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B.Com Honours | Semester V | Calicut University

MANAGEMENT OF FINANCIAL SERVICES

Course Code: COM5EJ301 • Module 4 Notes

Module IV: Fund-Based Financial Services (Factoring, Forfeiting, Leasing, & HP)

Covers short-term receivables financing (Factoring & Forfeiting), equipment leasing asset structures, and Hire Purchase legal mechanics.

Unit 10: Factoring Mechanism & Bill Discounting

Financial arrangement where business assigns receivables to a Factor.
Recourse Factoring: Client absorbs bad debt losses if customer defaults.
Non-Recourse Factoring: Factor absorbs bad debt credit losses.
Functions: Sales ledger administration, credit protection, debt collection, short-term financing advance (75-80%).

Unit 11: Forfeiting Services & Process Comparison

Medium to long-term non-recourse export receivables financing using avalised Promissory Notes or Bills of Exchange. Unlike factoring, forfeiting is 100% non-recourse and export-specific.

Unit 12: Leasing Services & Regulatory Framework

Contract between Lessor (owner) and Lessee (user) for right to use asset against periodic lease rentals.
Financial Lease: Long-term non-cancellable lease; transfer of substantially all risks and rewards to lessee (capitalized on balance sheet under Ind AS 116).
Operating Lease: Short-term cancellable lease; lessor maintains asset.

Unit 13: Hire Purchase System & Structural Differences

Contract where hirer pays periodic installments with option to purchase asset upon payment of final installment. Title passes only after final payment.

Practical Case Framework (Leasing vs Hire Purchase Structural Comparative Matrix): Compare legal ownership, depreciation entitlement, tax benefits, and balance sheet treatment.

Leasing vs Hire Purchase System Structural Comparative Matrix:

Comparative Dimension	Leasing Contract System	Hire Purchase Contract System
Asset Ownership Title	Remains with Lessor throughout lease tenure	Passes to Hirer upon payment of final installment
Depreciation Entitlement	Claimed by Lessor (Asset owner)	Claimed by Hirer (Deemed economic owner)
Tax Deductibility	Full Lease Rentals deductible as operating expense	Only Interest component deductible as revenue expense
Maintenance & Repairs	Lessor (Operating Lease) / Lessee (Financial Lease)	Hirer is responsible for repairs & maintenance
Salvage Value Claim	Belongs to Lessor upon lease expiration	Belongs to Hirer after final payment