

Capitalization of Capital Lease

FIN-ACC-I-220



About This Policy

Effective Date:

07-01-1992

Last Updated:

01-01-1996

Responsible University Office:

The Office of the Treasurer/Capital Assets

Responsible University Administrator:

Vice President and Chief Financial Officer

Policy Contact:

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Related Information

[* I-190, Capitalization of Building](#)

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Scope

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Policy Statement

If a leasehold contract contains an Option to Purchase, payments on Plant which are being leased on long-term contracts should be capitalized as leasehold equities. The contract must be for at least two (2) years, ownership of the property will be transferred to the university at the end of the lease, and the university must have the right to purchase the asset at the end of the lease or during the lease term.

All improvements made to the premises leased should be capitalized and depreciated over the remaining life of the lease if a given improvement meets the building capitalization criteria established in Accounting Administration Policy I-190, Capitalization of Buildings.

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Reason For Policy

To define expenditures which will be classified as capital leases.

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Procedure

In order for an item to be secured as a capital leasehold equity, the contract must be sent to the Capital Asset Management division of the Office of the Treasurer so they can determine that it meets the requirements of leasehold equity.

The correct object code should be utilized on the disbursement vouchers in order for the payments to be capitalized. A list of the current object codes (income and expense classes) is available by contacting your campus Chart Manager (see listing; <http://www.fms.indiana.edu/fia/coaman.asp>) or the Quali Financial System's Object Code References Tables.

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Definitions

Plant: The equipment, buildings, etc. of any institution.

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History

The source to this policy is:

American Institute of Public Accountants (AICPA) Guidelines for Colleges and Universities, GAAP