

Example 1 – Van

The answer is an operating lease. It does not meet any of the capital lease criteria.

Example 2 - Copier

The answer is a capital lease. The key factors in this example are:

- the lease life is greater than 75% of the asset life
- the present value of the minimum lease payments equals or exceeds 90% of the asset's fair value

Example 3 – Phone System

The answer is a capital lease. The key factors in this example are:

- the lessee has a bargain purchase price option
 - Bargain purchase options exist when the purchase price is significantly below market value of the asset. This will usually be a judgment call with leases with purchase options. The bargain price in this example is extreme to illustrate the point.
- the present value of the minimum lease payments equals or exceeds 90% of the asset's fair value

Example 4 – Car

The answer is a capital lease. The key factor in this example is:

- the present value of the minimum lease payments equals or exceeds 90% of asset's fair value

Example 5 – Imaging System

The answer is a capital lease. The key factors in this example are:

- the lessee takes ownership of the asset at the end of the lease
- the term of the lease is 75% or more of the asset's useful life
- the present value of the minimum lease payments equals or exceeds 90% of asset's fair value

Example 6 – Copier

The answer is a capital lease. The key factor in this example is:

- the lessee has the option to re-lease the asset at a bargain renewal rate
 - A bargain renewal rate is one that is sufficiently lower than the fair rental of the property at the date the option becomes exercisable. There are no fixed guidelines in this area so it will be the judgment of the agency.
 - When a bargain renewal option exists, the useful lives and minimum lease payments of both leases (original and renewal) are combined for comparisons of lease term to useful life and present value of minimum lease payments to asset's fair value.
 - In this example, please note that the stated interest rate in the original lease is 3.9% and the implicit rate is 4.2% after the renewal option is taken into consideration. Interest rates stated in the lease are not always actual rates. Calculations need to be made to determine the actual interest rate effecting the lease.

Example 7 – Used Van

The answer is an operating lease. The key factor in this example is:

- over 75% of the asset's useful life has already been consumed at the beginning of the lease
 - When the beginning of the lease falls within the last 25% of the useful life of the asset, the lease term to useful life and present value of minimum lease payments to fair value comparisons are irrelevant.

Example 8 – Servers

The answer is an operating lease. It does not meet any of the capital lease criteria.