

ACCOUNTING

Capital Expenditure Vs. a Fixed Asset



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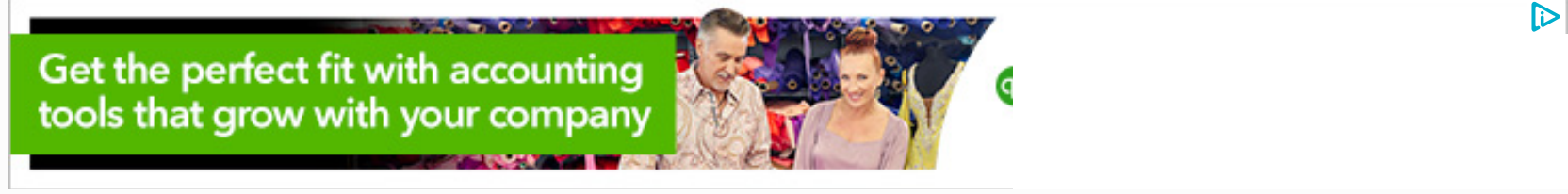


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Capital expenditures are a type of investment that companies make to operate or expand. Examples of capital expenditures include new technology or machinery. A capital expenditure is not for short-term gain, nor can it be easily transferred into cash. A fixed asset is a type of capital expenditure.



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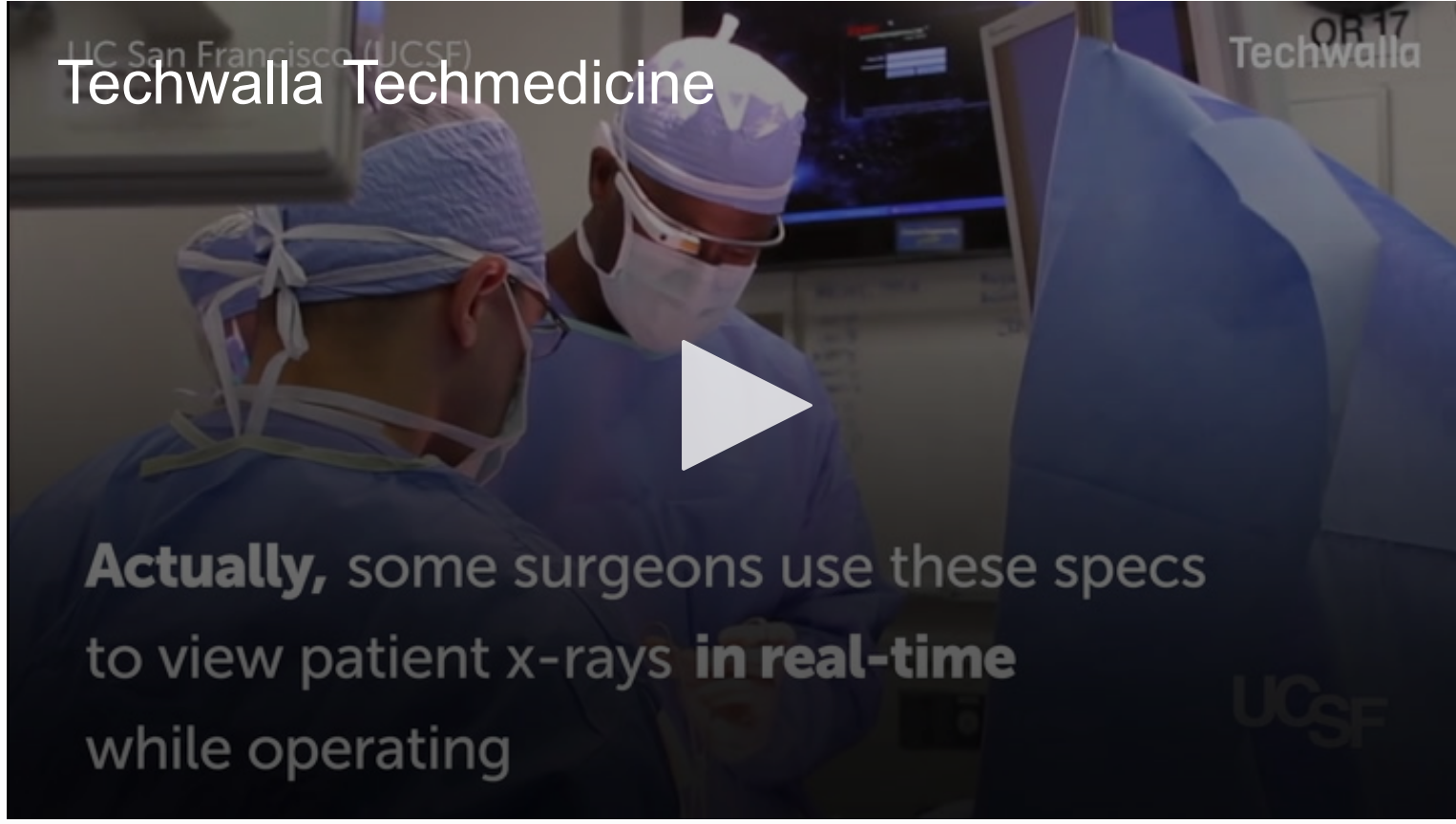
What is a Capital Expenditure?

The term capital expenditure refers to expense that a company incurs to purchase or improve upon tangible assets such as machinery and other equipment or real estate. These investments are necessary for the continuing operations of the business and can also pave the way for expansion or production upgrades. The investments themselves result in future rather than immediate benefits for the organization.

Types of Capital Expenditures

A company can make capital expenditures for a variety of reasons. While most of the assets acquired through capital expenditures are tangible, it is also possible for businesses to acquire intangible assets through capital expenditures. Additionally, capital expenditures can cover the costs of repairs or maintenance of existing assets. Further, capital expenditures can allow for the creation or acquisition of a new business altogether.

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Defining Fixed Assets

Fixed assets, also called non-current assets, are a common capital expenditure. The inability to easily convert a fixed asset into cash characterizes this type of asset. Additionally, a fixed asset is a type of tangible asset. Examples of fixed assets include real estate, land, manufacturing or other production equipment and computers. In addition to the non-liquid property of fixed assets, businesses cannot sell this type of asset directly to customers.

Depreciation and Capital Expenditures

Because fixed assets are subject to depreciation over time, this type of asset often requires further investment. This broadens the purpose of capital expenditures to include items such as technological upgrades.



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