

STUDY GUIDELINES FIN3701 - STUDY UNIT 9

1 GENERAL

This study unit is covered in chapter 16 of the prescribed textbook. This study unit explores the leasing versus purchase options available to the company. You are required to know the basis upon which a company's choice (lease or purchase) is made.

2 FORMAT OF ASSESSMENT

This study unit will not form part of the examination.

3 IMPORTANT AREAS IN THE STUDY UNIT

Pay attention to the following:

- The reasons for choosing either the lease or purchase option.
- The advantages of leasing to the lessee.
- The advantages of leasing to the lessor.

4 Study Guide Errata

Areas to correct:

Page 105: Advantages and disadvantages of leasing

Feedback on self assessment (Lease option).

Year 1: After-tax cash outflow = $R25\,200 \times (1-0.40) = 15\,120$

Year 2: After-tax cash outflow = $R25\,200 \times (1-0.40) = 15\,120$

Year 3: After-tax cash outflow = $R25\,200 \times (1-0.40) = 15\,120 + 5\,000 = 20\,120$

Areas to skip:

Page 102: Lease versus purchase decision

Annual lease payment/Amount of lease will be given, students do not need to memorise the equation.

Page 102: Lease versus purchase decision

Skip Azambezi Tours example.

Page 102: Lease versus purchase decision

Skip the whole page.

Page 103: Lease versus purchase decision

Skip the table for Azambezi Tours example.