Assets

What is an Asset?

An asset is an item of economic value that is expected to yield a benefit to the owning entity in future periods. If an expenditure is instead consumed within the current period, it is classified as an expense.

An asset is anything of value that can be converted into cash, whether it be owned by an individual or coporation.

Assets are owned by individuals, businesses and governments.

Examples of assets include:

- Cash and cash equivalents – certificates of deposit, checking and savings accounts, money market accounts, physical cash, Treasury bills;
- Real property – land and any structure that is permanently attached to it;
- Personal property – everything that you own that is not real property such as boats, collectibles, household furnishings, jewelry, vehicles;
- Investments – annuities, bonds, cash value of life insurance policies, mutual funds, pensions, retirement plans (IRA, 401(k), 403(b), etc.,) stocks and other investments.

Assets are often grouped into two broad categories: liquid assets and illiquid assets.

- A liquid asset is one that can be converted into cash quickly with little to no effect on the price received. For example, stocks, money market instruments and government bonds are liquid assets.
- Illiquid assets, on the other hand, are assets that cannot be converted into cash quickly without substantial loss in value. Examples of illiquid assets include houses, antiques and other collectibles.

Assets are also grouped into tangible vs. intangible assets.

- Tangible: Usually, items that have a very direct and clear value are known as tangible assets. With a tangible asset, you can get a very realistic estimate of the value of the item and how much you can sell that item for to directly convert it into cash. Examples: Car, DVDs, House, etc.
- Intangible: Things like friendships, reputation, time, personal relationships, skills, talents, and other such attributes are intangible, but they clearly have value. You can't put a precise dollar sign on any of these things, but they're clearly assets.

Quite often, when investors discuss assets, they're talking about things purchased for the primary purpose of generating a positive return, not necessarily for using them. They hope that when they buy this item, they can someday sell it for more than they purchased it for or earn enough income from the item that the total earnings and the sale price add up to a positive return.

Essentially, that's how a savings account works. You put in $1,000 into an account that earns 1%. At the end of the year, the account has $1,010 in it. That $1,000 asset earned a $10 return over the course of a year. Your net worth is calculated by subtracting your liabilities from your assets.

Essentially, your assets are everything you own, and your liabilities are everything you owe. A positive net worth indicates that your assets are greater than your liabilities; a negative net worth signifies that your liabilities exceed your assets.

Assets and Accounting

From an accounting perspective, assets are divided into the following categories:

- Current assets (cash and other liquid items),
- Long-term assets (real estate, plant, equipment),
- Prepaid and deferred assets (expenditures for future costs such as insurance, rent, interest), and
- Intangible assets (trademarks, patents, copyrights, goodwill).

Why do Assets Matter to Me?

Naturally, there are a lot of ways to put assets to work to earn a return. You can own some stock in a company that earns dividends, then sell that stock later on (earning a return on the dividends and a return on the sale). You can buy a house and the land it sits on, rent it out to people, then sell it later.

When people talk about asset allocation, they're talking about owning a lot of different kinds of assets at once so that no matter what happens to the economy, they won't go bankrupt. A person might own some U.S. stocks, some international stocks, some cash, some Euros, some gold, and some land as investment assets.

Good asset allocation means that if something bad happens in one area, like an economic downturn in the United States, you don't significantly lose out with regard to the overall value of your assets. Obviously, asset allocation can be a very deep subject, indeed.

Assets and Businesses

A business with a large number of assets can be viewed as being more valuable than one with fewer assets; however, these assets are acquired with capital, which is expensive. Consequently, if the return generated by the assets is less than the return expected by investors, the assets are actually destroying value for the investors.

If an asset was purchased by an entity, it is recorded on the balance sheet. However, some assets are acquired at such a low cost that it is more efficient from an accounting perspective to charge them to expense at once; otherwise, the accounting staff must track these assets through multiple periods, and determine when they have been consumed and should therefore be charged to expense.

When assets are recorded on the balance sheet of a business, they are classified as being either short-term or long-term assets.

- A short-term asset is expected to be consumed within one year. Examples: Marketable securities, Accounts receivable, Prepaid assets
- A long-term asset is to be consumed in more than one year. Examples: Land, Buildings, Office equipment, Furniture and fixtures, Software

On a balance sheet assets are equal to the sum of liabilities, common stock, preferred stock and retained earnings.

Some intangible assets are not recorded on the balance sheet, unless they have been purchased or acquired. For example, a taxi license can be recognized as an intangible asset, because it was purchased.

Also, the value of a customer list that is part of an acquired business can be recorded as an asset. However, the value of an internally-generated customer list cannot be recorded as an asset.

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