<u>**DIFFERENCE BETWEEN ASSETS AND LIABILITY**</u>

Whether you're a private individual looking to achieve better wealth management, or an entrepreneur who needs to operate a financially sustainable business model, knowing the difference between assets and liabilities is very important. The two terms are simpler to understand although may sound a little intimidating on balance sheets.

The economic value of an item which is owned by an enterprise, or an individual is referred to as assets. They possess a certain worth which can be used to meet their respective accountabilities such as commitments, legacies, and debts.

Liabilities on the other hand are the accountabilities of an entity or individual that are rising out of previous transactions which are payable through the assets possessed by the enterprise or individual.

All fixed or non-current assets have a depreciation associated with them. Depreciation is the erosion caused primarily because of the regular usage of machines, land, and building. The efficiency level of any fixed assets is assumed to get eroded and hence the valuation gets lowered in financial terms after each year. Depreciation can only apply to assets as they generate income and hence liabilities are non-depreciable.

An asset is responsible for the generation of cash flow for a business while liability is responsible for the outflow of cash from a business.

<u>*Relationship Between Assets and Liabilities*</u>

Although assets and liabilities are basically the opposite of each other, they can share an interlinked relation. For instance, if you take out a mortgage to purchase a property, you will acquire the property as an asset. However, you will also take on the liability of the mortgage. This results in a direct relationship between your assets and liabilities.

It can be easy to assume that assets are good, and liabilities are bad. It is true that a healthy ratio of assets versus liabilities results in better equity. This is because in calculating equity we subtract total liabilities from our total assets. However, not all debt is bad and having an asset-heavy balance sheet isn't the goal for most companies.