

Why Accuracy of Capital Coding is So Important

When departments purchase Capital Equipment or conduct Capital Projects, a financing source is charged using the (4660) subcode identifier. It is important that all capital related transactions are coded correctly to help ensure the accuracy of the School's financial statements.

It is important to code capital purchases correctly. When a purchase order or check request is coded using the 4660 subcode, there is an automatic journal entry that capitalizes the item to the School's fixed asset system, which tracks all equipment. An estimated useful life is assigned to the item providing the basis for annual depreciation charges. Every capital item is reviewed by the materials management group before being added to the fixed asset system. If items are erroneously coded as 4660, they will be required to be reclassified, which requires several entries and is time consuming.

Definition of Capital Expenditures

Capital Expenditures provide benefits exceeding one year. As a result, they are capitalized and assigned estimated useful lives that allow the asset to be expensed as the benefits of its use are realized.

Capital Additions

An item is considered to be a "capital" item if its acquisition cost is \$1,500 or more, **and** its useful life is greater than one year. *All* such items are coded to: '4660 – Capital Equipment.'

Examples of capital items you may add are:

- Computer systems, hardware
- Software (**Do not use** '4650 – Software'. That account is being closed. Nor, '4266 – Software.' That account is designated for non-capital software purchases (i.e., under \$1,500), and software maintenance costs/agreements.)
- Furniture & Fixtures
- Clinical Equipment
- Major Office Equipment

Leases

All leases should be coded to 4441, 'Equipment Rental/Lease'. *Under no circumstances should a lease agreement ever be coded to '4660'.* Purchasing will work collectively with General Accounting to determine if the lease qualifies for treatment as a capital item.

Applying the \$1,500 Capitalization Threshold to Aggregate Purchases

If a purchase order includes several line items that, in the aggregate, exceed \$1,500, the items may be combined to exceed the \$1,500 capitalization threshold. If the various components cannot be physically separated and are used together for their intended purpose, the aggregated cost should be capitalized. For example, laptop PC's (which cost \$2,000 in the aggregate) are often purchased with PO's that are itemized

– each representing a very small portion of the overall computer’s cost. The various components are not physically separable for their intended purpose, and should be combined and capitalized.

Purchases that include both Capital and Non-Capital Items

The online purchasing system currently does not enable users to code one purchase requisition with multiple account numbers and subcodes (future system enhancement). As a result, the user prepares two purchase requisitions, one for the capital item and one for the non-capital components.

Add-on Components

Many capital expenditures/PO’s include certain “add-on” components from the vendor that are not capitalizable. Example: A one-year warranty. Finance recommends that a separate PO be created for these transactions when the amount is significant (greater than \$1,500, or 5% of the capital expenditure, whichever is lower.)