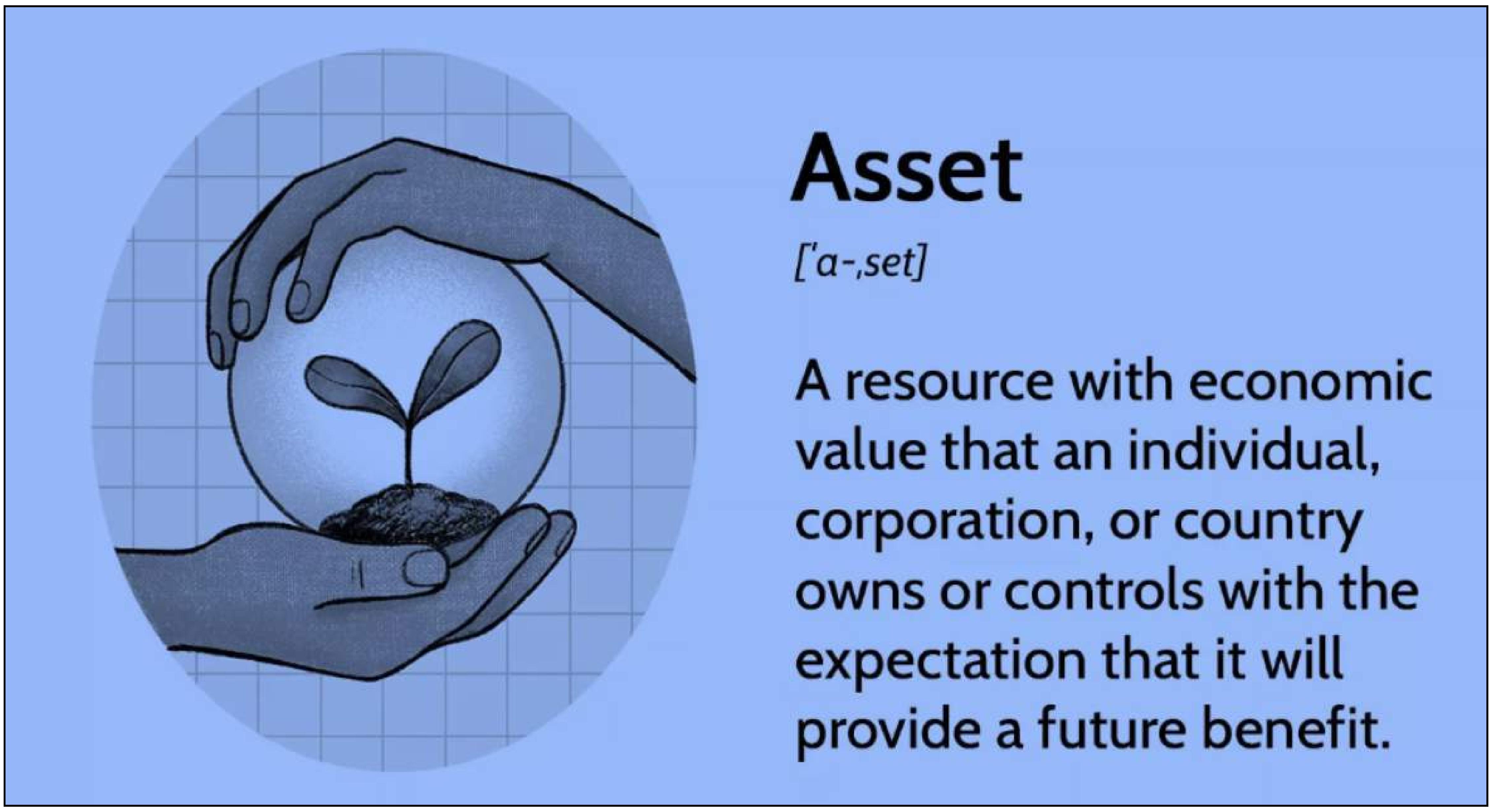
1. What Is an Asset?

An asset is a resource with economic value that an individual, corporation, or country owns or controls with the expectation that it will provide a future benefit.

Assets are reported on a company's balance sheet. They're classified as current, fixed, financial, and intangible. They are bought or created to increase a firm's value or benefit the firm's operations.

An asset can be thought of as something that, in the future, can generate cash flow, reduce expenses, or improve sales, regardless of whether it's manufacturing equipment or a patent.



2. Understanding Assets

An asset represents an economic resource owned or controlled by, for example, a company. An economic resource is something that may be scarce and has the ability to produce economic benefit by generating cash inflows or decreasing cash outflows.

An asset can also represent access that other individuals or firms do not have. Furthermore, a right or other type of access can be legally enforceable, which means economic resources can be used at a company's discretion. Their use can be precluded or limited by an owner.

For something to be considered an asset, a company must possess a right to it as of the date of the company's financial statements.

Assets can be broadly categorized into current (or short-term) assets, fixed assets, financial investments, and intangible assets.

3. Types of Assets:

Current Assets

In accounting, some assets are referred to as current. Current assets are short-term economic resources that are expected to be converted into cash or consumed within one year. Current assets include cash and cash equivalents, accounts receivable, inventory, and various prepaid expenses.

