Satisfying any of these criteria would normally lead to finance lease:

1. Transfer of ownership to the lessee at the end of the lease term.
2. Purchase option that is reasonably certain to be exercised.
3. Lease term forms a major part (at least 75%) of the asset's useful life.
4. Present value(PV) of lease payments is a substantial part (at least 90%) of the fair value of the asset.

Accounting Models:

1. **Sales-type**

- Gross investment in the lease = Gross rentals plus gross residual value whether guaranteed or unguaranteed provided that asset reverts back to the lessor.
- Net investment in the lease = PV of the rentals plus any PV of residual value whether guaranteed or unguaranteed.
- Unearned interest income = Gross investment less Net investment
- Sales = PV of lease payments or fair value of asset, whichever is lower
- CGS = Cost of the asset plus initial direct cost less any PV of unguaranteed residual value
- Gross profit or dealer's profit = Sales less CGS
- Initial direct cost = Expensed immediately, but component of CGS

*Unearned interest income = Total financial revenue

2. Direct Financing Lease

- Gross investment in the lease = Gross rentals plus gross residual value whether guaranteed or unguaranteed
- Net investment in the lease = Cost of the asset plus initial direct cost
- Unearned interest income = Gross investment less Net investment
- Initial direct cost = Capitalized as cost of the asset, therefore, part of the net investment. Implicit interest rate in the lease should consider the effect of initial direct cost