

Valuation of shares

Dr. V. David Raja
Assistant Professor in commerce,
St. Xavier's College (Autonomous),
Palayamkottai.

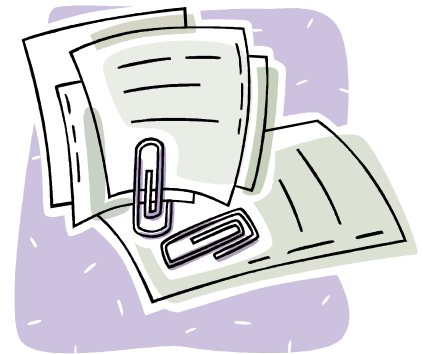
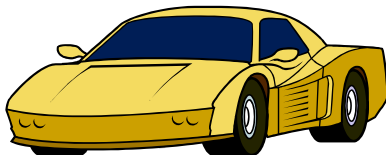
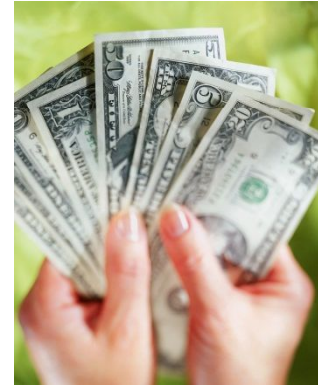
Accounting Terms

After completing this tutorial...

1. You will be able to distinguish between an **asset** and a **liability**.
2. You will recognize that it's beneficial to have more assets than liabilities

