CASH VS RENTAL VS LEASE

INFLUENCE	CASH	RENTAL	LEASE
DEPOSIT	Full cash amount upfront	No Deposit	Usually requires a minimum of 10% deposit
CASH FLOW	Cash flow will be negatively impacted and reserves could be drained if an overdraft or loan facility is accessed to fund the asset	You retain your working capital	Deposit is required, minimal effect on cash flow
OFF-BALANCE SHEET	No → listed as an asset on the balance sheet	Yes → Listed as an operating expense on the income statement	No → Capital appears as a liability on the balance sheet & the equipment as an asset
DEPRECIATION	Equipment will usually be less valuable than what it initially cost after 3 years of depreciation	No	Equipment will usually be less valuable than what it initially cost after 3 years of depreciation
AFFECT ON LIQUIDITY	As an asset depreciates, so it will negatively affect the asset to liability ratio	Is off Balance sheet & will therefore have no affect	Assets depreciate faster than the liability decreases, so it will negatively affect the asset to liability ratio
BORROWING ABILITY	Minimal impact although the depreciation could affect the asset to liability ratio	No impact → off balance sheet	A financial institute might consider you as over exposed due to the liability, or you might reach your limit on your existing facility
VAT	VAT is capitalised upfront	VAT is payable monthly	VAT is capitalised upfront
TAX DEDUCTABLE	No	100% tax deductible	Only interest is tax deductible

The benefits of using a rental include:

- Retaining your working capital
- Retaining credit lines, leaving them free to finance other assets.
- The VAT on the rental is raised monthly
- The rental is wholly tax deductible
- As an off-balance sheet item it will not affect your balance sheet ratios and will require a lot less administration.