

What is Asset Classification?

Worksheet

Assets are classified as current (expected to be converted to cash or used within one year) or non-current (held for longer than one year), which directly shapes the balance sheet and liquidity ratios like the current ratio.

Questions

- Which of these is a current asset?
 - Factory building
 - Patent
 - Accounts receivable
 - Long-term bond investment
- A company has \$80,000 current assets and \$40,000 current liabilities. What is its current ratio?
 - 0.5
 - 1.0
 - 2.0
 - 4.0
- Non-current assets are typically held for:
 - Less than 3 months
 - Less than 1 year
 - More than 1 year
 - Exactly 1 year
- Which item is classified as a non-current asset?
 - Cash
 - Inventory
 - Equipment
 - Prepaid rent (3 months)
- A company has \$30,000 cash, \$20,000 accounts receivable, and \$150,000 in factory equipment. Classify each as current or non-current.
- A business holds \$50,000 of current assets and \$25,000 of current liabilities. What is its current ratio, and is it healthy?
- A company reclassifies a \$10,000 investment from 'long-term investments' to 'current assets' because it will mature in 8 months. Why?
- Define: What are current assets?
- Define: What are non-current assets?
- Define: Why classify assets?

Answer Key

1. C) Accounts receivable - Accounts receivable is typically collected within a year, making it a current asset.
2. C) $2.0 - 80,000 / 40,000 = 2.0$.
3. C) More than 1 year - Non-current (long-term) assets are held for more than one year.
4. C) Equipment - Equipment is used over multiple years, making it non-current.
5. Cash (\$30,000): current asset - immediately liquid Accounts receivable (\$20,000): current asset - expected to be collected within a year Factory equipment (\$150,000): non-current asset - used over many years
6. Current ratio = Current Assets / Current Liabilities = $50,000 / 25,000 = 2.0$ A ratio above 1.0 generally means the company can cover short-term obligations
7. Assets are current if expected to convert to cash within 12 months An investment maturing in 8 months meets that test So it moves from non-current to current on the balance sheet
8. Assets expected to be converted to cash or used up within one year (e.g., cash, receivables, inventory).
9. Assets held for more than one year, like property, equipment, and long-term investments.
10. It helps assess liquidity - how easily a company can meet short-term obligations.

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