

Capital Assets under the Capitalization Threshold

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The common understanding under Government Accounting Standards Board (GASB) Statement 34 was that capital items under the capitalization threshold, typically \$5,000, were not capitalized and that like items (laptops, furniture) would not be added together to create one asset. However, that understanding looks to be changing starting in fiscal years beginning after June 15, 2023 (fiscal year 2024). The GASB issued [Implementation Guide No. 2021-1](#) in May 2021 which has provided some additional information on this thought.

Specifically, Question 7.9.8 is asked 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?” The original answer to the question indicated: “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.” This resulted in most entities considering all assets with a purchase price of less than \$5,000 to be below the capitalization threshold. The answer to the question has now changed to: “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**”.

For example, if a school district purchases 5,000 computers at a cost of \$1,000 each to be used for instruction, although the individual asset may be less than the capitalization threshold, the district could potentially have an asset worth \$5 million that would need to be reported and depreciated. The district would remain responsible for tracking each item individually for stewardship purposes. There is no set timeframe for aggregating similar purchases; however, some guidance suggests assets acquired at or near the same time and with a single objective should be aggregated. Another key is that the total amount should be significant. The final key is that the guidance is retroactive and should be applied to assets purchases prior to fiscal year 2024 if significant.

The next steps for your entity should be as follows:

1. Keep up with additional guidance that might be issued by the GASB and/or attend trainings related to the topic.
2. Starting in 2022 and continuing into 2023 and 2024, keep track of similar items purchased near the same time with a single objective.
3. Have discussions with your auditors and management on what significant might mean to your entity.
4. Consider updating the capital asset policy to reflect what is significant for aggregate purchases and include examples of the more common aggregate purchases (computers and library books).

If you start preparing soon, the changes will not feel that burdensome, and although fiscal year 2024 seems far off, it starts in less than 2 years! HeinfeldMeech is here to help and assist you.

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