

## Capitalization Policy

**Taxable year beginning on - \_\_\_\_\_**

1. Purpose

This accounting policy establishes the minimum cost (capitalization amount) that shall be used to determine the capital assets that are to be recorded in (business name) \_\_\_\_\_ annual financial statements (or books).

2. Capital Asset defined

A "Capital Asset" is defined as a unit of property that: (1) has an economic useful life that extends beyond 12 months; **and** (2) was acquired or produced for a cost of \$2,500 or more. Capital assets must be capitalized and depreciated for financial statement (or bookkeeping) purposes.

3. Capitalization thresholds

(Business name) \_\_\_\_\_ establishes \$2,500 as the threshold amount for minimum capitalization. Any item(s) costing below this amount shall be expensed in (business name) \_\_\_\_\_ financial statements (or books).

4. Capitalization method and procedure

All capital assets are recorded at historical cost as of the date acquired.

Tangible assets costing below the threshold amount in step three (3) above should be recorded as an expense in (business name) \_\_\_\_\_ annual financial statements. Alternately, assets with an economic useful life of 12 months or less are required to be expensed for financial statement purposes, regardless of the acquisition or production cost.

5. Recordkeeping

Invoice(s) substantiating the acquisition cost of each capital asset shall be retained for a minimum of four years.

NOTE: This election must be made on an annual basis.