# Issue

Each Service is currently handling Assets Purchased in Quantity differently and the regulations do not provide sufficient latitude in accurately spreading the cost of bulk purchase items over the useful life of the purchases.

# Research

Below outlines the capitalization threshold of assets purchased in quantity, how each service complies and what the regulations, accounting guidance and industry standards are for this area.

| Assets Purchased in Quantity Treatment and Guidelines | Air Force | Army | | Navy | Marines |
| --- | --- | --- | --- | --- | --- |
| Services’ Process for Capitalization of Assets Purchased in Quantity | Single item less than $1,000; total purchase of  $2,000 or more | | Single item less than $100; total purchase of $2,500 or more | Total amounts of $1,000 - $2,499. Total purchase of $2,500 or more. Unique Issue: Lodging-whole room composite depreciation | Expense all individual items under $2,500, regardless of quantity purchased at one time. |
| DoDI 1015.15: Silent on Treatment. Does not provide definition or treatment for assets purchased in quantity.  6.4.2.5. Tangible Fixed Assets. Tangible fixed assets purchased with NAFs, or donated or transferred to a NAFI, that have a useful life expectancy of more than 2 years and an acquisition cost of $2,500 or more, shall be capitalized in NAF accounting records. | N/A | | N/A | N/A | N/A |
| FMR Volume 13, Chapter 3. 030306. A.1.a. Assets Purchased in Quantity: Like items purchased in a quantity in excess of one must individually meet the capitalization threshold in accordance with the appropriate Military Service guidance. All other criteria for fixed assets listed in subparagraph 030306.A must be met. | Follows Alternative Guidance | | Follows Alternative Guidance | Follows Alternative Guidance | Follows Current Guidance |
| GAAP: GAAP does not specify a capitalization threshold for grouped assets or assets purchased in quantity. The determination is left to the entity to determine, as the wide variance in business entities precluded developing a proper applicable standard. | N/A | | N/A | N/A | N/A |
| FASAB Handbook version 16: SFFAS 6 (13) The Board believes that capitalization thresholds should be established by Federal entities rather than centrally by the Board. Because Federal entities are diverse in size and in uses of PP&E, entities must consider their own financial and operational conditions in establishing an appropriate capitalization threshold or thresholds. Once established, this threshold(s) should be consistently followed and disclosed in the financial reports. | Follows Alternative Guidance | | Follows Alternative Guidance | Follows Alternative Guidance | Follows Current Guidance |
| Industry Practice: Wide variance between similar companies within the same industry such as lodging or resort industries. The lodging and resort industry uses an individual acquisition threshold ranging between $1,000 & $5,000 and uses the whole room concept. | Follows Current Guidance | | Follows Current Guidance | Follows Current Guidance | Follows Current Guidance |

# Discussion

All Services are currently using a two-year life expectancy but different acquisition costs as noted in the table above. It is recommended that all Services use the same threshold value and useful life for assets to be capitalized. However, a stricter threshold is acceptable.

# Clarification is needed among regulations that allows for items below the individual acquisition threshold ($2,500) to be capitalized when purchased in bulk. This will allow the Services to capitalize purchases and depreciate the expense over the useful life of the items.  Not being able to gradually depreciate these items over their useful life can artificially and negatively impact the financials statements of the period in which the purchases are made. Lodging and entertainment industry practice is to use discretion when deciding whether to capitalize or expense items purchased in quantity. Smaller value assets, like uniforms and china, tend to be capitalized and expensed over a two-year period.

# The lodging and entertainment industry uses the whole room capitalization concept. For example, when hotel rooms are furnished, all items for all rooms are purchased at one time and are all capitalized together as one room. When the hotel decides to refurnish its rooms, it removes all the capitalized assets from its books at that time.

# .Recommendation

All Services to set the minimum threshold for asset capitalization of assets purchased in quantity at a purchase cost equal to or greater than $2,500. Services with more stringent asset capitalization threshold policies may follow their internal policy. Additionally, the assets purchased in quantity should be identical items and have a life expectancy of two years or more. The whole room capitalization concept and composite purchase capitalization are both permitted to be used when capitalizing assets purchased in quantity. The DoD FMR should be revised to reflect this recommendation. No changes necessary to the DODI 1015.15.

# Service Concurrence

|  |  |  |
| --- | --- | --- |
| Service | Concurrence | Reason for Non-concurrence |
| Air Force | Concurrence on 9/18/2014. **Re-concurred 11/15/2018.** |  |
| Army | Concurrence on 9/24/2014. **Re-concurred 11/2/2018.** |  |
| Marines | Concurrence on 9/24/2014. **Re-concurred 10/31/2018.** |  |
| Navy | Concurrence on 9/22/2014. **Re-concurred 11/2/2018.** |  |

# USD(P&R)/MC&FP Disposition

No further action.

**DFAS Disposition**

Revise DoD FMR Volume 13, Chapter 3, paragraph 030306.A.1.a.

# Forward to DoDIG?

No DoDIG equities.