



1.2 Accounting for capital projects

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US PP&E and other assets guide 1.2

Property, plant, and equipment (PP&E) is reported at its historical cost, which is the amount of cash, or its equivalent, paid to acquire an asset, and is commonly adjusted subsequently for amortization, depreciation, and/or impairment. The guidance for the costs to be capitalized when acquiring PP&E can be found in [ASC 360-10](#).

Excerpt from [ASC 360-10-30-1](#)

[T]he historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use.

Activities necessary to acquire PP&E and bring it to the condition and location necessary for its intended use is defined in [ASC 360-10-20](#).

Definition from [ASC 360-10-20](#)

Activities: The term activities is to be construed broadly. It encompasses physical construction of the asset. In addition, it includes all the steps required to prepare the asset for its intended use. For example, it includes administrative and technical activities during the preconstruction stage, such as the development of plans or the process of obtaining permits from governmental authorities. It also includes activities undertaken after construction has begun in order to overcome unforeseen obstacles, such as technical problems, labor disputes, or litigation.

When determining which costs should be capitalized for assets that are self-constructed, it is important to distinguish between those costs that are “necessarily incurred” and those that could have been avoided by the reporting entity. For example, penalties or fines from the mismanagement of a capital project would not qualify for capitalization as such amounts are not “necessarily incurred” to bring the asset to its intended use. Alternatively, costs relating to unforeseen obstacles encountered during construction (such as additional excavation costs, or additional required permitting) would likely qualify for capitalization. Determining which costs are “necessarily incurred” for a capital project requires judgment.

Generally, costs incurred for replacements or betterments of property, plant, and equipment can be capitalized when they extend the life or increase the functionality of the asset in question; otherwise, they should be expensed as incurred (e.g., repairs and maintenance). See [PPE 1.4](#) for information on accounting for maintenance costs.

Capital costs may include labor, materials and supplies, transportation, engineering services, certain overhead costs, insurance, employee benefits, taxes, and interest. Similarly, an expenditure that adds to the productive capacity or improves the efficiency of an existing asset can be considered a capital item. Costs incurred during construction that are directly attributable to placing it into service should be capitalized. Costs that are not necessary in readying an asset for use should be recognized as an expense as incurred.

[ASC 970, Real Estate - General](#), includes incremental guidance on capitalizing the costs of real estate developed for sale or rental. That guidance explicitly excludes capital projects constructed for a reporting entity’s own use. However, in the absence of other authoritative guidance, reporting entities often apply the guidance in [ASC 970](#) by analogy in developing their overall capitalization policies. See [PPE 1.7](#) for information on specific considerations for capital projects built for sale or rental.

1.2.1 Initial measurement (capital projects)

The cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use. The unissued PPE SOP identified four stages during which costs may be incurred related to long-lived assets: the preliminary stage, the pre-acquisition stage, the construction stage, and the in-service stage.

Figure PPE 1-1 in [PPE 1.2.2](#) contains a summary of the accounting for common types of costs incurred during all stages of construction of a capital project. The following sections discuss what costs can be capitalized during each of the stages.

1.2.1.1 Preliminary stage (capital projects)

The first stage during which costs are incurred related to long-lived assets is the preliminary stage. During the preliminary stage, the project is not considered probable of being constructed. Accordingly, given the high degree of uncertainty about the future economic benefits, costs incurred during this stage are expensed as incurred.

The preliminary stage commences at the beginning of a project and lasts until the acquisition or construction of the specific long-lived asset is considered probable, as defined in [ASC 450, Contingencies](#). In assessing probability, the reporting entity should consider whether (1) management, having the requisite authority, has implicitly or explicitly authorized and committed to funding the acquisition or construction of a specific asset, (2) the financial resources are available consistent with such authorization, and (3) the ability exists to meet the necessary local and other governmental regulations.

During the preliminary stage, activities are performed exploring the opportunities for acquisition or construction of property, plant, and equipment. A reporting entity may conduct feasibility studies and other activities related to asset selection. The reporting entity may incur costs to obtain an option to acquire one or more items of PP&E during this stage. Some examples of other costs that may be incurred during this stage include those related to surveying, zoning, engineering studies, design layouts, traffic studies, and obtaining management's approval to move forward with a particular capital project. Some of these costs may be incurred in one or more of the stages of a project. Therefore, the assessment of probability of a project when the costs are incurred is key to the capitalization decision.

