

Capitalization Policy

Purpose: This accounting policy establishes the threshold (minimum cost) for capitalization and depreciation of fixed assets. Assets meeting these requirement shall be recorded for both book and tax purposes in the records of **(Business Name)**

Materials and Supplies definition: A “material or supply” is generally considered to be tangible property that is used or consumed in the business within twelve months of acquisition, is not inventory, or has a unit cost of less than \$200. Materials and supplies meeting this definition may be expensed.

Fixed Asset definition: A “Fixed Asset” is defined as a unit of property that: (1) has an economic useful life that extends beyond 12 months; **and** (2) was acquired or produced for a cost of greater than \$_____. Fixed assets must be capitalized and depreciated for book and tax purposes.

Capitalization thresholds: **(Business Name)** _____ establishes \$_____ as the threshold amount for minimum capitalization. Fixed assets costing below this amount should be expensed in the Company’s financial statements (or books).

Capitalization method and procedure: Fixed Assets are recorded at historical cost as of the date acquired, and depreciated beginning on the date the fixed asset is placed in service.

Fixed Assets costing less then annual threshold stated above shall be recorded as an expense for financial statement and tax purposes. Fixed assets with an economic useful life that is less than 12 months shall be expensed for book and tax purposes, regardless of the acquisition or production cost.

Routine Maintenance definition: Routine maintenance that **(Business Name)** _____ reasonably expects to make more than once to a unit of property, including buildings, over a 10-year period is not a capital asset and will be expensed.

Record Keeping: Invoice substantiating an acquisition cost of each unit of property shall be retained for a minimum of 5 years.