



1.1 Capitalization of costs – chapter overview

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US PP&E and other assets guide 1.1

This chapter focuses on property, plant, and equipment (PP&E) costs and provides guidance on cost capitalization, including what types of costs are capitalizable and when capitalization should begin. For guidance on assets acquired through an asset acquisition refer to **PPE 2**. For guidance on assets acquired through a business combination refer to PwC's *Business combinations and noncontrolling interests* guide.

ASC 360, *Property, Plant, and Equipment* is the authoritative US GAAP for PP&E and defines property, plant, and equipment as follows:

Excerpt from **ASC 360-10-05-3**

Property, plant, and equipment typically consist of long-lived tangible assets used to create and distribute an entity's products and services and include:

- a. Land and land improvements
- b. Buildings
- c. Machinery and equipment
- d. Furniture and fixtures

Although **ASC 360-10-05-3** defines PP&E, it does not include any specific guidance for capitalization of costs incurred during the development of self-constructed assets for a reporting entity's own use (i.e., capital projects).

Despite the lack of authoritative guidance, many of the concepts included in the 2001 proposed Statement of Position from the Financial Reporting Executive Committee of the AICPA (FinREC), *Accounting for Certain Costs and Activities Related to Property, Plant, and Equipment* reflect current practice regarding the accounting treatment for the capitalization of costs for capital projects. In 2003, the FinREC redeliberated and submitted a proposed Statement of Position to the FASB for approval (herein referred to as the unissued PPE SOP). Although it was not approved for issuance by the FASB and is nonauthoritative, the unissued PPE SOP contains guidance related to the capitalization of costs of an asset constructed or obtained for a reporting entity's own use that is helpful when considering the accounting treatment for such costs.

This chapter provides guidance on accounting for costs incurred as part of capital projects (**PPE 1.2**), including a table summarizing the nature of costs that are usually incurred when acquiring or constructing assets and the applicable accounting treatment (**PPE 1.2.2**). In addition, it addresses matters pertaining to the capitalization of costs, such as the accounting for incurred interest (**PPE 1.3**), maintenance expenses, including major maintenance (**PPE 1.4**), long-term service agreements (**PPE 1.4.2**), government incentives (**PPE 1.6**), real estate projects for sale or rental (**PPE 1.7**), and other costs (**PPE 1.5**).

During the acquisition, construction, development, and/or normal operation of an asset, companies may also incur costs related to asset retirement and/or environmental obligations. For details regarding the accounting for asset retirement obligations refer to **PPE 3**. For details regarding the accounting for environmental obligations refer to **PPE 9**.

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