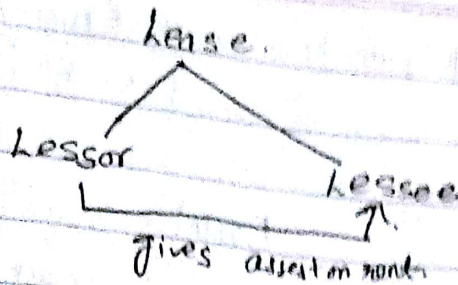
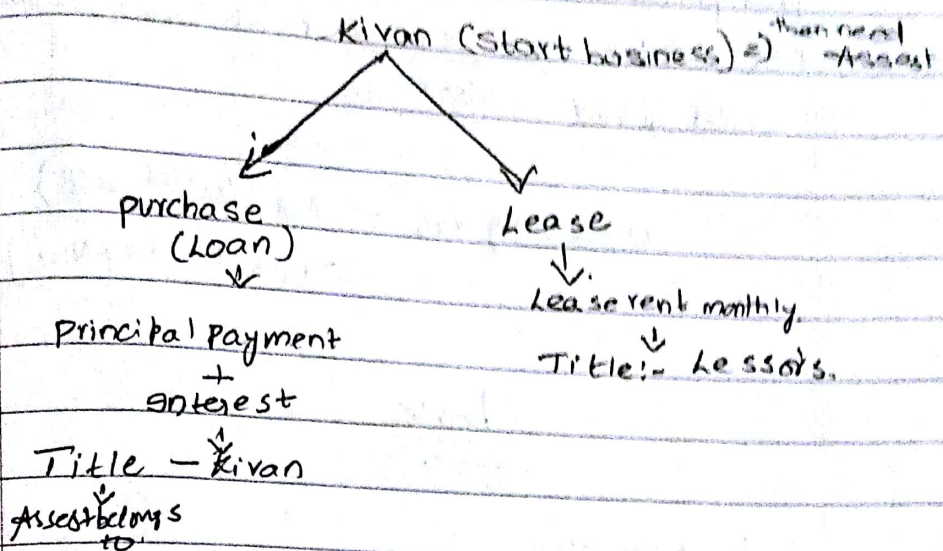


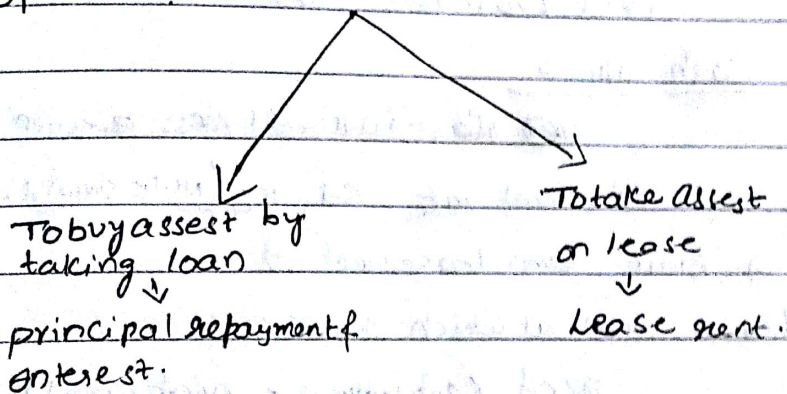
Lease Kivan Sr.



purpose of this chapter:-



→ options :-



→ cash flow in case Asset is purchased with help of loan

- (i) principal
- (ii) interest

cash out flows

→ cost of asset, rate of interest, yearly, monthly (total payment assumed for month)

$$\text{Total payment} = \frac{\text{cost of asset}}{PVA(r\%, n\text{year})} \left[\text{if payment at the end of the period} \right]$$

→ Total payment = $\frac{\text{cost of asset / Loan Amt.}}{1 + \text{VAT} (Y1, 11-11\%)} \left[\begin{array}{l} \text{Interest on} \\ \text{loan} \\ \text{etc.} \end{array} \right]$

(NPV)

LOAN

Cash outflow		Cash inflows	
Pr of principal	xxx	Pr of Salvage value (Net of tax) $\left(\frac{L \times (1-t)}{1} \right)$	xxx
PV of interest	<u>xxx</u>	PV of Tax saving $\left(\frac{L \times r \times t}{1} \right)$	xxx
Net of tax	<u>xxx</u>		

Discounting rate = k_d (cost of debt)
 $= 2 \times (1 - \text{tax rate})$

Lease

Cash out flows:-

lease rent $\Rightarrow$ Expense $\Rightarrow$ Tax saving
 $\downarrow$
 PV of Lease rent $\Rightarrow$ Net of tax

Cash inflows

~~Net~~ Cash inflows unless question specifies.

Discount rate: k_d, k_o (Note should be given)

→ Break even lease rent $\Rightarrow$

lease rent at which NPV = 0

PV of Cash inflows - PV of Cash outflows = 0

$\Rightarrow$ PV of Cash inflows = PV of cash outflows = $\frac{\text{Pr of principal} + \text{Pr of interest}}{1}$

$\Rightarrow X \times \text{PVAF} (Y1, 11\% \text{ year}) \times (1-t) + \text{P.V of salvage value} + \text{P.V of tax saving exp.}$