INTEGER WEALTH FINANCE

What Items Are Included in Fixed Assets and Other Things ‘fixed asset’ related.

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Fixed assets are long-term investments in the operation of a company. Unlike current assets, which are easily converted to cash, fixed assets provide value over a period of years and are not likely to be liquidated in the first few years of their acquisition.

Examples of fixed costs include buildings, computers, manufacturing equipment, vehicles, office equipment and furniture. These items are often referred to as "property, plant and equipment" on the balance sheet.

1. What is a Fixed Asset.?

In simple terms, fixed assets are items that have a life span of one year or longer. Cash in the business current account would not be a fixed asset because you are going to use it up within the next 12 months. A new vehicle, by contrast, is a fixed asset because you are going to get three, five or more years of use from it.

In addition, fixed assets are not intended for resale but are used in your routine business activities. You group similar types of fixed assets together and list them on the balance sheet under the fixed assets heading.

a. Buildings and Factories

Although office buildings and factories are commonly known as fixed assets, any permanent structure can be considered a building for fixed asset classification. Modular office buildings, trailers and warehouses are fixed assets. Your company parking lot, customer parking garage and company vehicle garage also qualify. Permanent structures that are part of your business, such as an outside pavilion, a sheltered picnic area or concessions stand, are considered fixed assets.

b. Furniture, Fixtures and Equipment

Desks, chairs, tables, couches, filing cabinets and movable partitions are part of your furniture fixed assets. Fixtures are anything attached to your building or structure that, if removed, would cause damage. Common fixed asset fixtures are installed lighting, sinks, faucets and rugs. Your copy machines, telephones, fax machines and postage meters are included as office equipment fixed assets.

c. Intangible Assets

Intangible assets are nonphysical assets classified as either limited life or indefinite life fixed assets.

Your limited life intangible assets expire after a certain date and include copyrights, patents, computer programs and software. Indefinite life intangible assets are goodwill, trademarks and business franchises. These assets are expected to last as long as your business exists and have no set expiration date. Other types of intangible assets are long-term licensing agreements, broadcast rights, brand names and internet domain names.

d. Machinery and Equipment

The type of machinery and equipment you list as fixed assets depends on your particular industry. Machinery used on the production line, farm combines and tractors, automotive manufacturing conveyor belts and lumber-cutting machinery are fixed assets in various industries. Heavy equipment such as wrecking balls, pneumatic drills and cranes also qualify. Other types of fixed asset equipment are robots used on the production line and hospital equipment such as X-ray machines and computed tomography, or CT, scan equipment.

2. What is a Characteristic of a Fixed Asset.?

Most small businesses use some form of a fixed asset in their operations. A fixed asset is a resource a business reports in the assets section of its balance sheet, typically under the "property, plant and equipment" classification. Examples of fixed assets include computers, buildings and land. This type of asset has several characteristics that distinguish it from other assets. Knowing these characteristics can help you properly account for fixed assets in your records.

a. Tangible

A fixed asset is a tangible asset with a physical presence. This differs from intangible assets, such as patents, which are nonphysical. But the term "fixed" does not necessarily mean that a fixed asset is attached to a company's property. It simply means that it is a relatively permanent resource in the company. For example, a movie studio's camera equipment is a fixed asset that it can take to different locations.

b. Used in Operations.

A small business owns its fixed assets and uses them in its operations to generate revenue and profit. It does not buy them to hold for investment or to resell to customers. One company might classify a particular asset as a fixed asset in its records, while another company might consider the same asset as part of inventory or investments. For example, a restaurant would classify its ovens as fixed assets, but the company that sold it the ovens would consider them part of its inventory.

c. Long-term Life

A business expects to use its fixed assets and gain an economic benefit from them for more than a year, which makes a fixed asset a "long-term," or "noncurrent," asset.

This differs from a current asset, such as inventory, which a business expects to hold for less than a year. For instance, if your small business buys machinery, you might expect to use it for 10 years before replacing it.

d. Capitalized Cost

When a business purchases a fixed asset, it capitalizes its cost, which means it records the cost on the balance sheet instead of as an expense on the income statement. A business does this because it expects to use the fixed asset over multiple periods, whereas expenses are reserved for items used in a single period. Assume your small business buys a commercial printer for £10,000. Because this is a fixed asset, you would record the £10,000 cost on your balance sheet.

e. Depreciation

If a fixed asset is anything other than land, a company transfers a portion of its capitalized cost on the balance sheet to an expense on the income statement each period through a process called depreciation. This process reduces a fixed asset's value on the balance sheet to account for wear and tear. For instance, if your small business buys a company car for £20,000, you would transfer a portion of this value to the income statement each year to account for using the vehicle.

