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An asset is a resource, tangible or intangible, that holds some monetary value that can be exploited by its owner. The asset may produce income, such as rental fees, or may produce a profit if sold, such as stocks or jewelry. For an individual or a family, assets may include a home, savings, investments, and personal possessions that have intrinsic value. A company categorizes its assets as current assets, like inventory, which is intended for immediate use; fixed assets, like a factory and its equipment; financial assets, such as stock investments, and intangible assets, like goodwill. Assets are things that have value. An asset may produce income, now or in the future. An asset may appreciate in value over time. In business, an asset may generate cash flow, reduce expenses, or improve sales. Individuals usually think of assets as items of value that can be converted into cash at some future point and that might also be income-producing or appreciating in value until that time. They can be financial assets like stocks, bonds, and mutual funds or physical assets like a home or an art collection. An asset may be something that has the potential to generate cash flow in the case of businesses. It might reduce expenses or improve sales regardless of whether it's a tangible asset like manufacturing equipment or a fleet of trucks or an intangible asset like a patent or a trademark. A company must possess a right to the asset as of the date of its financial statements for it to be counted as one of its assets. Assets are reported on a company's balance sheet and can be broadly categorized into current or short-term assets, fixed assets, financial assets, or intangible assets. Current assets are short-term economic resources that are expected to be converted into cash or consumed within one year. Current assets can include cash and cash equivalents, accounts receivable, physical inventory, and various prepaid expenses. Cash is easy to value but accountants must periodically reassess the recoverability of inventory and accounts receivable. A receivable will be classified as impaired if there's evidence that it might be uncollectible. Companies might have to write off those assets if inventory becomes obsolete. Some assets are recorded on companies' balance sheets using the concept of historical cost. It represents the original cost of the asset when it was purchased by the company and it can also include expenses such as delivery and setup incurred to incorporate an asset into the company's operations. Fixed assets are resources with an expected life of more than a year, such as plants, equipment, and buildings. An accounting adjustment known as depreciation is made for fixed assets as they age. It allocates the cost of the asset over time. Depreciation may or may not reflect the fixed asset's loss of earning power. Generally accepted accounting principles (GAAP) allow depreciation under several methods. The straight-line method assumes that a fixed asset loses its value in proportion to its useful life. The accelerated method assumes that the asset loses its value faster in its first years of use. What's considered useful life varies according to the type of asset. The Internal Revenue Service (IRS) assigns office furniture and fixtures a useful life of seven years under the general depreciation system (GDS). Cars and trucks have a useful life of five years. Financial assets can include stocks, corporate and government bonds, and other types of securities. They tend to be liquid unlike fixed assets and they're valued according to their current price on the relevant market. Intangible assets are economic resources that have no physical presence. They include patents, trademarks, copyrights, and goodwill. Intangible assets can be amortized over their useful life for accounting and tax purposes similar to the depreciation process for fixed assets. An asset is something of economic value that's owned or controlled by a person, a company, or a government. A liability is the opposite. It's something that's owed to another person, company, or government. Examples of liabilities include loans, tax obligations, and accounts payable. An asset is something of value that you own or that's owed to you. The loan would be an asset if you lent money to someone because they're obligated to repay you that amount. The loan would be a liability for the person who owes you the money. Personal assets can include a home, land, financial securities, jewelry, artwork, gold and silver, or your checking account. Business assets can include motor vehicles, buildings, machinery, equipment, cash, and accounts receivable as well as intangibles like patents and copyrights. Non-physical or intangible assets provide an economic benefit even though you can't physically touch them. They're an important class of assets that include intellectual property such as patents or trademarks, contractual obligations, royalties, and goodwill. Brand equity and reputation are also examples of non-physical or intangible assets that can be quite valuable. No. Labor is work carried out by human beings for which they're paid in wages or a salary. Labor is distinct from assets which are considered to be capital. Assets are categorized in accounting by their time