

TYPES OF ASSETS

An asset is a resource that is owned or controlled by an individual, corporation, or government expecting it will generate a positive economic benefit. Classification of assets is a process for systematic segregation of the assets into various groups, based on the nature of the assets by application of the accounting rules to make proper accounting under each group. Properly identifying and classifying the assets is vital to the survival of a company, specifically its solvency and associated risks.

Classification of Assets

Assets are generally classified in three ways:

- a. Convertibility-** that means classifying assets based on how easy it is to convert them into cash. Assets in this group are categorised as either current or fixed assets.

Current Asset

These are the assets that are held in the business for less than one year. They are highly liquid and are supposed to be realized within one year. Examples include cash, short-term deposits, accounts receivables, inventories, marketable securities etc.

Fixed or non-current assets

Non-current assets are assets that cannot be easily and readily converted into cash and cash equivalents. These assets are expected to provide benefits to the business for several years. They are also referred to as long-term or hard assets. Examples include land, building, machinery, equipment etc.

- b. Physical Existence-** assets are classified as either tangible assets or intangible assets

Tangible assets

Tangible assets are those assets that have a physical existence, that is, which are capable of being touched, felt, and seen. Examples include cash, inventory, equipment, buildings etc.

Intangible assets

These are assets that lack physical existence. These assets cannot be touched, felt, or seen. Examples include patent, license, brand, copyright, goodwill, tradename etc.