3. What Would Appear as Assets on a Manufacturer's Balance Sheet.?

Although many industries share similar assets on their balance sheets, a manufacturer's balance sheet contains additional assets specific to the business it's in and the products it sells. Understanding the assets that belong on a manufacturer's balance sheet is a step toward understanding the underlying strength in the company.

a. Land and Buildings

Before you can start any business, you have to have a place to put it. However, land and buildings have a more defined role on a manufacturer's balance sheet because space is often a large investment in the manufacture of goods. Although they are both long-term assets, land and buildings are valued differently. Land is shown on the balance sheet at its historical cost because it is considered to have an unlimited life. Conversely, building costs are systematically allocated over their useful life (depreciated) to a net book value of zero. Similarly, building improvements are listed on the balance sheet and depreciated over the time of their useful life.

b. Equipment and Fixtures

Equipment and fixtures are also long-term, tangible assets listed on a manufacturer's balance sheet, and they are depreciated over time.

Examples of manufacturing equipment would be the machinery used for more than one year such as extrusion machines, conveyor belts or any other item used to make a product. Fixtures are also listed on the balance sheet and would include items such as office and factory furniture or storage units used in the business.

c. Inventory

The inventory of a manufacturing company is listed in the current asset section of the balance sheet because it is likely to be consumed or sold over a 12-month period. There are three basic types of inventory:

- raw materials, work in process and finished goods. Raw materials are the piece parts used to build a product.
- Work-in-process items are goods that are in the manufacturing process - which includes the value of raw materials and labour used to make the goods.
- Completed products are listed on the balance sheet as finished goods - which includes all of the material, labour and manufacturing costs used to produce those products.

d. Cash and Other Assets

Manufacturing and other types of companies may all have cash, investments, accounts receivable, pre-paid expenses (such as insurance or yearly maintenance fees) or goodwill (the value of a company over and above their tangible assets) listed on their balance sheets. Although these items are not specific to a manufacturing company, they are still listed as balance sheet assets, because they represent part of the worth of the company at a given snapshot in time.

4. Tax Write-offs and Breaks

Tax write-offs and breaks can make a significant difference when calculating your tax liability at the end of the fiscal year. When deductions are itemized on your tax return, you might discover that your tax liability decreases by thousands of dollars. To take advantage of tax breaks, save your receipts and report expenses accurately. If you are audited by the IRS, you will need proof of your itemized deductions.

a. Business Assets

Equipment purchases may be written off if they were made during the tax year — the last full year preceding the timely filing of your tax return. If you start a new business, any cost associated with its start is deductible on your taxes. Any money spent on licenses, acquisition of property, equipment, vehicles and infrastructure may be claimed as a deduction.

b. Travel

Travel expenses are deductible if you can prove that they were work-related. Receipts and travel logs are critical in the event that you are audited. Travel expenses include money spent on gas for your business vehicle, airplane tickets, hotel rooms, business meals and vehicle repairs.

If you buy a new vehicle for your business, you may deduct the expense. The IRS also offers a standard mileage deduction for business vehicles if you do not want to itemize your gas, maintenance and other expenses.

c. Health Insurance

Small business owners receive a tax break on their health insurance payments during the fiscal year. Unlike other tax write-offs, which are itemized and used to calculate your adjusted gross income, health insurance payments are deducted fully from your adjusted gross income. There is no limit to your health insurance payment deduction, which means you can deduct £1,000 or you can deduct £40,000 per year: The total does not matter.

d. Charitable Donations

Donations to churches and other non-profit organizations are deductible on your tax return at the end of the fiscal year. For example, if your business donates a work vehicle to a charity, you deduct the cost of the vehicle. To take advantage of charitable donations, obtain a receipt from the organization. For larger items, you might need to hire an appraiser to assess the value of the item. For example, if you donate your car, an appraiser must assign a cash value to the vehicle and provide written proof to you.

5. Examples of Long-Term Assets in Accounting

Accounting divides your company assets into two classes: current and long-term. Current assets include cash and anything you use up or convert to cash over the next 12 months. Typical examples are supplies or accounts receivable. Anything you plan to keep beyond a year is a long-term asset.

Tip: There are several kinds of asset in the long-term asset category, such as long-term investments, fixed assets and intangible assets.

a. Property, Plant and Equipment

Fixed assets are things you buy for your company's internal use rather than resale. Examples in this accounting category include land, buildings, cars, machinery and computers. The category is also known in accounting as "property, plants and equipment." The fixed-asset entry does not include assets such as office supplies or raw materials that you'll use up within a year. You record fixed assets on your company's balance sheet at the purchase price, marked down over time for depreciation.

b. Assets You Cannot See

Intangible assets are a different kettle of fish. They include such non-physical property as domain names, copyrights, trademarks, employment contracts, noncompete agreements and customer lists. They also include goodwill. The intangible benefits of having a positive reputation.

