# LEASING AS A FINANCING METHOD - A CASE STUDY

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**Abstract**

The leasing begins to occupy an important place in the financial market due to its affordability and tax benefits, economic and financial. The finance leasing is recommended operators wishing to reduce their profit tax and value added tax, those who do not have collateral or a deposit required to obtain a loan. Now research of leasing identify only a drawback would be the lack of ownership of the goods purchased.

**Key words**: financing method, leasing, profit, efficiency

The main sources of financing investment that we make a firm are: availability of previous years, loans and leasing. These are the most used sources of financing for both current and investment activities (Elijah V., 2008; Donosa D. *et al*, 1999; Moraru R.A. *et al* 2003).

Leasing is a contract between two parties (lessor and lessee), where the lessor provides the lessee an asset for a specified period of time in exchange for specific payments (Fletcher M. *et al*, 2005). It has the advantages that: all expenses arising from the contract are tax deductible; financing of investments without recourse to borrowed capital or own; unites the cost of utilization of fixed assets; leases are more flexible to customer needs (Slotty C., 2009; Chemmanur T. Yan A., 2010). Also, a tenant can finance up to 100% of the purchase price of an asset and is not necessary or no guarantee or warranty suplimentarş - guarantee for the transaction is the asset itself.

The main disadvantages of leasing is the relatively higher costs and expenditure are due for a prolonged period without ownership of the asset (Dean M., 2007).

In the current conditions in Romania macroclimate the economic development involves making a large investment is necessary to know the financing alternatives.

This work is justified by the need to know the most efficient sources of finance with special focus on credit and leasing. It is useful to know the costs (actual and opportunity) they involve funding from different sources as they determine the investment opportunity. It is also necessary to know the level of income or savings causing them each to all the others.

## MATERIAL AND METHOD

The purpose of the research presented in this paper is to determine the economic efficiency of specific funding sources. It derives two objectives. determining and quantifying the cost of economic efficiency rates of specific sources. Research methods used were the case study method of comparison and economic simulation. The case study was conducted at SC Proelda Cons SRL Iasi, Romania, a unit specialized in consulting services and managent.

Financing variants analyzed assumed to investment of 11.000 euro for buying a car with a repayment period of the loan and lease for 5 years.

## RESULTS AND DISCUSSIONS

For cost analysis by source of funding was considered a value of financing the leasing of 6,291 euro, the purchase value of the car (11,000euro) of which was low down payments required. Grants for funding was taken into account a value of 5,500 euro, representing 50% of the purchase accounting for share grant. And the debt financing, the bank makes a loan to 85% of the purchase price of the car.

Cumulative interest loan financing have been calculated at an average interest rate of 5.3% per year.

Leasing fee was determined as the sum of monthly interest. Obviously that does not mean self-financing interest and fees.

Cost of services related to finance lease were represented management fee (72 euro/year); the

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commission grants consultancy services (5% of the aid) and the credit risk of the monthly outstanding (3.6% per annum of the loan amount) combined with fee credit file analysis (30 euro).

Opportunity cost is recorded in accrued interest in cash flow because we believe that only the owner of capital can submit this capital to the bank.

Table 1

**Analysis of costs for different sources of investment financing**

| Indicators | Self-financing | Finance lease | Financed by grants | Credit financing |
|---|---|---|---|---|
| Loan value (euro) | - | 6,290.76 | 5,500.00 | 9,350.00 |
| Accrued interest / leasing commission (euro) | | 991.40 | | 2,477.75 |
| Commission related services (euro) | | 360.00 | 275.00 | 1,713.00 |
| Opportunity cost to accrued interest (euro) | 836.00 | - | - | - |
| **Total financing cost (euro)** | 836.00 | 1,351.40 | 275.00 | 4,190.75 |

The total cost of financing the sum of all actual costs and opportunity costs. Accordingly, the cheapest form of financing was that the grants with a level of 275.0 euro *(table 1)* followed by self-financing which cost with 304.0% more than the financing through leasing of 491,4% in May and the more credit by 1,523.2% more than the financing through grants. Note that debt financing was 310.1% more expensive than financing through leasing.

