

1. General Capitalization Threshold

- A tangible asset should be capitalized if the total acquisition cost is \$10,000 or more.
- The total acquisition cost includes (paraphrased from BAM language)
 - Purchase price
 - Shipping or delivery fees
 - Sales tax
 - Installation/setup costs
 - Extended warranties or service agreements purchased at the same time as the asset for 1 year or less (contact your fiscal services rep. for agreements over 1 year).
 - Essential training

2. Bundling Components into a Single Capitalized Asset

Components should be **capitalized as one unit** if they meet **all** the following criteria:

- ✓ The components are **necessary** to create a functional asset.
- ✓ The **combined cost** (including all items listed in Section 1) exceeds or equals **\$10,000**.
- ✓ The assembled asset operates as **one unit** and is not intended for disassembly or independent use.

Example:

A computer server purchased in separate parts (CPU, RAM, power supply) should be capitalized as a single unit if the total cost exceeds \$10,000.

3. Exception: Independently Usable Components

Components **should not be capitalized together** if they:

- ✗ **Can function independently** without the other components.
- ✗ **Can be used elsewhere** within the organization for other purposes.

In these cases, each component should be evaluated separately for capitalization.

Example:

- A set of monitors purchased together but used at different workstations should be **expensed individually** unless a single monitor exceeds \$10,000.
- A laptop and docking station purchased together should be **evaluated separately**, as they can function independently.

4. Additional Considerations

■ Training & One-Year Service Agreements

If training and/or a one-year service agreement are listed separately, these may still be capitalized if both of the following conditions are met:

- They are incurred at the time of purchase, and
- They are necessary to make the equipment operable for its intended use.

Item	Listed Separately?	Capitalizable to 6400?	Notes
Equipment	—	✓ Yes	Always capitalized if over threshold
Training (essential/initial)	✓ Yes	✓ Yes	Must be required to use the asset
1-year service agreement	✓ Yes	⚠ Maybe	Capitalize only if it resembles a standard warranty or startup support

◆ Note on Service Agreements:

If the one-year service agreement is **routine or prepaid maintenance**, it should be coded to object code 5655 (Equipment Contract Services) even if purchased at the same time. Contact your fiscal services representative if you need further assistance.

5. Special Consideration

Replacement Equipment (6421) vs New Equipment (6400)

- Per the Chancellor's Office - Most, if not all, equipment purchases should be considered NEW and not "replacement" since even if the equipment replaces another, something is different about it. ***"Equipment that differs in capacity, function, or quality shall be considered new equipment."***