You only record the value of intangible assets when you buy them. Suppose rather than starting your own plumbing business, you buy an established local company. Part of the purchase price goes to intangibles, such as the company's goodwill and trademarks. If you start your own plumbing business and create your own trademarks, you do not assign them any value as assets.

c. Investments Held for More than One Year.

Long-term investments are those you are going to hang onto for more than 12 months. A house you buy to flip in a few months would not count, but if you plan to wait a few years it would qualify. Stocks and bonds your company plans to keep for more than a year fit this category too. This class of assets does not include things you use in your business operations. Land you buy for a new factory is a fixed asset, for instance, but it is not a long-term investment. These investments go on the balance sheet separately from other long-term assets.

d. Payments Made in Advance

A deferred charge is a payment in advance. This can include anything from paying your supplier before delivery to paying a lump sum to your insurer to cover the next 12 months. If the period covered is long enough, the deferred charge qualifies as a long-term asset. Typical deferred charges include prepaid rent, prepaid insurance and prepaid advertising.

You record the initial payment as an asset on the balance sheet. If you pay £60,000 in rent for the next two years, that is an asset because it guarantees you the use of the premises. Each month, you reduce the asset account and record that month's rent as an expense on the income statement. Otherwise, the huge expense of the initial payment would make your business look much worse off financially than it really is.

6. What Do Accountants Mean by Capitalising Fixed Assets.?

Capitalising a fixed asset refers to the accounting treatment reserved for the purchase of items to be used in the operation of the business. The process entails recording the purchase as an asset instead of a period expense, then amortizing, or depreciating, portions of the purchase price over a set period, in regular intervals. This allows the company to spread the cost of the asset over its useful life and avoid drastic impacts to the income statement in the period the asset was purchased.

a. Fixed Assets

A fixed asset is an item that is used by a company in the operation of business. These items are usually expensive in nature and do not include inventory for resale or repair or spare parts inventory. Typically, an item is not considered to be an asset to be capitalised unless it has a useful life of at least one year. Additionally, fixed assets are generally thought be items that are new or replacement in nature, rather than for the repair of an item.

b. Capitalisation Thresholds

Most accounting organizations set minimum purchase thresholds for an item to be considered a fixed asset. The purpose of the capitalisation threshold is to prevent the business from placing immaterial expenses on the balance sheet instead of recognizing them as an expense in the period incurred.

There is no set value for a capitalisation threshold, but the Internal Revenue Service indicates that most items with a useful life of more than one year should be capitalized.

c. Depreciation of Fixed Assets

Depreciation is the process of reducing the value of a fixed asset. Depreciation expense is determined by the cost of the asset, the useful life, projected salvage value and the method of depreciation used. A haul truck for a mining company, for example, may have a purchase price of £1 million. If the company determines the truck has a useful life of 10 years, salvage value of £10,000 and depreciates using the straight-line method, the depreciation expense would be £99,000 per year. The straight-line method is calculated by deducting the salvage value from the purchase price and dividing by the useful life.

d. Written Capitalisation Policy

A written capitalisation policy is integral to the proper accounting treatment of fixed asset purchases. A written capitalisation policy will provide clear guidance to the determination of useful life and other pertinent matters related to capitalisation. This policy can be helpful in the construction of a capital asset budget for future periods by identifying which items should be capitalized. In addition, the written policy provides a defence in the event a financial audit is conducted on the firm.

7. What Is Net Worth & Total Assets.?

a. Balance Sheet

The balance sheet is broken into two parts. One portion reflects the company’s assets, which describe items of value. Assets are broken into three categories -- current assets, long-term assets and intangible assets. The total combined value of these categories equals your company’s total assets. The other side shows the companies liabilities. These are its debt obligations to others. Both of these items are necessary to calculate net worth.

b. Current Assets

Current assets are also your most liquid, meaning those most easily converted to cash. These are assets that factor into your day-to-day operations and can potentially change significantly over the coming year. For example, cash, whether in banks or kept in safes on location for transactions, is considered a current asset. Accounts receivable, which are outstanding billings to your customers awaiting payment, are another example. Current assets also include equipment and inventory used in your daily operation.

