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Title: **CAPITALIZATION LIMITS**

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Related Documents:

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## **POLICY**

It is the policy of the Bloorview School Authority that a capitalization limit be set annually by the Finance and Audit committee.

## **BACKGROUND**

1. Definition of Capitalization limits - The capitalization limit is the threshold above which the board must capitalize purchased or constructed assets. To capitalize an item means to spread the expense over a number of years (corresponding to the lifespan/value of the item) rather than list the entire cost as an expense in the year in which the item is purchased.
2. As an example – If the capitalization limit is \$5000, anything purchased for less than \$5000 is listed as an expense in the year in which it is purchased. For an item of greater than the limit (e.g. \$10,000) the expense is spread over a number of years (e.g. \$2000 each year for 5 years).
3. There is no specifically required cap limit. A business should consider a number of factors before settling upon the most appropriate limit.
4. The Finance and Audit Committee has been advised to develop a capitalization limit to be used in financial statements and audits.

## **GUIDING PRINCIPLES**

1. If the cap limit is extremely low, some expenditures will be shifted into fixed assets that would normally have been charged off at once, which make the short-term financial position will appear somewhat more positive. On the other hand, these items will still be charged to expense eventually, so a low cap limit increases the depreciation expense in later years.
2. If the capitalization limit is set high, a larger number of higher priced purchases will be charged to expense in the current period, which tends to make the financial picture appear less positive. A high limit, will result in substantially fewer assets to record in the fixed assets register, which can reduce the work load of the accounting staff.