

Bookkeeping Tips

Repairs: When to capitalize, when to expense

In addition to keeping bookkeepers up to date on the latest bookkeeping, payroll and tax news, *The General Ledger* (www.aipb.org/general_ledger.html), members' free monthly technical briefing, offers practical help like the following.

Repairs may be ordinary (recurring) or extraordinary (nonrecurring).

Ordinary repairs are those normally scheduled to maintain plant assets in operating condition. They are a *period expense* (charged in the period in which they occur), because the benefit of the repair is in a particular period. Examples include equipment lubrication, replacement of minor parts, adjustment of equipment, and repainting. The usual entry for an ordinary repair is:

Repairs and Maintenance Expense
Cash [or Payable account]

Extraordinary repairs are of a material nature, such as a major overhaul or the repair of a breakdown of a major component of a piece of equipment. These must be capitalized (added to the equipment cost) because the benefit of the repair will extend beyond the current period. If the repair does not extend the useful life originally estimated for the asset, the entry is:

[Asset]
Cash [or Payable account]

If the repair extends the originally estimated useful life, the entry is:

Accumulated Depreciation
Cash [or Payable account]

Misclassification

Repair costs mistakenly capitalized when they should be expensed result in assets being overstated (because the cost of the repair was added to an asset) and net income being overstated (because expenses were understated).

Repair costs mistakenly expensed when they should be capitalized result in assets being understated (because the cost of the repair was not added to the asset) and net income being understated (because expenses were overstated).

To summarize: If the expenditure creates a benefit in the period when it was made, expense it; if it creates benefits in future periods, capitalize it. **Tip:** If the expenditure is not material, expense it.

BOOKKEEPING TIPS is a free newsletter published by The American Institute of Professional Bookkeepers (www.aipb.org). To subscribe: Send a blank email to bookkeepingtips-on@aipb.org

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The American Institute of Professional Bookkeepers (AIPB), is the national association for bookkeepers, currently with 30,000 active members

AIPB was founded in 1987 for the following purposes:

- To recognize bookkeepers as accounting professionals
- To make sure that each member has the latest bookkeeping, accounting and tax information
- To answer members' everyday bookkeeping and accounting questions on the telephone at no charge.
- To provide bookkeepers with low-cost continuing professional education.
- To return the membership fees of any bookkeeper who is dissatisfied with the benefits of membership