Accounting for costs during the preliminary stage is consistent with guidance in [ASC 720-15, Other Expenses, Start-up Costs](#), which addresses costs associated with start-up activities, including those related to new capital projects, and states that such costs should be expensed as incurred.

The accounting for costs to arrange financing for the construction of a new capital project is specifically addressed by [ASC 835, Interest](#). See [PPE 1.3](#) for further discussion regarding capitalized interest.

1.2.1.2 Pre-acquisition stage (capital projects)

The pre-acquisition stage begins when the construction of specific property, plant, or equipment is probable but prior to the start of construction. The unissued PPE SOP differentiates between costs that are directly identifiable with the specific PP&E and those that are an allocated or overhead cost. Directly identifiable costs should be capitalized in the pre-acquisition stage whereas allocated and other overhead costs should be expensed as incurred. Similarly, in the general guidance on real estate, [ASC 970-340-25-3](#) states that costs that meet specified criteria should be capitalized once the project is probable.

Excerpt from [ASC 970-340-25-3](#)

All other costs related to a property that are incurred before the entity acquires the property, or before the entity obtains an option to acquire it, shall be capitalized if all of the following conditions are met and otherwise shall be charged to expense as incurred:

- a. The costs are directly identifiable with the specific property.
- b. The costs would be capitalized if the property were already acquired.
- c. Acquisition of the property or of an option to acquire the property is probable (that is, likely to occur). This condition requires that the prospective purchaser is actively seeking to acquire the property and has the ability to finance or obtain financing for the acquisition and that there is no indication that the property is not available for sale.

Directly identifiable costs include the following:

- Incremental direct costs of PP&E pre-acquisition activities incurred for the specific PP&E in transactions with independent third parties.
- Certain costs directly related to pre-acquisition activities performed by the reporting entity (or by third parties who are not independent of the reporting entity) for the specific PP&E. These costs include payroll and payroll benefit-related costs (e.g., costs of health insurance) for employees who devote time to a PP&E pre-acquisition stage activity, to the extent of time the employees spent directly on that activity and in proportion to the total hours employed (including compensated absences). Additionally, only the service component of net periodic pension and postretirement costs should be

capitalized. However, rent, depreciation, and other occupancy costs associated with the physical space occupied by employees should be charged to expense as incurred, as they are not directly identifiable costs.

- Payments to obtain an option to acquire PP&E. The reporting entity should evaluate whether the option is a derivative and should be accounted for under **ASC 815**. If the option does not meet the definition of a derivative, the unissued PPE SOP indicates that the option should be carried at the lower of cost or fair value. Reductions in the recorded value of an option should be charged to expense. If the fair value less cost to sell of the option subsequently increases, amounts previously charged to expense may not be reinstated to the balance sheet.

General and administrative costs and overhead costs should be charged to expense as incurred, regardless of whether those costs are incurred internally or outsourced to a third party. Those costs include all costs (including payroll and payroll benefit-related costs) of support functions, which include executive management, corporate accounting, acquisitions, purchasing, legal, office management and administration, marketing, human resources, and information systems. Similarly, a reporting entity that outsources its acquisitions department to a third party should charge the costs to expense as incurred because an acquisitions department represents a support function and the reporting entity could choose to establish its own internal acquisitions department.

If during the pre-acquisition stage the construction or acquisition of the specific long-lived asset is determined to no longer be probable, the capitalized costs related to the project should be assessed for impairment under **ASC 360**. When evaluating whether the capitalized costs of a project that is no longer probable of being completed are impaired, a reporting entity will need to determine whether the asset will be sold, abandoned, or held and used (e.g., to potentially be completed in the future). When determining the fair value of an impaired project, a rebuttable presumption exists that the fair value of costs incurred before the acquisition or construction stage is zero. Refer to PPE 6.4.1 for further discussion on assets to be abandoned. Refer to PPE 5.3 for additional information on the held for sale model. Refer to PPE 5.2 for additional information on the held and used model.

1.2.1.3 Construction stage (capital projects)

The construction stage begins at the time the reporting entity obtains ownership of the PP&E or obtains the right to use the PP&E through an agreement (e.g., a lease). During this stage, costs are incurred to acquire, construct, or install the PP&E. This stage includes costs incurred prior to the long-lived asset being available for its intended use. Examples of activities performed during this stage include planning for construction or installation once ownership (or the right to use) has been acquired; constructing or installing PP&E; and supervising the construction of PP&E.

