

LAND ON THE BALANCE SHEET: QUICK-REFERENCE GUIDE

This guide is designed to help service business owners correctly understand and record land on their financial statements. It explains where land belongs on the balance sheet, what costs should be included, what should never be depreciated, and how land ownership impacts liquidity, lending, and long-term planning.

Use this document as a quick reference when reviewing your books, talking with your bookkeeper or CPA, or evaluating a land purchase decision.

“IS LAND A CURRENT ASSET?” QUICK ANSWER

❌ Land is NOT a current asset.

✅ Land is a fixed, long-term, non-depreciable asset recorded under Property, Plant, and Equipment (PP&E).

WHERE LAND BELONGS ON THE BALANCE SHEET

Asset Type	Does Land Belong Here?	Why?
Current Assets	❌ No	It's not expected to turn into cash within a year
Fixed Assets (PP&E)	✅ Yes	It's held for long-term use
Inventory	❌ No	It's not purchased for resale
Expenses	❌ No	It's a capital investment

WHAT COSTS GET INCLUDED IN LAND?

When you buy land, record it at historical cost, including and excluding the following:

- | | |
|-----------------------------------|--------------------------|
| ✅ Purchase price | ❌ Financing costs |
| ✅ Legal and closing fees | ❌ Loan interest |
| ✅ Title insurance | ❌ Ongoing property taxes |
| ✅ Surveying and zoning costs | |
| ✅ Clearing, grading, or site prep | |

LAND VS. BUILDING: KNOW THE DIFFERENCE

Item	Depreciated?
Land	✗ Never
Building	✓ Yes
Improvements	✓ Yes
Parking lots / fencing	✓ Usually

⚠ Only the building portion is depreciated.
Improper allocation is a common audit trigger.

SIMPLE JOURNAL ENTRY EXAMPLE

Purchase: \$100,000 land
Down payment: \$20,000
Loan: \$80,000

Account	Debit	Credit
Land (Fixed Asset)	100,000	
Cash		20,000
Notes Payable		80,000

WHAT BUYING LAND REALLY CHANGES

- ✓ Increases long-term equity
- ✓ Reduces current assets (cash)
- ✓ Impacts liquidity ratios lenders watch
- ✓ Strengthens collateral position
- ✗ Does NOT improve short-term cash flow

OWNER PRO TIP: ALWAYS SEPARATE THE TWO VALUES

- Accounting value: Historical cost (what's on the books)
- Decision value: Market value (what you use for strategy)

Track both but, never mix them!

BEFORE YOU BUY LAND, ASK YOURSELF:

- Can the business support the cash flow impact?
- Have I stress-tested liquidity after the down payment?
- Is this operational land or speculative?
- Do I understand how this affects lending ratios?
- Does this align with my long-term exit strategy?

COMMON MISTAKES TO AVOID

- ❌ Treating land like a current asset
- ❌ Depreciating land
- ❌ Misallocating land vs. building value
- ❌ Panicking over liquidity without understanding equity
- ❌ Buying land without modeling cash flow first