

9.2: Assets and Liabilities

Learning Objectives

- Define asset, liability, and net worth

As you learned earlier, assets are resources owned by a company that can be expressed in monetary terms. Assets can be categorized as current assets or fixed assets. Current assets are assets owned by a company that will be consumed or converted to cash within one year. These can be:

- Cash: money held in checking or savings account. Also referred to as liquid funds.
- Accounts Receivable: money owed to the business by customers, to be collected in the near future, such as buy now, pay later
- Prepaid Expenses: purchases made by the company, paid in advance, that are assets until they expire or are consumed

Fixed assets, also referred to as plant and equipment, are assets owned by the company that will last longer than one year and are used in the operation of the business, such as buildings, vehicles, land, and machinery.

Liabilities are debts or obligations of the company: money owed to suppliers. Current liabilities are debts or obligations that are due within one year. For instance, accounts payable, which is the amount the company owes to suppliers for items or services purchased, and salaries payable, which are the payroll dollars owed to employees for work performed but not yet paid.

Long-term liabilities are debts or obligations that the company owes but does not have to pay within one year, like mortgage notes payable (the amount the company owes on a building; usually the building is considered collateral).

Owner's equity, also known as stockholders' equity, represents the rights or interests of those that have invested in the company. In a corporation it is referred to as shareholders' equity. Common stock is the amount of initial and subsequent investment of corporation owners by the purchase of shares of stock. Retained earnings are the earnings (profits) that the company is keeping (retaining) in the company.

Net worth is the value of the company. Assets minus liabilities equals net worth.

Practice Questions

<https://assessments.lumenlearning.co...sessments/9238>

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