

Procedures for Asset Capitalization in Financial Records

Purpose

To ensure consistency, accuracy, and compliance with accounting standards in the recognition and recording of capital assets within the organization's financial records.

Scope

These procedures apply to all staff responsible for purchasing, managing, and accounting for organizational assets intended to be capitalized.

Procedures

1. Asset Identification

Determine whether the purchased item meets the organization's definition of an asset (tangible/intangible, useful life of more than one year, and exceeding the capitalization threshold).

2. Cost Accumulation

Accumulate all costs directly attributable to bringing the asset to its intended use (purchase price, taxes, shipping, installation, etc.).

3. Approval

Obtain the necessary approvals from the department head and finance office prior to recording the asset as a capital item.

4. Recording in Financial Records

Record the asset in the accounting system under the appropriate asset category, using the agreed depreciable life and assigned asset number.

5. Supporting Documentation

File all supporting documents (invoices, contracts, receiving reports) with the asset register for audit and review purposes.

6. Commencement of Depreciation

Begin depreciation in the month the asset is placed into service, based on the organization's established depreciation methods.

7. Periodic Review

Conduct regular reviews of capitalized assets for impairment and disposal, updating records as necessary.

Responsibilities

- Finance Office** Ensures proper capitalization and compliance with accounting standards.
- Departments** Initiate asset purchases and maintain required documentation.
- Internal Audit** Periodically reviews asset records for accuracy and policy adherence.

Important Notes

- Asset capitalization policies must align with applicable financial reporting standards.
- Only assets meeting the organization's capitalization threshold are to be capitalized; others should be expensed.
- All supporting documentation must be retained for audit and compliance.
- Regular training on these procedures is recommended for all relevant staff.

