

Long Term Assets

by Sophia



WHAT'S COVERED

This lesson will cover the topic of long-term assets.

Our discussion breaks down as follows:

1. Long-Term Assets vs. Short-Term Assets

Long-term assets are assets that will be used for longer than one year, such as plant assets and long-term investments.

Short-term assets, also known as **current assets**, are assets that are converted to cash, used up, or sold within one year.

Long-Term Assets	Short-Term Assets
Assets that will be used for longer than one year, such as plant assets and long-term investments	Assets that are converted to cash, used up, or sold within one year
One Year or More	One Year or Less



HINT

Even if an asset is owned for a brief period, if that period is one year or more, it's still classified as long-term.

Now, how do we determine the classification of an asset, whether it is long-term or short-term? Well, we need to consider the nature of the asset, referring to how long it is meant to last. We also need to consider the nature of the use, meaning is it an asset we're going to use up within one year or less, or will it provide use over multiple years?



TERMS TO KNOW

Long-Term Assets

Assets that will be used for longer than one year, such as plant assets and long-term investments.

Current Assets

Assets that are converted to cash, used up, or sold within one year.

2. Long-Term Assets

Long-term assets can also be referred to as capital assets or fixed assets; these terms are interchangeable.

There are two broad categories within long-term assets:

- Real Property
- Personal Property

Real property is resources that have physical characteristics and are used in business operations. Note, the important piece of this definition is that they are used in business operations.

➞ **EXAMPLE** Examples of real property include things like land, land improvements, and buildings. These are typically going to be real estate, from which the term real property derives.

Personal property is tangible and intangible assets that are transferable among individual owners.

➞ **EXAMPLE** Personal property includes things like computers, company cars, as well as equipment--all items that can be transferable. And then equipment also falls into this personal property category.



TERMS TO KNOW

Real Property

Resources that have physical characteristics and are used in business operations.

Personal Property

Tangible and intangible assets that are transferable among individual owners.

3. Book Value

Book value is the cost of a depreciable asset less its accumulated depreciation. So, how do we determine book value? Well, book value of an asset includes the cost of the asset and any cost incurred getting that asset ready for use within the business.

In the case of real property, which includes things like land and buildings, or real estate, the types of costs that would contribute to the cost of an asset are:

- Fees (e.g., appraisal fees, legal fees, title fees, etc.)
- Structure removal, if any existing structures must be removed from the land
- Construction, if a new building is being built on newly purchased land
- Land preparation for development

The types of costs that would contribute to the total cost of personal property assets, such as equipment, automobiles, or computers, are:

- Purchase price/cost of asset
- Setup fees
- Testing fees, if, for example, newly purchased equipment needs to be tested before it is operational

- Installation



TERM TO KNOW

Book Value

The cost of a depreciable asset less its accumulated depreciation.



SUMMARY

Today we learned about **long-term assets**, starting with a comparison of **long-term assets versus short-term assets**. Remember, long-term assets are used for one year or *more*, whereas short-term assets are typically used up in one year or *less*. We also learned about two broad categories within long-term assets, examining the difference between real property and personal property. Lastly, we discussed **book value**, which is the cost of a depreciable asset less its accumulated depreciation.

Source: Adapted from Sophia instructor Evan McLaughlin.



TERMS TO KNOW

Book Value

The cost of a depreciable asset less its accumulated depreciation.

Current Assets

Assets that are converted to cash, used up, or sold within one year.

Long Term Assets

Assets that will be used for longer than one year, such as plant assets and long term investments.

Personal Property

Tangible and intangible assets that are transferable among individual owners.

Real Property

Resources that have physical characteristics and are used in business operations.