

# Capital Assets Under the Capitalization Threshold – Part II

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With the beginning of a new fiscal year, it is always a great time to note what new financial reporting requirements will be effective for the year to proactively plan for any significant changes rather than retroactively attempting to implement required changes late in or after the fiscal year.

The Government Accounting Standards Board (GASB) has issued several significant pronouncements over the past years affecting the financial reporting for pensions and leases, and most recently, subscription-based information technology arrangements. However, not all changes in financial reporting are the result of GASB statements; some are the result of implementation guides or revisions to implementation guide answers. Specifically, the GASB issued [Implementation Guide No. 2021-1](#) in May 2021, which provided revised guidance concerning the capitalization of a group of assets with individual values less than a capitalization threshold. The revised guidance is effective for fiscal years beginning after June 15, 2023 (i.e., FY2024). The original question and answer (7.9.8) were from Implementation Guide 2015-1 and read as follows:

“Should a government’s capitalization policy be applied only to individual assets, or can it be applied to a group of assets acquired together? Consider a government that has established a capitalization threshold of \$5,000 for equipment. If the government purchases 100 computers costing \$1,500 each, should the computers be capitalized?”

“Authoritative pronouncements do not address the manner in which a capitalization policy should be established and applied. Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of record keeping for capital assets. *It **may** be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset.* Computers, classroom furniture, and library books are assets that may not meet the capitalization policy on an individual basis yet might be considered material collectively.”

However, with [Implementation Guide No. 2021-1](#), the answer was revised to read:

“Capitalization policies adopted by governments include many considerations such as finding an appropriate balance between ensuring that all significant capital assets, collectively, are capitalized and minimizing the cost of recordkeeping for capital assets. *A government **should** capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are **significant**.* Computers, classroom furniture, and library books are examples of asset types that may not meet a capitalization policy on an individual basis yet could be significant collectively. In this example, if the \$150,000 aggregate amount (100 computers costing \$1,500 each) is significant, the government should capitalize the computers.”

The revised response indicates that a government *should* (versus *may* in the previous response) capitalize assets with individual values less than a capitalization threshold if the group of assets is significant. The revised response also provides the example of a group of computers individually costing less than a capitalization threshold but valued together and potentially being significant. Additionally, the assumption is that these computers were purchased and placed into service near or on the same date. This difference in approach could cause significant changes in capitalization procedures and asset values; however, it is important to note that GASB also realizes that capitalization policies and threshold adopted should consider the balance between ensuring significant assets are capitalized and minimizing the cost of recordkeeping for capital assets.

When an organization is looking to implement the revised response to the previous implementation guide question, there are a few key matters to consider:

- The organization should review and revise their capitalization policies to appropriately reflect the treatment of assets (or group of assets) below the organization’s capitalization threshold.
- The organization should evaluate what would be considered *individual assets that are significant in the aggregate*; some evaluation parameters may be 2-5% of net capital assets and 20-30% of gross vehicles, furniture, and equipment.
- The organization will need to have a process to not only access current and future purchases but also previously purchased assets, as the revised response will need to be implemented on a retroactive basis (not a prospective basis). Some procedures may include evaluating purchases on the invoice level, reviewing assets placed into service on

the same and near date, and reviewing purchases from prior fiscal years, such as FY22 and FY23.

- If the organization has identified individual assets that are significant in the aggregate and placed into service on or near the same date, and has determined that the assets should be added to the capital asset listing, the organization should consider adding the individual assets as one aggregate asset that encompasses the appropriate in-service date, value (total of all assets), and useful life. The individual assets that comprise the one aggregate asset can be tracked separately for other purposes, if required or desired.

In closing, with any financial reporting change, it is important to use your resources at hand. When evaluating assets, be sure to consult with your organization's personnel, outside consultants, and/or auditors.

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