horizon of use. Current assets are expected to be sold or used within one year. Fixed assets, also known as noncurrent assets, are expected to remain in use for longer than one year. Fixed assets aren't easily liquidated so they can depreciate over time, unlike current assets. Assets are anything of value that an individual, a business enterprise, or another entity owns. Different types of assets are treated differently for tax and accounting purposes. Assets are generally a good thing to have and liabilities less so. jump to other results a person or thing that is valuable or useful to somebody/something in his job, patience is an invaluable asset. Being able to speak a foreign language is a major asset. I'm not sure if his forcefulness is an asset or a liability. asset to somebody/something She'll be an asset to the team. Extra Examples: Scotland's mountain areas are a natural asset to be proud of. The teachers are the school's biggest asset. The tourist industry requires that the country's cultural assets be made more accessible. Since his injury, Jones has become more of a liability than an asset to the team. Oxford Collocations Dictionary adjective preposition See full entry [usually plural] a thing of value, especially property, that a person or company owns, which can be used or sold to pay debts the net asset value of the company Her assets include shares in the company and a house in France. asset sales/management income from fixed asset investments financial/capital asset to freeze a country's assets compare liability see also digital asset Wordfinder asset bond capital dividend equity fund interest invest portfolio share Extra Examples He transferred all his assets into his wife's name. Liquid assets can be sold more quickly. Net assets have grown to \$169 million. The authorities have the power to seize the assets of convicted drug dealers. The business disposed of all its capital assets. The company has increased its UK assets. The courts can order a company's assets to be frozen. They have hidden assets in banks around the world. measures to prevent asset stripping Topics Money 2 Oxford Collocations Dictionary adjective verb + asset asset + verb be worth something appreciate grow... asset + noun phrases See full entry Word Origin mid 16th cent. (in the plural in the sense 'sufficient estate to allow discharge of a will'): from an Anglo-Norman French legal term, from Old French asiez 'enough', based on Latin ad 'to' + satis 'enough'. See asset in the Oxford Advanced American Dictionary See asset in the Oxford Learner's Dictionary of Academic English By Satyam Raj / December 15, 2024 Definition: An asset is a resource that has some economic value to a company and can be used in a current or future period to generate revenues. These resources take many forms from cash to buildings and are recorded on the balance sheet until they are used. Once these resources are used or spent, they are transferred from the balance sheet to the income statement and called expenditures. Here are some of the most common examples. Current Cash and Equivalents Accounts Receivable Inventory Still asking yourself, what is an asset? Let's look at each with an example of a business formation because a company can acquire its resources in a number of different ways. Example Tom and Bob are starting a machine shop that will do general fabrication. When a company is first started, it doesn't have any resources. Thus, the Tom and Bob must invest their own money or equipment to get the company started. This initial investment is considered owner's equity. Both Tom and Bob contribute a piece of machinery to the new company. Once the business receives the equipment, it can start using that resource to generate income. When the company sells its parts, it receives cash. As the business brings in more jobs, Tom and Bob start to use their profits to purchase more equipment to fulfill additional orders. Tom and Bob work throughout the year growing the business until they run out of room at their current location. They need to look for a new building, but they don't have enough money to purchase it with the cash they have in the bank, so they get a loan. The bank lends the enough capital to purchase a building where they can keep their operations going. In our short example, we saw three ways three different assets were acquired. First, the company acquired equipment by a contribution from its owners. Second, the company used its own assets to purchase more assets when it bought additional equipment with its cash. Third, the company took out a loan to purchase a building. It's important to note that nowhere in the assets definition do I say that the company must own these resources. Remember the asset definition, it's simply a resource that the company has control of and can use to generate revenues. Many businesses have loans, notes, and leases on equipment that either directly or indirectly eliminates their true ownership of the resources, but they still have control of it. Now that you know how assets are acquired, let's look at how they are classified. Types of Asset Classes So what is an asset class? When assets are presented on the balance sheet, they are typically divided into different classes or categories based on when they will be used. Resources that are expected to be