

Buy or lease option essay

[Business](#), [Company](#)



Buy or Lease Option

As illustrated by Rai & Sigrin (2013), organizations or corporations compare various factors before they decide on whether to buy or to lease an asset.

The primary objective of this paper is to help the management to reach an ideal and economically realistic decision between the two based on information given.

When considering the benefits and disadvantages of each option, the primary advantage of the leasing option is that that firm will not require a relatively high initial capital. Besides, it will not incur annual interest rates of up to 10 percent. Further, it will avoid the loan compliance terms required when the capital to purchase the asset is needed. However, leasing will require an annual commitment to pay the lease and maintenance cost of up to \$5000. Further, such costs will increase by about \$1000 annually, as the asset ages.

The primary advantage of the buying option is that the firm would have complete ownership and control of the asset. Therefore, it can make any intended alterations, or lease it when not in use for extra income.

Additionally, there is no annual payment required, as compared to leasing, apart from the initial purchasing cost of \$200, 000. There is also an additional residual value of about \$50, 000 at the end of the three years that the organization needs the asset. However, purchasing has several disadvantages, which include annual maintenance costs of about \$5, 000. Moreover, the company will have to seek a loan to lump sum money needed for the acquisition. Subsequently, it will face creditor's strict conditions of loan repayment and collateral.

Based on the argument presented by Backof, Bamber & Carpenter (2013), cash flow should be the primary aspect informing the decision whether to buy or to lease an asset. Therefore, from the cash flow point of view, leasing is the best option since it is relatively cheaper. Additionally, leasing has more advantages as compared to purchasing the asset.

References

- Backof, A. G., Bamber, E. M., & Carpenter, T. D. (2013). More precise versus less precise accounting standards: The effect of auditor judgment frameworks in constraining aggressive reporting. Virginia: University of Virginia.
- Rai, V., & Sigrin, B. (2013). Diffusion of environmentally-friendly energy technologies: buy versus lease differences in residential PV markets. *Environmental Research Letters*, 8(1), 014022.