



Title: **CAPITALIZATION LIMITS**

Adopted: June 2019

Revised: June 2021

Related Documents:

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

5. 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.

6. 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.