c. Long-Term Assets

Long term assets are non-liquid, meaning your company will possess them for greater than one year, and it will take some time to sell them off if necessary. This includes real estate owned, including land and buildings, leasehold improvements to rented space and vehicles. It can also include the accumulated depreciation, the yearly decrease in value, on these long-term assets. It can also include equipment you will use longer than a year, such as cranes, office equipment or computer systems.

d. Intangible Assets

The final category is intangible assets. These are assets that are not physically represented but nonetheless provide value to your company. This includes organizational expenses such as licenses, patents, goodwill and copyrights. These provide value to your particular business but could not necessarily be sold and provide value to another entity unless it takes over your business entirely.

e. Net Worth

You can calculate your business's net worth using a simple formula: net worth equals total assets minus total liabilities. If your company has total assets of £750,000 and total liabilities of £250,000, its net worth is £500,000. The higher your company's net worth, the more valuable it is. This helps when looking for financing, seeking investors or looking to expand. On the other hand, the lower your net worth, the more leveraged your company is, making it less attractive to lenders or investors.

8. How to Define Accounts on a Balance Sheet for an Audit

Audits conjure up images of crass, robotic-looking accountants whose mission in life is to cause pain and anguish for the small-business owner. In reality, an audit is simply a review of financial information to ensure that income and expenses are being reported correctly. On a balance sheet, auditors often look to understand a company's internal accounting system to interpret the data. Because every company is different in how it accounts for money, translating the balance sheet items into assets, liabilities and equity can assist the small-business owner in ensuring a smooth audit experience with minimum stress.

a. Identify all asset items. An asset is property that is used in the course of operating a business. For example, a computer chair is an asset, as is cash. Remove any unearned revenue items to the liabilities category. Unearned revenue is actually a liability because you have been given money for something that you now are obligated to fulfil, which makes it a liability. However, the money itself, is still an asset. For example, a commercial property investor has received a years' worth of rent up front. He must now be liable for providing the rental space for the year.

b. Identify all liability items. Liabilities are items that you must repay or fulfil. For example, a business owner has a lease on construction equipment. The amount owed to the finance company is the liability; the equipment is the asset. Remove all deferred liability items to the asset section. For example, you pay a years' worth of lease payments on the construction equipment to the finance company. Because the payment has been made for the year, you are no longer liable to pay the lease.

c. Identify all equity items. Equity is the difference between the liability and asset. Continuing the example, the construction equipment is an asset, and the amount owed is the liability. Subtracting the amount you are liable for from the amount the asset is worth is the amount of equity. Remove items from the equity category, such as cash investments, since cash and investments are assets.

9. How Is Capital Investment Treated on a Balance Sheet.?

Your business's balance sheet shows how much your company is worth, how much it owes and how much you'd have left if you paid off the debts today. Capital investments, such as land or vehicles that your company buys, are part of a business's equity. They affect the balance sheet, but you include these investments with all your other assets.

a. The Balance Sheet

A balance sheet is a financial statement based on the equation that the total assets of a company are equal to the total of its liabilities and owners' equity. The company's assets are entered on one side of the sheet, while the liabilities and owners' equity are entered on the other. The exact set of line items listed on the balance sheet depends on your company's business transactions, but might include:

b. Assets: Everything your business owns such as cash, cars, manufacturing equipment, computers, inventory, accounts receivable and anything else the company possesses
   - Liabilities: Accounts payable, long-term loans and other debts
   - Equity: The value of the owner's investment
   - Suppose you own a sole proprietorship. Your total assets are £61,000 and your liabilities are £15,000. Your equity in the company is £46,000, the remaining value of the assets if you paid off the debt. The equity is the same if you have a partnership or sell shares, but each individual owner's equity is smaller.

   Looking at the balance sheet tells investors or lenders how much of your company's value is cancelled out by debt.

c. Business Capital Investment

Capital investments are sums of money you put into your business to generate profits down the road. You probably hope all the money you invest will generate profits, but accountants separate paying day-to-day bills from the capital investments like:

   - Land
   - Buildings and building upgrades
   - Cash invested in stocks or just an interest-bearing account
   - Buying up a smaller company
   - Money spent on tangible assets that last more than one year is known as capital expenditures.

d. On The Financial Statements

Your capital expenditures and other investments go down on your balance sheet. You do not, however, have a separate "capital investment" entry that totals them all up.

Suppose your investors put up £100,000 to buy land for a new factory and £25,000 for a delivery van. Add that to the £61,000 and your net assets go up to £186,000. You would include it in on the assets side of the balance sheet under property and equipment. On the other side of the equation, owner equity would go up by £125,000. If you took out a loan to make the purchases, equity would stay the same and you would add £125,000 to liabilities, as long-term debt.

You also report capital expenditures as investment activities on the cash flow statement.

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