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Title: **CAPITALIZATION LIMITS**

Adopted: June 2017

Revised:

Related Documents:

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## **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. The capitalization limit is the threshold above which the board must capitalize purchased or constructed assets. Below the cap limit assets are charged to expense instead. There is no specifically required cap limit. A business should consider a number of factors before settling upon the most appropriate limit.
2. The Board has been advised to develop a capitalization limit to be used in financial statements and audits

## **GUIDING PRINCIPLES**

1. 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 will make the short-term financial position 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.
2. 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.