Lesson 7 Leasing a Vehicle

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Advantages	Disadvantages
lower monthly payments rarely pay big maintenance costs more convenient to replace car pay taxes on monthly payment, not total price of vehicle	excess kilometres will cost more excessive damages need to be repaired at end of lease at your expense always have a monthly payment it's more expensive in the long run

can't be used as an asset

Definitions

Residual Value: prediction of the value of the car at the end of the lease

Residual value rate: percent rate used to calculate the residual value

Example 1

Bill decides to lease a car. His monthly lease payment is $394.60, after taxes, for 36 months. He made a down payment of $1800. Determine the total cost Bill will have paid by the end of the lease.

Total cost = down payment + monthly payment × # of months

= 1800 + 394.60 × 36

= $16 005.60

Example 2

Sean wants to lease a new vehicle valued at $24 375, before taxes. The lease payment is $350 per month plus taxes for a 4-year lease with a down payment of $2000. A refundable security deposit of $500 must be paid at the beginning of the lease.

a.) Determine the monthly lease payment, including taxes.

$350 \times 1.12 = \$392$

b.) Determine the amount which must be paid at the beginning of the lease.

security deposit + down payment + 1st monthly payment

$500 + 2000 + 392$

$\$2892$

c.) Determine the total cost for leasing this vehicle.

4yrs → 4×12
48

$2000 + 392 \times 48$

$\$20816$

d.) Determine the residual value of the vehicle, before taxes, using a residual rate of 40%.

$24\,375 \times 0.40$

$\$9750$

* If asked for after taxes

9750×1.12

$\$10\,920$