

FINANCE AT A GLANCE

What is an ASSET ?

Lesson 04

Definition of the term ASSET

Within the context of business finance, an **ASSET** is a resource which is owned or controlled by a business entity, and which is expected to provide future benefits.

An important characteristic of an ASSET

For an asset to be listed in the balance sheet, it must have a value that can be expressed in dollars and cents, or in whatever currency/ies that the business entity uses.

Forms of ASSETS

Here are the most common forms of assets you will find in most balance sheets.

1. An asset may be in the form of any of the following, which are used in the course of the business in order to generate benefits in terms of revenue.

- cash in the bank
- inventory of raw materials
- inventory of goods-in-process
- inventory of finished goods
- equipment
- buildings
- land

2. An asset may be in the form of a "right" to collect money from clients who purchased the services or goods from the business on credit, or from any other party who owes money to the business. Assets in this form provide benefits in form of cash (collectible at some future time) which can then be put into the operations. Assets in this form are called receivables.

3. An asset may be in the form of an investment, whether short-term, medium-term or long-term. Assets of this nature yield benefits in form of return on the investment. Another benefit is that they can be converted into cash, if necessary, which can then be put into the operations.

4. An asset may be in the form of prepayment of insurance, prepayment of rent, prepayment of salaries, or prepayment of any future billing. Assets of this form are called prepaid expenses. The benefit associated with these assets is not the convertibility into cash, but the fact that the business does not have to use cash once they are billed, because they have been prepaid.

In the next lesson, you will learn about others asset forms, as well as see how assets are presented in the balance sheet.

Until the next Finance At A Glance e-lesson,

Info Solutions International