, it is a discussion paper of the various aspects of comparisons between both type of financing property.

The paper is arranged under the topics of leasing in the first part and hire purchase in the second part. This is followed by the analysis of both method and finally the conclusion of the paper itself.

I wish to thank the management and staff of the Certified Accounting firm, Ernst & Whinney, who have given me the permission to use their library as well as providing me with all the documents and information required. And finally I would like to thank especially Mr Mohd Faiz Ghouse, my advisor, for his assistance and encouragement in completing the report.

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1.0 INTRODUCTION

Companies or business organisations need to expand if they intend to increase their profit and control of the market. Thus, in the process of expansion and development, they need ^{to have} various means of achieving the objectives. Various means that are of necessity include the use of manufacturing machineries, buildings, vehicles, computers, communication facilities and so forth. The ability to acquire those assets depend on the financial standing of those companies. Some of those companies may be financially sound to acquire assets by outright purchase. This may be possible if the value is comparatively low. They will not be able to acquire by outright purchase if it cost them millions. Thus, the choice of acquiring assets by other means would be obtained.

The two common methods of acquiring assets ^{other than by outright purchase} are through leasing and hire purchase.

Generally, leasing, comparatively new in Malaysian economy, is one of the methods of acquiring asset where the lessee will pay ~~an~~ equal instalments to the lessor in exchange for use of the asset. While under the hire purchase, the hirer pays ~~a~~ monthly instalments and obtains all the rights to the

assets but will not own the assets legally until the last payment is paid. A businessman or company deciding whether to buy or lease an asset will make his decision after considering the comparative cost of purchase and lease. The cost to be considered is generally the after-tax cost. Therefore the objective of this paper is to make a comparative study of the two methods of acquisitions. This comparative study will point the different aspects of leasing and ~~the~~ hire purchase. These will include the advantages and disadvantages, accounting treatment and tax implications. Thus, from the study it is expected that the reader will obtain a clearer knowledge of leasing and ~~the~~ hire purchase and decide which method is the best to adopt given various conditions and circumstances.