

Accounting I



9TH CLASS INVESTMENT ACTIVITIES FIXED TANGIBLE ASSETS INTANGIBLE ASSETS



INVESTMENTS



Assets controlled by the company that are not aimed to be sold or transformed during the operating cycle of the entity. These assets can be owned by the company or used through a lease.



Investments

- Fixed Tangible Assets
- Intangible Assets
- Property Investments
- Investments in financial instruments
- Non current assets for sale



Fixed Tangible Assets

- Long-lived assets are divided into tangible and intangible categories
- **Tangible assets** are physical items that you can see and touch
- Used to support the activity of the firm
 - Land
 - Natural resources
 - Buildings
 - Equipment
- It does **not include** financial investments



Intangible Assets



- **Intangible assets** are not physical in nature, consisting of contractual or legal rights or economic benefits
 - Patents
 - Trademarks
 - Copyrights
- Land is reported at its historical cost in the financial records and is not depreciated



Examples of Intangible Assets



- **Patents** are grants by the federal government to the inventor of a product or process, bestowing the exclusive right to produce and sell a given product , or use a process for up to 20 years
- **Copyrights** are exclusive rights to reproduce and sell a book, musical composition, film, or similar creative item for the life of the creator plus 70 years
- **Trademarks** are distinctive identifications of a manufactured product or a service, taking the form of a name, sign, slogan, logo, or emblem




Examples of Intangible Assets

- **Franchises and licenses** are legal contracts that grant the buyer the right to sell a product or service in accordance with specified conditions
- A **leasehold** is the right to use a fixed asset for a specified period of time beyond one year
- **Leasehold improvements** occur when a lessee spends money to improve leased property
 - Improvements become a part of the leased property
 - Leasehold improvements are classified as fixed assets



Non-current Assets


- Long-lived assets wear out or become obsolete
- The costs of these assets are allocated over their useful life
 - **Depreciation** is the allocation of the cost of buildings, machinery, and equipment
 - **Amortization** is the allocation of the cost of intangible assets
 - **(Depletion** is the allocation of the cost of natural resources) – Not used in Portugal!!

 **Fixed Tangible Assets
Measurement and Recognition**

Acquisition Cost

Directly costs attributable to bringing the asset to the location and desired condition

Initial estimation of dismantling and removing costs

 **Fixed Tangible Assets
Measurement and Recognition**

Cost Model

- Acquisition cost - Accumulated depreciation – accumulated impairments

Revaluation Model

- Fair value (the changes are recognized in Owners Equity)




Fixed Tangible Assets – 1st recognition

- The acquisition cost of long-lived assets is the cash-equivalent purchase price
 - Includes incidental costs to complete the purchase, transport the asset, and prepare it for use
- The acquisition cost of land includes
 - The purchase price
 - The cost of land surveys
 - Legal fees
 - Title fees and transfer taxes
 - Demolition costs of old structures



Acquisition Cost of Tangible Assets

- Under historical-cost accounting, companies report land in the balance sheet at its original cost
- The acquisition cost of buildings, plant, and equipment includes all costs of acquisition and preparation for use
 - Sales tax
 - Transportation
 - Installation
 - Repair cost prior to use




Intangible Assets Measurement and Recognition

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Purchase price

Directly costs attributable to bringing the asset to the location and desired condition



Intangible Assets Measurement and Recognition

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Cost Model

- Acquisition cost - Accumulated amortizations (if the useful life is limited)- accumulated impairments

Revaluation Model

- Fair value (the changes are recognized in Owners Equity)

Only if there is na active market



Contrasting Long-lived Asset Expenditures with Expenses



- All purchases of goods or services are called **expenditures**
- Companies **capitalize** expenditures for assets that benefit more than the current accounting year
- The purchase price is added to an asset account rather than expensing it immediately
- The cost of repairs and parts are charged to expense rather than to an asset account
- Decisions about whether to expense or capitalize expenditures require judgment
- This is an area that management may inappropriately influence to increase reported net income