Handout from WGFOA Winter Conference 2020

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ACCOUNTING FOR CAPITAL ASSETS

Capital vs. non-capital expenditures

Not Capitalized

Repairs and Maintenance = Expense; don't capitalize

- Asset remains in its original or subsequent improved condition
- Costs incurred to keep the capital asset in service for its original intended purpose over its normal expected useful life

- **Example**
  - **Repair & Maintenance**

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ACCOUNTING FOR CAPITAL ASSETS

Capital vs. noncapital expenditures

Capital

Capital outlay = Capitalize the asset

- **Either a new asset or an addition to a current asset**
- **For additions, the common driving factors of capital expenditures vs. non-capital are:**
  - Does the cost significantly expand the useful life?
  - Increase capacity?
  - Improve the efficiency of the asset?
- **Examples**
  - <u>Infrastructure & buildings</u>
  - <u>Building improvements</u>

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FINANCIAL STATEMENT REQUIREMENTS AND DISCLOSURES

Capital asset policies

- Help define what costs will be capitalized
- Define ranges of useful lives
- Related to capital vs. non-capital
  - Define a 'significant' extension of useful life
  - Set a floor threshold of increased efficiency
- Set capitalization threshold
  - Common example:
    - > $5,000 for general capital assets
    - > $20,000 for infrastructure

The following guidance could be used as suggested policy for capitalizing costs as improvements.

Capital asset improvement costs should be capitalized if:

1. The costs exceed the capitalization thresholds, and
2. One of the following criteria is met:
   a. The estimated life of the asset is extended by more than 25%, or
   b. The cost results in an increase in the capacity of the asset, or
   c. The efficiency of the asset is increased by more than 10%.

Otherwise, the cost should be recorded as a repair and maintenance expense within the appropriate expense function.