

Visual Learning Maps

Introductory Financial Accounting



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VIRTUAL TEXT BOOK

KINDS OF ASSETS – 1 of 2

Assets are **things the business owns that have future value.**

“Things you own” is straight forward – Cash, Accounts Receivable, Prepaid items, Inventory, Vehicles, Boats, Equipment, Furniture, Patents and so on. Just ask “does the business own this?” The answer should be clear – if the answer is no, it is not an Asset.

Assets, like the ones listed above are the necessary things needed to operate the business to generate inward cash flow. Whether the business is a vehicle dealership, a restaurant, a consulting business, manufacturing or whatever; they all need assets to operate – cash, furniture, equipment and so on. The consulting business will not have inventory whereas the manufacturing business will have inventory. Not all businesses need vehicles or boats – so the assets specific to one business or the other will not be the same, but there will be some similarity.

Assets are created three ways:

- The owner contributes them to the business
- Cash is spent to purchase them
- They are purchased “on credit or “on account”

The purchase of Assets can be partially cash and partially credit.

What does “future value” mean?

It means that whatever is purchased will probably last one year or longer. If a building is purchased, it will have a life of 20 or 30 years. The cost of the building cannot be expensed the first month. It must go to expense over its estimated life. This is called depreciation (or amortisation). This is because of the Matching Principle (see Class Notes – GAAP)

If you purchased, paid for and own a truck that is being delivered to you, it is an asset even when it is in transit. If the truck falls off the train during delivery into an 800 foot canyon – is it still an asset? No, it is only an asset until it crashes into the rocks; then it isn't because it doesn't have future value.

All Assets are **ALWAYS** recorded at **COST** because of the Cost Principle (see Class Notes – GAAP).

KINDS OF ASSETS – 2 of 2

There are four kinds, or sub-categories of Assets:

1. Current
2. Long Term
3. Property, Plant & Equipment; and
4. Intangibles



This is called the **ORDER of LIQUIDITY**. Assets are **ALWAYS** listed in this order on the balance sheet.

Current

Current Assets are assets that move more than other assets and will probably be used up within one year. Cash is the asset that moves the most. Another way of saying this is that “cash is the most liquid.”

Bank Account (Cash), Petty Cash, Accounts Receivable, Supplies, Prepays, Inventory and Short Term Investments are all Current Assets.

Long Term

Long Term means more than one year. These assets are **investments** in mortgages (means you hold the mortgage – you don’t owe the mortgage), long term loans you have made (somebody owes you – you don’t owe) or bonds (such as Government or Corporate issuances). Land that is owned by the business **that is not being used** by the business is also in this category. These are not as liquid as Current Assets.

Property, Plant and Equipment

Property essentially means Land. Plant usually means buildings and is identified separately on the balance sheet as a sub heading to PP&E. Equipment is a separate heading under PP&E and means things related to the production of products or services that can be specifically identified such as: computers, furniture, libraries, photocopiers, and so on. Vehicles are usually identified separately under PP&E.

Intangibles

The dictionary defines Intangible as” Incapable of being realized or defined.”¹ The real value of these assets can vary from month to month; the real value will only be known when they are sold, such as: Patents, Copyrights, Franchises, Trademarks and Intellectual Property.

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