Charity logo

Your Tagline Here

Capitalization Policy

Purpose

To maintain a consistent and accountable approach to the capitalization of assets, it is necessary for the Agency to have a clearly stated policy regarding capitalization.

This Policy has been established to ensure that all capital assets purchased by the Agency are duly recognized in the financial statements.

Policy Exceptions

This policy assumes that the Agency as a going concern will not acquire vehicles, buildings, or land.

Policy

Definition of a Capital Asset

A capital asset is property that is expected to generate value over a long period of time, generally more than one fiscal year or financial year. Capital assets form the productive base of an organization and they generally include buildings, computer equipment, furniture, machinery and vehicles.

Classification as a Capital Asset

For an expenditure to be classified as a capital asset, it must possess the following attributes:

- The asset must have a useful life of greater than one year
- The asset must be physical or tangible in nature
- Owned and control by the Agency
- An individual item must have a purchase price of greater than **$2,000**

- Items bought together in one purchase order/invoice that meet the above attributes with a total price of over $2,000 (for example, a group of furniture or computers purchased together)

Exceptions to Classification as Capital Asset

- Assets purchased by contributions from funders must be accounted for according to signed agreements and grant contracts.

Maintenance vs Capital Asset Additions

Maintenance and repairs maintain the pre-determined service potential of a capital asset for a given useful life. These expenditures are often referred to as “operating costs” and thus should be expensed in the account period incurred.

Half-Year Rule

The Agency will observe the “half-year” rule, in that all assets acquired within a fiscal year will be subjected to only half of the full-year depreciation in the year acquired.

Amortization

The Agency will adopt a straight-line method of depreciation as follows: -

Capital Asset	Amortization Period (Years)
Furniture and Equipment	10
Technology (Desktop, Laptops, Printers)	3
Equipment	3

Disposals

When a capital asset is taken out of service, destroyed, or replaced due to obsolescence, scrapping or dismantling, the finance department will be responsible for ensuring that the appropriate accounting entry is recorded.

The cost and the accumulated amortization shall be removed from the accounting records and any gain or loss recorded.

Action	Date
Policy Approved by Committee	XXXXX
Policy Approved by the Board	XXXXX
Policy Next Scheduled Review	XXXXX