

APPENDIX I

ADVANTAGES OF LEASING

1. Profit is obtained by USE of assets not ownership.
2. The use of lease finance frees cash which would otherwise have been spent on plant and equipment, and enables it to be diverted to increasing working capital (stocks, debtors, etc.) enabling higher sales and consequently higher profits.
3. Lease payments are allowable deductions for income tax purposes, and are therefore deducted from profit in the year in which they are made with consequent savings in Income Taxes. *without C.C.T. 9*
4. Leasing charges are less than hire purchase charges.
5. As normally no deposit is required the use of lease finance leaves more cash available than does hire purchase for use in a business.
6. Comparison of costs per \$1,000 of cash price show that lease finance is cheaper than both outright cash purchase and hire purchase;
7. Cost is known with certainty. *99*

A. Applicable to Plant with a Wear and Tear allowance rate of 20% P.A.

a) Outright Purchase

Cash Outlaid		\$1,000
Wear & Tear allowance allowable		
Year 1	400	
2	120	
3	<u>96</u>	
	Total	<u>616</u>
Income Tax reduced by virtue of Wear & Tear allowance \$616 @ 40% (being rate of tax)		<u>246</u>

b) Lease Basis

Cash Outlaid			
Year 1	12 x \$52.03	=	624
2	12 x 32.72	=	393
3	12 x 15.43	=	<u>185</u>
	Total		\$1,202
Income tax reduced by deduction in full of lease rentals \$1,202 x 40% = \$480			\$ 480

759  
772 ...2/-

(c) Hire Purchase

3 years. 10% flat per annum

Cash price	\$1,000
Less deposit (minimum)	<u>300</u>
Balance	700
Add charges	<u>200</u>
 Total rentals repayable by 36 monthly rentals of \$25	 <u>\$ 900</u>

Cash Outlaid

Year 1	600
2	300
3	<u>300</u>

Total cash outlaid \$1,200

Total Wear & Tear allowable (20% P.A.) (same as in Outright Purchase)	616
Charges	<u>200</u>
 Total deductions	 <u>816</u>

Income tax reduced @ 40% \$ 326

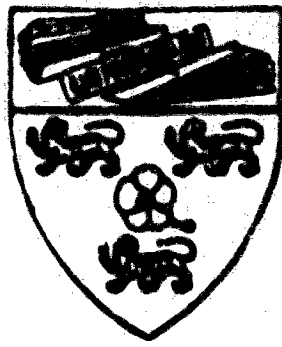
Summary

\$ 874 9

	<u>Outright Purchase</u>	<u>Lease</u>	<u>H.P.</u>
Cash Outlaid. Year 1	\$ 1,000	624	600
2	nil	393	300
3	nil	<u>185</u>	<u>300</u>
 Total Cash Outlaid	 1,000	 1,202	 1,202
 <u>Less</u> Income Tax reduced	 <u>246</u>	 <u>480</u>	 <u>326</u>
 Net cost after allowing for Income Tax	 <u>\$ 754</u>	 <u>\$ 722</u>	 <u>\$874</u>

## BIBLIOGRAPHY

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