Similar to the pre-acquisition stage, costs incurred during the construction stage that are directly identifiable should be capitalized. Directly identifiable costs include:

- Incremental direct costs of acquiring, constructing, or installing the PP&E incurred in transactions with independent third parties.
- Certain costs directly related to activities performed by the reporting entity (or by third parties who are not independent of the reporting entity) for the construction or installation of the specific PP&E, and costs directly related to preproduction test runs of PP&E that are necessary to get the PP&E ready for its intended use. These costs include only (1) payroll and payroll benefit-related costs (including only the service cost component of net periodic pension and postretirement costs) of employees who devote time to a PP&E construction stage activity, to the extent of time the employee spent directly on that activity and in proportion to the total hours employed (including compensated absences), (2) depreciation of machinery and equipment used directly in the construction or installation of PP&E, to the extent of time the machinery and equipment is used directly in that activity as a percentage of its expected useful life and incremental costs directly associated with the utilization of that machinery and equipment (e.g., fuel for such machinery), and (3) inventory used directly in the construction or installation of PP&E (including spare parts).

Rent, depreciation, and other occupancy costs associated with the physical space occupied by employees are not directly identifiable costs and should be expensed as incurred, consistent with the accounting for those types of costs within the pre-acquisition stage. General and administrative and overhead costs should also be expensed as incurred, whether the costs are internal or paid to third parties.

Directly identifiable costs should be distinguished from allocated or overhead costs. Directly identifiable costs should be capitalized, while other costs should be expensed as incurred. Overhead costs are not directly related to the construction of the asset and should be expensed as incurred. Overhead costs should be expensed even when they relate to employees who are specifically involved in the construction of the asset (e.g., occupancy costs specific to internal engineers who are directly involved in the internal construction of PP&E are expensed). This is consistent with the conclusion in **ASC 350-40-30-3** for internal-use software, which precludes the capitalization of overhead costs.

In addition, lease costs associated with ground or building operating leases that are incurred during a construction period should be recognized as lease expense if a company is developing a property for its own use.

In certain circumstances, there may be depreciation costs directly related to the construction project, such as depreciation of equipment used to build a long-lived asset for internal use. The depreciation costs of the equipment used to build a long-

lived asset are considered directly identifiable and should be capitalized. On the other hand, depreciation related to the company's headquarters would be considered an indirect cost and should be charged to expense as incurred.

As discussed in PPE 1.7, [ASC 970](#) provides specific guidance for the construction of real estate assets for sale or rental whereby certain overhead costs may be capitalized.

Constructing or acquiring a new asset may result in other incremental costs that would have been avoided if the asset had not been constructed or acquired. These should not be capitalized if they do not contribute to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended by management. For example, a mobile phone operator may be setting up a new network in a new territory, involving the construction of the network system (new transmitter towers, etc.). Costs that do not relate to the construction of the physical assets, such as marketing the cellular service and hiring incremental store employees to establish the territory, do not qualify as part of the cost of the asset even though they are incurred during the construction stage of the new network.

Demolition costs

According to the unissued PPE SOP, "demolition costs incurred by an owner or lessor should be charged to expense as incurred and included in results of operations, except when incurred in conjunction with an acquisition or lease of real estate and the demolition (a) is contemplated as part of the acquisition or at lease inception and (b) occurs within a reasonable period of time thereafter or is delayed, but the delay is beyond the reporting entity's control (e.g., if demolition cannot commence until the end of an existing tenant's lease term or demolition is subject to governmental permitting processes)."

For example, if a reporting entity purchases land that includes a building but upon acquisition, the reporting entity plans to demolish the structure to construct a new building and demolition occurs within a reasonable period of time subsequent to acquisition, the costs incurred to demolish the property are part of preparing the site and thus should be capitalized as part of the land.

If the building is to be renovated rather than razed, any demolition costs would be capitalized as part of the building renovations.

If the demolition is not done in connection with the acquisition of a structure, the incremental costs incurred to demolish the building should be expensed as incurred.

Contributions

Municipalities and other government entities sometimes require entities to construct additional assets or infrastructure unrelated to the project as a condition of obtaining a construction permit. For example, if a company's project plan eliminates trees or green space, the government entity may require that the company build a park or plant a certain number of trees along the municipality's roads or make a charitable contribution to an environmental not-for-profit organization. [ASC 720-25-20](#) defines a contribution, including characteristics that distinguishes a contribution from an exchange transaction.