consumed within the current period are classified as current assets while resources that expected to be used in future periods are called non-current assets. Another class of resources is intangible assets. There resources typically consist of intellectual property. Resources that don't fit into any of these three classes are simply called other assets. Let's take a look at a common list of assets and a few examples in each class. Current Assets Cash and equivalents - Cash is any currency in the possession of the business. This could be cash in a register, money in the bank, or treasure bills in a safe deposit box. These liquid assets can be used to purchase any other resource, settle debts, or pay investors. Accounts Receivable - Accounts receivable is an IOU from a customer. Many businesses allow customers to purchase goods on account and pay for them at a future date. Accounts receivable is the acknowledgement that the customer owes the company money for the goods. Inventory - Inventory is merchandise that the company intends to sell for a profit. This merchandise could be purchased or manufactured by the company. Investments - Investments that management intends to sell in the current period are considered current resources. These investments typically consist of stocks and bonds. Long-Term Assets Land - Property is a resource that is considered long-term in nature because it will be used over time and will not be consumed in the current period. Buildings - A building is obviously a resourced used over time. Many companies stay in the same building for decades. Thus, it is considered a long-term resource. Equipment - Equipment like machinery, vehicles, and furniture all has a useful life of more than one year. Intangible Assets Patents/Trademarks/Copyrights - These are all examples of intellectual property that a company can own or control to generate revenues over time. In fact, some of the most value assets in the world are intangible in nature. Think about Walt Disney's Mickey Mouse or Apple's iPhone designs. Other Assets Investments - Investments like stocks, bonds, and property that are intended to be held for more than one year are typically listed separately from the investments that management believes will sell in the current period. Short-Term vs. Long-Term Short term assets, also called current assets, are resources that are expected to be used or could be used in the current period. These resources include examples like cash and accounts receivable. Keep in mind that a company might doesn't always use all of its cash every period, but it could. That's what makes it short-term. Long term assets, on the other hand, are resources that are expected to last more than one accounting period. Some examples include fixed assets, equipment, and buildings. All of these resources have longer useful lives than one period. Tangible vs. Intangible Tangible assets include any resources with a physical presence. Some examples include cash, fixed assets, and equipment. Some of these resources are depreciated while others are not. Intangible assets are resources that don't have a physical presence. You can think of these like ideas. You can't touch an idea, but it is real and it's a thing. Some examples include patents, copyrights, and trademarks. Most of these resources are amortized over their useful lives or periodically checked for impairment losses. How are Assets Valued and Recorded in Accounting? Notice when I define assets, I didn't talk about how they were valued or recorded on the books of a company. Each resource is valued somewhat differently depending its nature and how it was acquired. According to the historical cost principle, assets are recorded on the books at the price the company paid for them. This is true for all assets except for a few different types of investments that are adjusted to fair market value and some intangible assets that are purchased indirectly like goodwill. Since a company depends on its resources to generate revenues, many businesses are often valued by their level of asset ownership. In other words, an investor could calculate a rough value of a business by subtracting the outstanding loans from the assets of the company to see what resources the company actually owns. A company with more resources is generally deemed to be worth more than one with fewer resources. This isn't always the case, however. Most investors predict return rates on assets. If the company doesn't perform well, the company valuation could go down simply because it isn't using its resources effectively. Assets and Depreciation In accrual accounting, if an resource can be used for more than one period, it shouldn't be expensed immediately. Instead, it is capitalized and the cost of the asset is recognized over the life of the assets. Depreciation is a way to assign the cost of the an asset over its useful lives. It's also a way to recognize the use of the asset and record the devaluation of it over time. Fixed assets and other long-term assets like buildings are depreciated while land is not. Other assets, like intangibles, are amortized. Here's a list of the most common assets in the chart of accounts. I talk about how each should be accounted for with examples and explanations in each article.

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