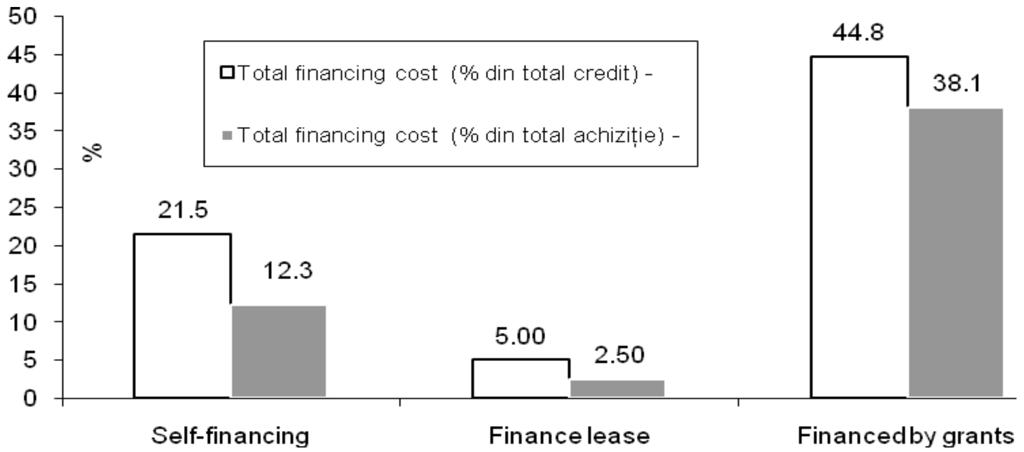


**Figure 1 Relatively funding cost (%)**

Due to the size of the different level of funding it was necessary to determine the total cost of funding relative to total amount of financing and the total cost of financing in relation to the total purchase value of the car. The cost of the total value of the loan was to finance itself invalid because it was not necessary in this case lending *(figure 1).* In contrast to other cases, funding from grants accounted for 5% of the financing, lease financing was more expensive by 16.5% and credit financing was also 39.8 percent more expensive.

The total acquisition cost was reported at lowest for grants at a value of 2.5%; self-financing cost 5.1% more than the grants; finance lease was 9.8% more expensive than financing through loans and grants by 35.6%. We note that financing through leasing was 25.8% cheaper than debt financing.

Table 2

**Cost analysis and savings for different sources of investment financing**

| Indicators | Self-financing | Finance lease | Financed by grants | Credit financing |
|---|---|---|---|---|
| Total financing cost (euro) | 836.0 | 1,351.4 | 275.0 | 4,190.8 |
| VAT recovery (euro) | 1,833.3 | 2,209.0 | 916.7 | 1,833.3 |
| **Gross Profit specific funding (euro)** | 997.3 | 857.6 | 641.7 | - 2,357.4 |

Value Added Tax to be recovered from the investment expressed in this case as a form of income in most economic activities a small proportion of the VAT can be recovered, the largest share of expenditures being held by not carrying VAT costs.

From this point of view, obtain financing through leasing highest value euro 2,209 followed by self-financing and debt financing which recovers 83% of this value *(table 2)*. Funding through grants recover VAT obtained 41.5 percent of the lease. Compared to debt financing, leasing financing enables recovery to 375.7 euro more than debt financing.

Gross profit shows the extent to which specific financing costs can be recovered through the value added tax.

Three of the four cases allow cost recovery crediting of VAT, debt financing, in turn, indicates an additional cost of 2,35.4 euro *(table 2)*. Financing through grants for this indicator is as favorable showing a gross profit of 641.7 euro specific lease financing exceeded by 33.7% and 55.4% self-financing. Girl leasing and loan financing proves to be more profitable with 3,215 euro.

