

# Lease versus purchase essay sample

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A company is in need of equipment, but do not have the capital to purchase. So, understanding when to lease verses purchase is a decision companies are constantly faced with. There are many factors that are involved when deciding whether to purchase or lease equipment. Leasing equipment may be more beneficial depending on the project because of the constant cash flow unlike purchasing. The cash flow is not constant, it only increases when the principal amount increases. As an example, the life span of the equipment you purchase is three years. The cash flow will increase as you pay the principle down, although there is another expense you will have to consider such as depreciation and expenditures. If you are considering a shorter-term project you may consider leasing and adjust it to how much you would want to owe back in interest. Interest is a factor in leasing because you do not wish to owe more than what it would it cost if you have made the purchase instead. When deciding whether to lease or purchase all depends on the individual situation.

If a company has limited capital, but requires equipment to fulfill operational needs, it will more than likely be economically feasible to lease the equipment. Purchasing may be costly based off the initial expenditure cost. When leasing, a firm can utilize equipment long after the initial down payment which will result in less weight on cash flow. Lease payments can also become deductible for firms. Leasing can be a reduction in the net cost of a firm's operations cost. On the other hand, leasing can typically results in higher overall cost. If your business depends on the ever changing technology then purchasing would not be the best option. A lease leaves a business with the flexibility to change as technology changes.

If the asset is going to be used for the foreseeable future and can be depreciated, the business should look at purchasing instead of leasing. The key decision in leasing or purchasing is understanding exactly what the company's needs are and the purpose of the asset. Some company's believe that owning is always the way to go; whether it be with cars, homes, or other expensive products. However, the outflows from leasing are less than those of owning. Owning would only be beneficial in a more long term situation, and a company would be saving a significant amount of money once the item is paid off. Finally, even if a company no longer is in need of utilizing that equipment, they will still have to pay off the entire lease or pay termination fees. Conclusion

After reviewing the information describing leasing verses purchase, it is clear leasing is the best option. If the company was planning on keeping an asset for the full economical life of five years, it would be cost effective to purchase. The company wants to get rid of the asset for the amount of \$50,000 at the end of the third year, which would result in a loss of \$10,000 for the company. With leasing, yes the maintenance fee increases each year, but the cash flows for leasing are much less than that of purchasing and the company does not have to borrow money that could inhibit financing for something else that may come up unexpectedly. If there was a choice between leasing and purchasing, leasing would be more economical for a company, and also helps to reduce the cost capital for a company.

## References

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