Partial definition from [ASC 720-25-20](#)

Contribution: An unconditional transfer of cash or other assets, as well as unconditional promises to give, to an entity or a reduction, settlement, or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. Those characteristics distinguish contributions from:

- a. Exchange transactions, which are reciprocal transfers in which each party receives and sacrifices approximately commensurate value
- b. Investments by owners and distributions to owners, which are nonreciprocal transfers between an entity and its owners
- c. Other nonreciprocal transfers, such as impositions of taxes or legal judgments, fines, and thefts, which are not voluntary transfers.

In a contribution transaction, the resource provider often receives value indirectly by providing a societal benefit although that benefit is not considered to be of commensurate value.

Contributions should be expensed in the period made, unless the contribution is for the in-substance purchase of a good or service. Payments made or other services provided to a municipality or governmental entity to obtain a permit, zoning change, or other licenses necessary for construction are not contributions. Instead, such amounts are paid in exchange for the ability to construct a facility, meaning that they represent an exchange transaction. Therefore, capitalization of any required charitable contribution or cost of a municipal improvement project as part of the capital project is generally appropriate if the payment is made once the project is probable or is in construction and can be directly identified with the receipt of the permit or license.

Asset ready for intended use / operating levels

Costs incurred during the construction stage before the plant can operate are capitalized. For example, the cost to run machinery and equipment in order to test that the output meets certain regulatory specifications would be considered costs

of the construction stage and should be capitalized.

The construction stage ends when long-lived assets are ready for their intended use. Long-lived assets are considered ready for their intended use when they are first capable of producing a unit of product that is saleable or usable internally by the reporting entity. Refer to **PPE 4.3.1** for additional information on the commencement of depreciation.

When the asset is ready for use, even if demand does not support operating the asset at its normal capacity, costs should no longer be capitalized. For example, a new hotel may be available for 100% occupancy almost as soon as it has been constructed. As demand usually builds slowly, there may be initial operating losses due to low occupancy. In such a case, the initial operating losses are not costs that may be capitalized. Similarly, marketing costs associated with generating demand for the hotel may not be capitalized.

Example PPE 1-1 and Example PPE 1-2 illustrate the treatment of operating costs and production costs incurred during the construction stage.

EXAMPLE PPE 1-1

Operating costs incurred during the construction stage

An amusement park has a “soft” opening to the public to conduct a trial run of its attractions. Tickets are sold at a 50% discount during this period and the park is running at 40% operating capacity. The amusement park will officially open in three months.

Management asserts that the soft opening is necessary for the amusement park to ensure it is capable of operating in its intended manner.

Should the operating costs during the soft opening be capitalized?

Analysis

No. The soft opening operating costs should not be capitalized but instead should be expensed as incurred. Even though the amusement park is running at less than full operating capacity, it is clear that the amusement park is capable of operating in the intended manner.

EXAMPLE PPE 1-2

Preproduction costs

Manufacturing Corp is a manufacturing company with various plants across the world. Manufacturing Corp is expanding its manufacturing footprint by constructing a facility in China. The facility has been completed and is producing prototype parts, which are being tested to ensure they are in accordance with the customer's quality specifications.

Should Manufacturing Corp capitalize the costs associated with producing the prototype?

Analysis

Yes. Costs associated with preproduction test runs to prepare the long-lived asset to be ready for its intended use should be accounted for within the construction stage. Since the prototype parts are not yet saleable by the reporting entity, the costs of producing these parts should be capitalized. Costs incurred after the quality control testing has been completed (i.e., when the parts can be sold to customers), would be accounted for in accordance with the requirements for the in-service stage.

Once the asset has reached the in-service stage, depreciation on the long-lived asset should commence. Refer to PPE 4 for additional information on depreciation.

1.2.1.4 In-service stage (capital projects)

The in-service stage of long-lived assets begins when the asset is substantially complete and ready for its intended use. Costs during this stage include:

- Repairs and maintenance of existing components
- Replacement of existing components
- Purchase of additional components

Costs incurred to acquire additional components of PP&E or replace existing components of PP&E should be capitalized. The costs of normal, recurring, or periodic repairs and maintenance activities and all other costs related to PP&E incurred during this stage should be expensed as incurred. In other words, costs during the in-service stage that extend the existing service potential of the long-lived asset or replace significant components of the long-lived asset should be capitalized. All

other costs, including normal repairs and maintenance activities, should be expensed as incurred. See **PPE 1.4** for additional information on maintenance.

Example PPE 1-3 illustrates the accounting for remodeling costs.

