

CONCEPT: ORDINARY REPAIRS VS CAPITAL IMPROVEMENTS

- Over the life of an asset, a company may spend some more money to maintain the asset.
 - **Ordinary Repairs** are standard maintenance costs. These are _____ to the Income Statement
 - **Capital Improvements** generally extend the life of the asset. These are _____ to the Balance Sheet

EXAMPLE: A company has owned a machine for several years. During the current year, the company spent \$150 to grease the gears of the machine. The company replaced several worn gears in this process at a cost of \$500. The company also modified a segment of the machine to improve the capacity of its output at a cost of \$2,000. Journalize these transactions.

PRACTICE: Categorize the following repairs on a truck as a Capital Expenditure or Ordinary Expense:

1. Major engine overhaul:
2. Oil change:
3. Replacement of windshield:
4. Modification of the body of the truck:
5. Addition to storage capacity of the truck:
6. Paint job:

PRACTICE: Which of the following is *not* a capital expenditure?

- a) Replacing an old motor with a new motor in a factory machine
- b) The addition of a new wing to a building
- c) An overhaul of the company's heating system
- d) A tune-up of a company truck
- e) The cost of installing equipment