Long-Term Assets: Costing

Characteristics
Assets are used for operations, not for resale. They are physical and long term in nature, subject to depreciation (with the exception of land). Assets are accounted for by book value (Cost less depreciation)
- Tangible assets (land, building, equipment) are depreciated
- Resources (oil, gas, gold, timber) are depleted
- Intangibles (rights, advantages) are amortized

Nature of Expenditures
- Capitalized Costs \((balance\ space)\) include all costs to acquire, position and ready it for use (purchase, freight, tax, installation).
- Costs are added after acquisition if they add to future service potential, life or quality
- Costs are expensed \((income\ statement)\) for repair, maintenance, and operation

Land
Cost of land:
- Purchase price and closing costs (title, attorney, recording)
- Preparation (grading, filling, draining, clearing)
- Assume loans, mortgages and encumbrances; If there is a building, costs up to excavation and removal of old building
- Salvage (old building or timber) is a reduction in the land cost
- Add special assessments for pavement, lights, sewers, drainage

Improvements→Driveways, walks, fences and parking go to Land Improvements account

Land for speculation is an investment.

Land held by a real estate concern is inventory.

Building
- Offices, factories, warehouses
  - Cost of building include design, construction, architect and legal fees and permits

Equipment
- Office, machinery, furniture and fixtures
  - Costs of equipment include purchase price, foundations, assembly and installation, trial runs, freight and handling and insurance