SMALL BUSINESS MANAGEMENT

Assets Definition

Are Your Assets Current, Fixed or Intangible & What Are They Worth?

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Assets Definition

Assets are any property owned by a person or business. They can be fixed or current, tangible or intangible. (See examples of current assets and fixed assets below.) Tangible assets include money, land, buildings, investments, inventory, cars, trucks, boats, or other valuables. Intangibles such as goodwill are also considered to be assets.

Capital Assets

Also known as **Fixed Assets**, capital assets are those assets acquired to carry on the business of a company with a life exceeding one year.

Examples include:

- land
- buildings
- vehicles
- boats
- aircraft
- tools
- machinery
- computer hardware, mobile phones, etc.
- equipment

Businesses that have a high ratio of capital costs to labor costs are known as **Capital Intensive** businesses; that is, they require a large financial investment in capital assets to produce goods or services. Examples of capital intensive industries include mining, farming, airlines, oil and gas, fishing, etc.

Non-capital intensive businesses create wealth in ways that do not require plants, machinery, or expensive equipment, rather they rely on "intellectual capital". Examples include software development firms, consultants, writers, accountants, etc. Non-capital businesses have much lower barriers to entry given the minimal startup costs.

Aside from being used to generate income, capital assets are important for businesses in that they can be sold if the business is in financial difficulty or used as collateral for business loans.

In this case the lender will normally issue a lien against the asset so it can be seized if the loan is not repaid.

Given that most capital assets decline in value over time, in financial records capital assets are usually expressed as the cost of the asset minus depreciation. Capital assets depreciate at different rates depending on the asset class (as defined by the tax authorities).

The annual depreciation is a tax write off. (In Canada this is known is the Capital Cost Allowance or CCA.)

Current Assets

Items that are currently cash or expected to be turned into cash within one year are known as current assets. This includes:

- cash
- inventory
- accounts receivable

Intangible Assets

Examples of intangible assets include items such as:

- client lists
- franchise agreements
- favorable finance or lease agreements
- brand names
- distribution networks
- patents
- proprietary processes or technology (or anything protected by copyright)
- supplier contracts
- skilled employees

Intangible assets do not appear on balance sheets but (depending on the business) may make up a substantial part of the asset value of a business.

Classification of assets as tangible or intangible is not necessarily a straightforward process. For example, the oil and gas industry has special accounting rules for classifying petroleum reserves as either tangible or intangible depending on the stage of development, as does the mining industry (e.g. an oil field or ore body does not become a tangible asset until it becomes commercially viable and begins producing oil and gas or ore).

The value of assets in commodity-based industries can fluctuate enormously - the huge drop in oil prices in 2015, for instance, forced many oil and gas companies to take major writedowns on assets due to the decline in the value of reserves.

Return on Assets Ratio

The Return on Assets or Asset Turnover ratio is commonly used as a broad measure of asset efficiency. It's calculated by dividing sales revenue by the total assets:

Return on Assets % = Net Income / Total Assets

Asset Valuation - What Is a Business Worth?

Asset valuation becomes a significant issue when selling a business. It might be relatively easy to determine the value of the capital assets of the business, but intangible assets can be problematic. A business that has a client list can normally claim goodwill as an asset, but goodwill may be tied to the previous owner. For example, a dentist who sells a practice will have the client list included as an asset in the sale, but there is no guarantee that the new owner will be able to retain the clients.

For more information on selling a business see:

How to Sell a Business – Asset Sale vs Share Sale

3 Business Valuation Methods

Plan to Sell Your Business & Retire? Better Read This First

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Examples: A trademark is an example of an intangible fixed asset.

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