

RFHHA MANAGEMENT TIP OF THE DAY FOR HOSPITAL ADMINISTRATORS 1323

Learn the FM: What is Capital Expenditure (CAPEX) in finance management?

Capital Expenditure is a payment (investment) that creates future benefits. It is incurred when a company spends money to acquire or upgrade physical, fixed assets such as equipment, property, industrial buildings with a useful life extending beyond the taxable year. In some cases also in intangible assets.

In accounting, a capital expenditure is added to an asset account (i.e. capitalized), thus increasing the asset's basis (the value or cost of the asset adjusted for tax purposes) in the event of sale or transfer.

For tax purposes, depending on the country, CAPEX is typically a cost which cannot be deducted in the year in which it is paid or incurred. It must be capitalized: the general rule is that if the acquired property's useful life is longer than the taxable year, then the cost must be capitalized.

The capital expenditure costs are then amortized or depreciated over the life of the particular asset.

Included in capital expenditures are amounts spent on:

- Acquisition of fixed, and in some cases, intangible assets
- Repair of an existing asset so as to improve its useful life
- Upgrade of an existing asset if its results in a superior fixture
- Preparation of an asset to be used in business
- Restoring a property or adapting it to a new or different use
- Start or acquisition of a new business

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