While cash is easy to value, accountants periodically reassess the recoverability of inventory and accounts receivable. If there is evidence that a receivable might be uncollectible, it'll be classified as impaired. Or if inventory becomes obsolete, companies may write off these assets.

Fixed Assets

Fixed assets are resources with an expected life of greater than a year, such as plants, equipment, and buildings. An accounting adjustment called 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, while the accelerated method assumes that the asset loses its value faster in its first years of use.

Financial Assets

Financial assets represent investments in the assets and securities of other institutions. Financial assets include stocks, sovereign and corporate bonds, preferred equity, and other, hybrid securities. Financial assets are valued according to the underlying security and market supply and demand.

Intangible Assets

Intangible assets are economic resources that have no physical presence. They include patents, trademarks, copyrights, and goodwill. Accounting for intangible assets differs depending on the type of asset. They can be either amortized or tested for impairment each year.2

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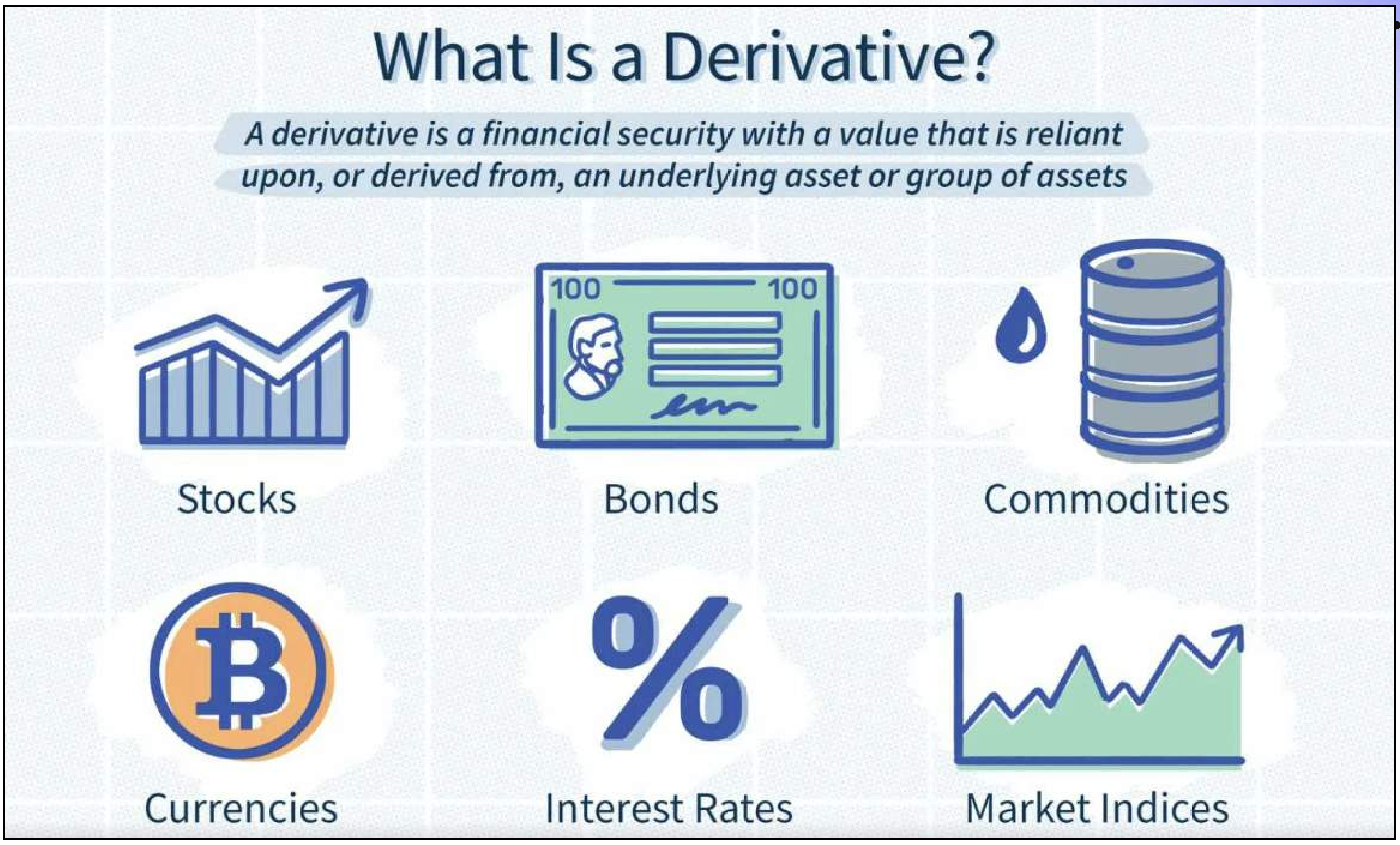

4. What Are Examples of Assets?

Personal assets can include a home, land, financial securities, jewelry, artwork, gold and silver, or your checking account. Business assets can include such things as motor vehicles, buildings, machinery, equipment, cash, and accounts receivable.

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