

Milan Seniors for Healthy Living Policy

19.01.01- Fixed Asset Capitalization

Assets are resources owned by a company as the result of transactions. Examples of assets are cash, accounts receivable, inventory, prepaid insurance, land, buildings, equipment, trademarks and customer lists purchased from another company, and certain deferred charges.

The term **fixed assets** (aka. tangible assets or property, plant and equipment (PP&E)) is a term used in accounting for assets and property that cannot easily be converted into cash and which exceeds an entity's minimum capitalization limit. The word "fixed" indicates that these assets will not be used up, consumed, or sold in the current accounting year. This can be compared with current assets such as cash or bank accounts, which are described as liquid assets. Except for land, fixed assets are depreciated over their useful lives. Fixed assets are recorded on the company's balance sheet.

- Fixed assets are capitalized. That's because the benefit of the asset extends beyond the year of purchase, unlike other costs, which are period costs benefitting only the period incurred.
- Fixed assets should be recorded at cost of acquisition. Cost includes all expenditures directly related to the acquisition or construction of and the preparations for its intended use. Such costs as freight, sales tax, transportation, and installation should be capitalized.
- Businesses should adopt a capitalization policy establishing a dollar amount threshold. Fixed assets that cost less than the threshold amount will be expensed.
- Depreciation is the process of allocating the cost of the asset to operations over the estimated useful life of the asset. For financial reporting purposes, the useful life is an asset's service life, which may differ from its physical life. An asset's estimated useful life for financial reporting purposes may also be different than its depreciable life for tax reporting purposes. MSHL will use straight line depreciation based on the asset's useful life. The service life may be based on industry standards or specific to a business based on how long the business expects to use the asset in its operations. It is an estimate made by management. The service life for financial reporting considering some of the following factors:
 - Type of asset
 - Condition when purchased: New or used
 - Past experience
 - Expected usage: Normal or excessive
 - Expected obsolescence
- **Inbound fixed asset donations** take place when a fixed asset is donated to a company (e.g., a non-for-profit). MSHL will record the received asset at its fair market value, which can be determined through an appraisal, the market rate on similar assets, or the net present value of the expected future cash flows generated by the asset.

MSHL's capitalization threshold: MSHL establishes \$600 as the minimum threshold amount for fixed asset capitalization. Assets (purchased or donated) valued at time of acquisition below this amount shall be expensed in its financial statements.