Capital Spending of a Balance Sheet With Intangible Assets

by Julianne Russ

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Financial statements say a lot about a small business. They reflect how profitable the company is, how liquid its assets are and how much it is spending on investments and obligations. Its capital investments reflect the company's short- and long-term goals. Investments in intangible assets, such as trademarks and patents, may not bring a return until a few years later.

Capital Spending

Capital spending, also referred to as capital expenditures, is spending on assets for future benefits. When a small business is starting up, capital expenditures are high in purchases of tangible assets, such as property, furniture, inventory, tools and equipment. They also are high for intangible assets, including goodwill, copyrights, patents, franchising and licenses. A company may invest in additional assets as it grows and sees additional investment opportunities.

Financial Statements

Capital spending is always reported on the company's cash flow statement. If a company sells any fixed assets during the year, the sales amount is subtracted from the capital spending amount listed on the statement. The company's assets are listed on the balance sheet. If a cash flow statement is not available, capital spending can be calculated based on the financial information on the balance sheet. To calculate it, one should take the difference in total assets from the previous fiscal year to the current year and subtract the difference in total liabilities from the previous year to the current year.

Intangible Assets

Intangible assets are not physical objects and may not have an easily identifiable value. Under the Internal Revenue Service code, a small business may have a number of intangible assets, including human workforce, worker knowledge, trademarks and certain company agreements. The cost of intangible assets can be deducted in a manner similar to depreciating tangible assets. The invested amount is amortized over 15 years by straight-line amortization, regardless of the actual life of an asset. The amortized amount also is reflected as a decrease in the asset's value on the company's balance sheet and as an expense amount on its income statement.

Capital Spending and Intangible Assets

Liquidity of assets is important to a small business. The level of liquidity reflects how well the business is prepared for a financial disaster. A highly liquid small business can sell some assets quickly to generate cash to meet short-term obligations or financial problems. Some tangible and intangible assets, while valuable, may not be very liquid. A company must maintain a good balance between high liquidity and putting some capital expenditures into profitable investment opportunities.

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About the Author

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