



SNS COLLEGE OF ENGINEERING

Kurumbapalayam (Po), Coimbatore – 641 107

AN AUTONOMOUS INSTITUTION

Accredited by NAAC – UGC with 'A' Grade
Approved by AICTE, New Delhi & Affiliated to Anna University, Chennai



DEPARTMENT OF MANAGEMENT STUDIES

23BAT361 – Financial Sourcing Management

PUZZLE

The Lease vs. Buy Puzzle

Problem: A company is considering acquiring a piece of equipment. It has two options: leasing or buying. The details are as follows:

- Lease:
 - Annual Lease Payment: \$30,000
 - Lease Term: 5 years
- Buy:
 - Purchase Price: \$120,000
 - Loan Interest Rate: 8% per year
 - Loan Term: 5 years

Question: Which option is more cost-effective for the company, leasing or buying, if the equipment's residual value at the end of 5 years is expected to be \$20,000?