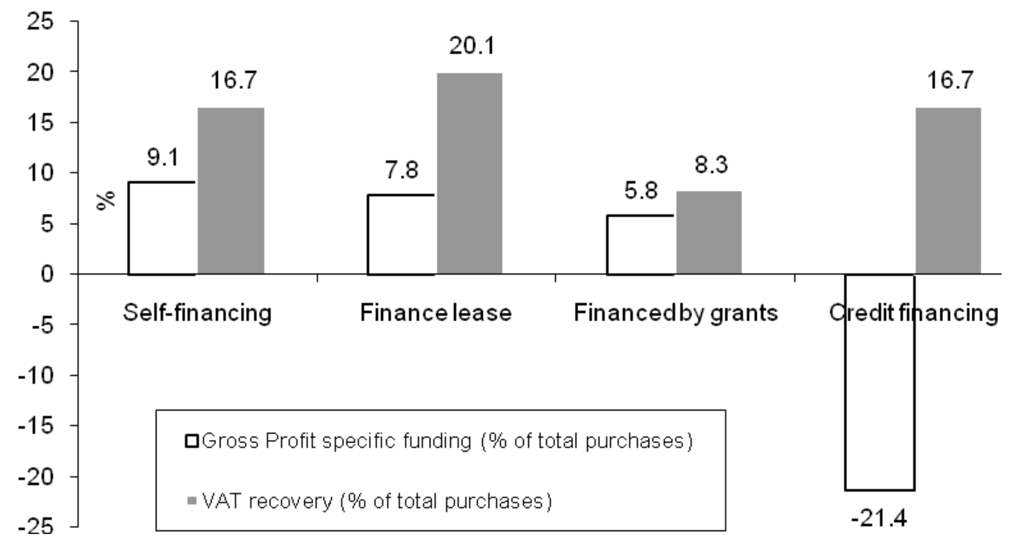


Figure 2 **Profit and savings on the purchase value (%)**

Given the different sizes of the financing, the volume of value added tax has been reported size of the investment. Thus, lease financing afforded 20,102 euro to 100 euro worth getting. Self-financing obtained 16.7 to EUR 100 purchase, ie 83.0% of the lease obtained *(figure 2)*. Debt financing of Optina 83.0 percent compared to VAT on leasing and 41.5 percent from grants.

Gross profit funding related to specific purchase amount recorded the highest self-financing by 9.1%. Lease financing obtained 7.8%, 1.3 percent less than the film self-financing, grants a gross profit of 5.8% ie 3.2% less than self-financing. The loan brings a loss of 2.4%. Compared to credit, leasing is by 29.9 percent more profitable.

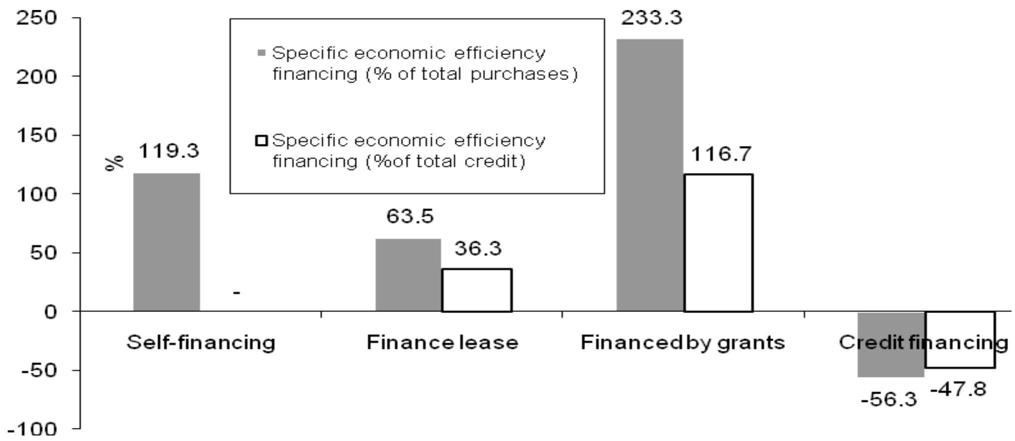


Figure 3 **Specific economic efficiency (%)**

Economic efficiency specific funding has been determined as a ratio between gross profit and specific funding total funding costs. They were assessed according to the value of purchase and depending on the loan amount.

Economic efficiency depending on the purchase amount recorded the highest value in funding from grants to a percentage of 233.3 *(figure 3).* Self-financing was 119.3% less effective than grants followed by finance lease which achieved a value of 63.5%, or 169.9% less than the grants. Efficiency credit financing shows that for every 100 euro spent on financing costs is a loss of 56.3 euro.

Maximum economic efficiency relative to the credit of all the grants was obtained 16.7% followed by 36.3% ie leasing of 80.4% over the first. Loan causes a loss of 47.8% of the costs of lending. Economic efficiency is not representative of specific self-financing because it does not require funding from third parties.

## CONCLUSIONS

The total cost of financing through leasing for a value of 6,290.8 euro 1,351.4 euro and was reported to total lease purchase financing was 9.8% more than the financing through grants. Financing through leasing was 25.8% cheaper than debt financing. Specific economic efficiency financing through leasing had a value of 63.5% based on acquisition value and 36.3% depending on the loan amount. Loan causes a loss of 47.8% of the costs of lending.

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