

## 9.1: Long Term Assets

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On a classified balance sheet, the asset section contained long term assets including things:

1. Plant assets (also called property, plant and equipment or fixed assets)
2. Long term investments
3. Intangible assets

Plant assets are long-lived assets because they are expected to last for more than one year. Long-lived assets consist of tangible assets and intangible assets. **Tangible assets** have physical characteristics that we can see and touch; they include plant assets such as buildings and furniture, and natural resources such as gas and oil. **Intangible assets** have no physical characteristics that we can see and touch but represent exclusive privileges and rights to their owners.

In this section, we will look at the accounting treatment for plant assets, natural resources and intangible assets. Investments will be covered in other chapters.

### Plant assets

To be classified as a plant asset, an asset must: (1) be tangible, that is, capable of being seen and touched; (2) have a useful service life of more than one year; and (3) be used in business operations rather than held for resale. Common plant assets are buildings, machines, tools, and office equipment. On the balance sheet, these assets appear under the heading “Property, plant, and equipment”.

### Natural resources

Resources supplied by nature, such as ore deposits, mineral deposits, oil reserves, gas deposits, and timber stands, are **natural resources** or **wasting assets**. Natural resources represent inventories of raw materials that can be consumed (exhausted) through extraction or removal from their natural setting (e.g. removing oil from the ground).

### Intangible assets

Although they have no physical characteristics, **intangible assets** have value because of the advantages or exclusive privileges and rights they provide to a business. Intangible assets generally arise from two sources: (1) exclusive privileges granted by governmental authority or by legal contract, such as patents, copyrights, franchises, trademarks and trade names, and leases; and (2) superior entrepreneurial capacity or management know-how and customer loyalty, which is called goodwill.

All intangible assets are nonphysical, but not all nonphysical assets are intangibles. For example, accounts receivable and prepaid expenses are nonphysical, yet classified as current assets rather than intangible assets. Intangible assets are generally both nonphysical and noncurrent; they appear in a separate long-term section of the balance sheet entitled “Intangible assets”.

Examples of intangible assets include:

- **Research and development (R&D)**
- **Amortization**
- **A patent**
- **A copyright**
- **A franchise**
- **A trademark**
- **A lease**
- **A leasehold improvement**
- **Goodwill**

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