

Executive Summary: Capitalization Policy

This Capitalization Policy outlines the guidelines and procedures for identifying, recording, and managing capital assets within the organization. The purpose of this document is to ensure compliance with accounting standards and to promote consistency in the treatment of capital expenditures.

The policy stipulates the minimum cost threshold and useful life for capitalization of assets, delineates responsibilities between finance and operational departments, and aligns asset management practices with organizational financial reporting requirements.

Key Principles

Capital assets are defined as tangible or intangible items with an expected useful life exceeding one year and a unit cost that meets or surpasses the established capitalization threshold. Costs incurred to acquire, construct, or improve such assets are capitalized, while routine repairs and maintenance are expensed.

Capitalization Criteria

The following criteria must be met for an item to be capitalized:

- Unit acquisition or construction cost of \$5,000 or greater.
- Estimated useful life exceeds one year.
- The asset is owned or controlled by the organization and is not intended for resale in the ordinary course of business.
- Enhancements that significantly increase the value, capacity, or useful life of existing capital assets will also be capitalized.

Depreciation

All capitalized assets are depreciated or amortized over their estimated useful lives using standardized depreciation methods. Depreciation schedules are reviewed and updated regularly to reflect changes in use or asset condition.

The Finance Department is responsible for maintaining the capital asset ledger and ensuring compliance with this policy.

Important Notes

- Proper capitalization is critical for accurate financial reporting and audit compliance.
- This policy should be reviewed periodically and updated in accordance with changes to applicable accounting standards.
- Misclassification of assets may impact depreciation expense, taxes, and financial ratios.
- Staff must be trained on capitalization procedures to ensure consistency and accuracy.