# Classification of Fixed Assets

The proper classification of fixed assets

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When you acquire assets, record them as fixed assets if they meet the following two criteria:

1. Have a useful life of greater than one year; and
2. Exceeds the corporate capitalization limit.

The capitalization limit is the amount of expenditure below which you record an item as an expense, rather than an asset. For example, if the capitalization limit is $5,000, then record all expenditures of $4,999 or less as expenses in the period when you recorded the expenditure.

If an asset meets both of the preceding criteria, then the next step is to decide what the proper account classification should be. Here are the most common classifications used:

- ***Buildings***. This account may include the cost of acquiring a building, or the cost of constructing one (in which case it is transferred from the Construction in Progress account). If the purchase price of a building includes the cost of land, apportion some of the cost to the Land account (which is not depreciated).
- ***Computer equipment***. Can include a broad array of computer equipment, such as routers, servers, and backup power generators. It is useful to set the capitalization limit higher than the cost of desktop and laptop computers, so that you do not have to track these items as assets.
- ***Construction in Progress***. This account is a temporary one, and is intended to store the ongoing cost of constructing a building; once completed, shift the balance in this account to the Buildings account, and start depreciating it. Besides the materials and labor required for construction, you can also store in this account architecture fees, the cost of building permits, and so forth.
- ***Furniture and Fixtures***. This is one of the broadest categories of fixed assets, since it can include such diverse assets as warehouse storage racks, office cubicles, and desks.
- ***Intangible Assets***. This is a non-physical asset, examples of which are trademarks, customer lists, literary works, broadcast rights, and patented technology.
- ***Land***. This is the only asset that is not depreciated, because it is considered to have an indeterminate useful life. Include in this category all expenditures to prepare land for its intended purpose, such as demolishing an existing building or grading the land.
- ***Land Improvements***. Include expenditures that add functionality to a parcel of land, such as irrigation systems, fencing, and landscaping.
- ***Leasehold Improvements***. These are improvements to leased space that are made by the tenant, and typically include office space, air conditioning, telephone wiring, and related permanent fixtures.
- ***Office Equipment***. This account contains such equipment as copiers, printers, and video equipment. Some companies elect to merge this account into the Furniture and Fixtures account, especially if they have few office equipment items.

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- ***Software***. Includes larger types of departmental or company-wide software, such as enterprise resources planning software or accounting software. Many desktop software packages are not sufficiently expensive to exceed the corporate capitalization limit.

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