

## MMA Definitions & Formula Sheet – Hire Purchase

### Key Terms:

#### Hire Purchase:

Hire Purchase (usually abbreviated as HP), is a convenient and popular type of payment where a customer is allowed to purchase various goods (e.g. appliances, furniture, vehicle etc.), without initially paying the full amount for the item. Under the HP terms/contract, the customer is allowed to make a small deposit (or down payment) which typically amounts to 10% of the cost for the item, then pay the outstanding balance in equal monthly instalments over a period time. Interest (usually calculated based on Simple Interest) is also incurred to the outstanding balance. Thus, purchasing items via HP is usually much higher than if these items were bought cash.

#### Hire Purchase Formulae:

- ❖ *Hire Purchase = The downpayment + The amount payable*
- ❖ *The amount payable = The outstanding balance + The interest charged*
- ❖ *Interest charged =  $\frac{\text{Principle (P)} \times \text{Rate (R)} \times \text{Time (T)}}{100}$*