

## Capitalization & Depreciation Accounting

Section 2.12 of the Parish Financial Management Manual indicates that parishes that have audited financial statements may be required to include depreciation to satisfy GAAP requirements. As more parish schools participate in one of several Wisconsin School Choice programs, more parishes are required to follow US GAAP rules regarding capitalization and depreciation. Parishes without a school or without a school enrolled in a WI Choice program may still opt to follow GAAP.

This is meant to help guide parishes who are new to depreciation accounting.

### What is Depreciation?

“[Depreciation](#) is an Accounting practice used to spread the cost of a tangible or physical asset, such as a building or vehicle over its useful life. The amount an asset is depreciated in a given period is a representation of how much of that asset’s value has been used up.” (*Investopedia*. Accessed November 19, 2024.)

Note that parish schools participating in a WI School Choice program are required to have a documented capitalization policy. Generally, the maximum threshold for capitalization may be \$5,000. Anything over \$5,000 will likely result in an audit finding. For a sample policy, click [here](#) and navigate to “Appendix 1: Template Capitalization Policy:” [PSCP Eligible Expenses Bulletin 9-22.pdf](#)

For Example: if a school renovates their kitchen for \$20,000, instead of showing the entire expense in the year it was renovated, the school would depreciate it over its [useful life](#). If the useful life of the kitchen renovation was determined to be 10 years, the school would show the \$20,000 expense over 10 years for a total of \$2,000 each year.

To depreciate, parishes and schools will need to add the following accounts to the chart of accounts:

1. Add Account 1795 Accumulated Depreciation (this should be a [contra asset account](#))
2. Add Account 4760 Depreciation Expense (this account would be used instead of account 4740 Major Maintenance Expense)

### How to account for Capitalization & Depreciation

Using the example of a \$20,000 renovation to a school kitchen, which will be depreciated over its 10-year useful life, the following entries would be made:

1. During construction of the project:  
Dr. 1770 Construction in Progress (Every time a payment goes to the vendor during renovation)  
Cr. 1010 General Checking (Amount varies)
2. At conclusion of construction:  
Dr. 1730 Buildings \$20,000 (Total cost of the project)  
Cr. 1770 Construction in Progress \$20,000

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3. Entry at the conclusion of year 1 – To record Depreciation:

Dr. 4760 Depreciation Expense \$2,000

Cr. 1795 Accumulated Depreciation \$2,000

### Depreciation Schedule

Year	Depreciation Expense	Accumulated Depreciation	Book Value
1	\$2,000	\$2,000	\$18,000
2	\$2,000	\$4,000	\$16,000
...	...	...	...
9	\$2,000	\$18,000	\$2,000
10	\$2,000	\$20,000	\$0

If you dispose of any fixed assets please reach out to [Parish & School Financial Consulting](#) for entries to dispose of fixed assets from the parish's general ledger.

For additional information about property and equipment, please see the [USCCB's Diocesan Financial Management](#) file, PDF page 131.