EXAMPLE PPE 1-3

Accounting for the cost to remodel a supermarket

Supermarket Corp, a supermarket chain, is renovating one of its stores. The store will increase in size, have more available space for in-store promotion outlets, and will include a restaurant. Management expects the store renovations to attract new customers and result in a more than nominal increase in sales.

Should the costs incurred to renovate the existing store be capitalized by Supermarket Corp?

Analysis

Yes. The store remodel will create additional available space for in-store promotion outlets and a restaurant. Since the renovation will create additional space and future economic benefits, the cost of remodeling the store should be capitalized.

Costs that are incurred to enhance the productivity of the long-lived asset (such as those intended to increase the long-lived asset's daily output) should be capitalized. However, costs that are incurred to change the long-lived asset from one intended use to another (such as to change a tire manufacturing machine from one model tire to a different model), would generally not be capitalized.

When a reporting entity relocates in-service assets, the costs of dismantling, transporting, and reassembling the assets should usually be expensed as incurred. These types of costs generally do not extend the useful life of the asset or improve the quantity or quality of goods produced by the asset.

Example PPE 1-4 illustrates the determination of incremental costs to be capitalized for a capital project.

EXAMPLE PPE 1-4

Determination of incremental costs to be capitalized for a capital project

PPE Corp has an existing factory that it intends to demolish and redevelop. During the redevelopment period, the company will move its production facilities to another temporary site. The following costs will be incurred for the project:

- Rent of \$500,000 for the temporary site
- Removal costs of \$300,000 to transport the machinery from the old location to the temporary location
- \$1M to install the machinery in the temporary location

Can these costs be capitalized as part of the cost of the new building?

Analysis

No. Even though the costs are incremental, they are not directly attributable to the new building and not necessary for it to be capable of operating in the manner intended by management. The costs related to the temporary facility should be expensed as incurred.

1.2.1.5 Capitalization thresholds for long-lived assets

US GAAP does not permit the establishment of a capitalization threshold. However, for ease of recordkeeping, many reporting entities establish a capitalization threshold to specify the minimum amount of costs that must be incurred before such costs can be capitalized. The assumption underlying the use of a capitalization threshold is that whether the reporting entity capitalizes and depreciates or expenses such amounts immediately would not be material to the financial statements. Accordingly, the decision to expense costs below an established threshold is simply for administrative convenience.

It is important that use of such a threshold does not have a material effect on the financial statements. Management should consider the amount and types of costs expected to be incurred to evaluate the impact of using such a threshold. Materiality should be assessed on both a qualitative and quantitative basis.

Use of a capitalization threshold is not an accounting policy election. As such, a change to the capitalization threshold is not considered a change in accounting policy. Similar to the initial establishment of such a threshold, before increasing a

capitalization threshold, management should ensure it does not have a material effect on the financial statements.

Changes to the capitalization threshold should be applied prospectively. Assets capitalized under a previous threshold should not be adjusted. It would be inappropriate to record (1) a cumulative catch-up entry to expense amounts capitalized when the threshold was lower or (2) capitalize costs previously expensed when the threshold was higher.

1.2.2 Summary of accounting for capital project costs

Figure PPE 1-1 summarizes general accounting guidance for costs that are typical with capital projects. This summary is provided for informational purposes only and should be considered in the context of the applicable guidance and the reporting entity's specific facts and circumstances. It should also be read in conjunction with the guidance provided throughout PPE 1.2.

Figure PPE 1-1

Accounting for capital project development and construction costs

Type of cost	Preliminary	Pre-acquisition	Construction	Considerations
Construction labor and other direct costs of construction	Expense	Capitalize	Capitalize	Labor and related direct costs should be expensed until the project is probable. Costs that are direct and clearly incremental should be capitalized once the project is probable and during the construction stage.
Consulting fees	Expense	It depends	It depends	Fees should be expensed until the project is probable. Once the project is probable, directly identifiable costs should be capitalized. The amount capitalized is limited to those amounts directly related to the site and project selected (e.g., costs related to evaluation of potential projects or locations should be expensed).
Contribution to local community organization or other similar gift made as a precondition to obtaining necessary permits or licenses	Expense	It depends	It depends	Contributions should be expensed in the period made unless they are exchange transactions for the purchase of a good or service. Contributions made in exchange for a required license or permit may qualify

for capitalization.
See [PPE 1.2.1.3](#).

