



UNDERSTANDING WHAT ARE

BUSINESS ASSETS

By Brendon Falk

It pays to have a good understanding of the various types of assets and how they are treated in a business sale. You must also be aware of the implications of buying and disposing of assets that will come to your attention throughout the course of a regular business sale transaction.

Tangible & Intangible Assets

Essentially, assets fall into two main categories; tangible (physical) and intangible which are non-monetary assets that can't be seen or touched. Both tangible and intangible assets can be depreciated. However, it is only possible to depreciate goodwill or intangible assets such as license agreements, intellectual property if it has been paid for and if there is an impairment to the asset's value or usable life. This is why most buyers wish to maximise the tangible asset values as it customary for these assets will face general wear and tear.

Common Asset Related Terminology in Business Sales

Asset List or Depreciation Schedule - Sellers will provide the buyer with an up to date list of assets or an Accountant's Depreciation Schedule of assets. This list should indicate the make and model, age, quantity and value (in-situ) of each asset being sold with the business.

Encumbered, Leased or Rented - Schedule 'A' in a business sales contract will include all items which are unencumbered. This means these assets are owned outright buy the seller and will be passed to the buyer accordingly. However, Schedule 'B' or Schedule 'C' items are either leased or rented assets that are to be included in the sale. This may include expensive capital machinery, motor vehicles under lease agreement and so on. It is usually desirable for all assets to be unencumbered at settlement, although this is not always feasible or practical. Solicitors will conduct searches on assets to see if they are encumbered and on the seller's company to see if there are charges over its assets which have been used as mortgage security.

Apportionment of Purchase Price - What the buyer pays for the business will be apportioned according to assets, goodwill and stock in trade which are all assets. This part of the contract is usually left blank for the respective parties to complete in accordance with their accountant's or financial advisor's recommendation. The motive here is to maximise the buyer and seller's tax advantage when gain or disposing of assets.

Business Chattels - Are merely items of property that are moveable and thus are included in the asset list.

Fixture & Fittings - Are items which cannot be removed as they would result significant damage to the freehold and buildings. Therefore, fixtures and fittings are usually the property of the landowner / lessor.

Plant Equipment - Includes capital machinery, office equipment, motor vehicles and general equipment that is used for business operations, management and administration. Ideally, the asset list will include a break down of assets in these categories.

Low Pool Value Assets - Usually includes small ticket items or items which have depreciated under \$1000.

Freehold & Buildings (Capital Works) -Includes the land and buildings / tenancy from which the business is conducted. They are either owned by the business owner (freehold) or leased from the landowner (leasehold). Rent and rates are an expenses whereas capital works assets are depreciated over their usable life like all other tangible assets.

Goodwill - Is an intangible asset that represents the difference between the purchase price of the business, less assets and stock in trade. The easiest way to think of goodwill is to think about the non-financial components of a business that generate trade, income or competitive advantage and thus contribute to its success. This would include the following:-

- Business Reputation
- Customer Base & Loyalty
- Location Advantages
- Market Positioning
- Competitive Advantages
- Core Competencies
- Employees Skills & Loyalty
- Licenses, Agreements & Exclusivity

Should you require any further information or assistance on this topic, I invite you to contact me on my landline (07) 4124 4677, my mobile 0412 311 803 or by email bfalk@foresightbusiness.com.au.

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