Demolition costs	It depends	It depends	It depends	Demolition costs should be expensed as incurred, except in certain situations when incurred in conjunction with an acquisition or lease of real estate. See PPE 1.2.1.3 .
Due diligence fees	Expense	It depends	It depends	See discussion under "Consulting fees."
Engineering, procurement, and construction contract costs	Expense	Capitalize	Capitalize	Direct costs of construction should be capitalized. Other costs should also be capitalized as part of the direct costs of construction if the amounts are considered an incremental direct cost.
Feasibility studies	Expense	It depends	It depends	See discussion under "Consulting fees."
Ground lease expense	Expense	Expense	Generally expense	Capitalization of ground lease expense by a lessee for property constructed for its own use is prohibited. However, ground lease expense should be capitalized during the construction of property for sale or rental. See PPE 1.7.5 .
Interest costs	Expense	Capitalize	Capitalize	Interest costs should be capitalized in accordance with the criteria in ASC 835-20 . See PPE 1.3 .
Land option	Capitalize	Capitalize	Capitalize	The unissued PP&E SOP and ASC 970-340-25-3 specifically permit capitalization of land options, even during the preliminary stage when the project is not yet probable. See PPE 1.2.1.2 .
Legal fees	Expense	It depends	It depends	See discussion under "Consulting fees."

Materials and supplies	It depends	Capitalize	Capitalize	Materials and supplies should be expensed during the preliminary stage unless they have an alternative use (e.g., inventory). See PPE 1.2 .
Operating contract negotiation (e.g., fuel supply agreements, power sales agreements, operating and maintenance agreements)	Expense	Expense	Expense	Contract negotiation costs should be expensed. Although the project may not be viable without operating contracts (e.g., a signed power sales agreement is a prerequisite for financing), these contracts are not directly related to or necessary for construction of the asset itself.
Organizational costs (e.g., corporate bylaws, other agreements)	Expense	Expense	Expense	Organizational costs should be expensed in accordance with ASC 720-15 .
Overhead, including rent, depreciation, and support functions (executive management, accounting, purchasing, corporate legal, human resources, and information systems)	Expense	Expense	Generally expense	General and administrative and overhead costs should be charged to expense as incurred, with a limited exception for property constructed for sale or rental.
Outsourced administrative functions (e.g., accounting, purchases, and payables)	Expense	Expense	Generally expense	General and administrative and overhead costs should be charged to expense as incurred, even if the costs are incurred by a third party on behalf of the reporting entity. These costs may be eligible for capitalization if the property is constructed for sale or rental.
Project financing—external fees	Capitalize	Capitalize	Capitalize	Specific incremental costs directly attributable to a project financing should be capitalized (e.g., debt issuance costs). Any amortization recorded during construction would

be included in capitalized interest calculations.

Project financing—internal costs and salaries	Expense	Expense	Expense	General and administrative costs and overhead costs should be charged to expense as incurred.
Property taxes	Expense	Expense	Generally expense	Property taxes are a cost of owning the property and are not a direct incremental cost of construction, thus such amounts should be expensed as incurred. However, similar to ground lease expense, such amounts may be capitalized if the property is being constructed for sale or rental. See PPE 1.7.2 .
Recruiting (costs to identify and hire operating and administrative personnel on site)	Expense	Expense	Expense	Recruiting costs should be expensed in accordance with ASC 720-15 .
Salaries—developers, legal counsel, and other personnel working directly on the project	Expense	It depends	It depends	All payroll and payroll-related costs should be expensed until the project is probable. Once the project is probable, directly identifiable payroll and payroll-related costs should be capitalized. The amount capitalized should be limited to those amounts directly related to the site and project selected (e.g., costs related to evaluation of potential projects or locations should be expensed). In addition, occupancy and similar costs associated with personnel working on the project should be expensed.
Salaries—support functions	Expense	Expense	Generally expense	General and administrative costs should be expensed as incurred, with a limited exception related to property constructed for sale or rental. See

discussion under
“Overhead” costs.

Site permit and license fees	Expense	Capitalize	Capitalize	Site permit and related fees are a direct cost of construction and should be capitalized once construction is probable.
Site security costs	Expense	Capitalize	Capitalize	Site security costs are a direct cost of construction and should be capitalized once construction is probable. Amounts capitalized should be limited to incremental security costs.
Internal use software development costs	Expense	Capitalize as permitted	Capitalize as permitted	Internal use software development costs should be capitalized in accordance with the requirements of ASC 350-40 . See SW 3 .
Training costs	Expense	Expense	Expense	Training costs should be expensed in accordance with ASC 720-15 .
Travel expenses—internal and third party	Expense	It depends	It depends	See discussion under “Consulting fees.”

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