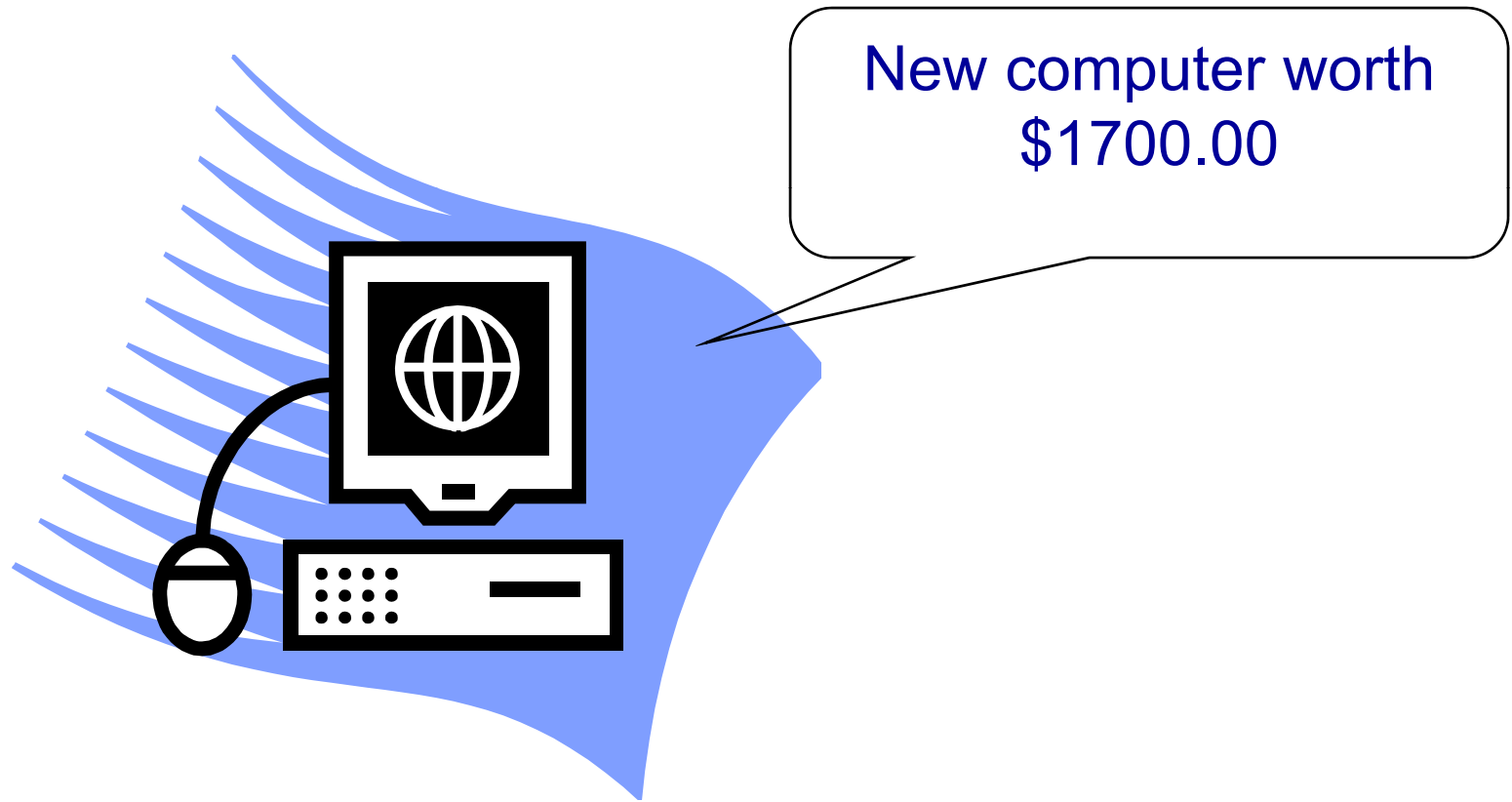
Asset

Click on the pictures below to see the value of the asset



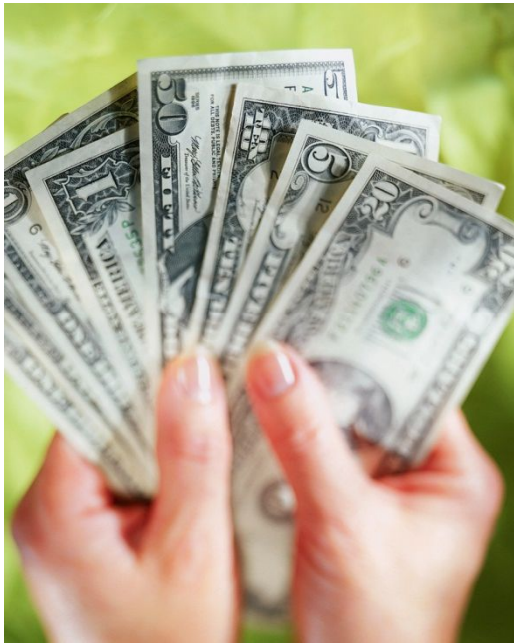
Asset

- New Computer



Asset

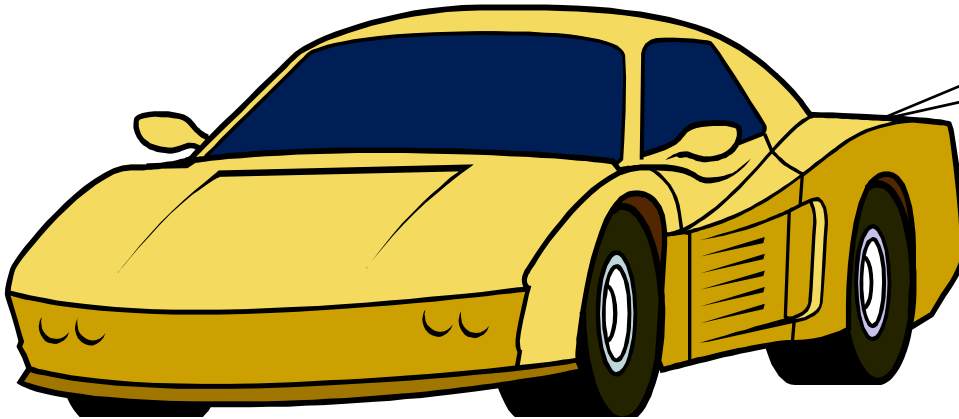
- Cash in Bank



Checking account
balance \$525.00

Asset - Business Car

Business car worth
\$20,000.00



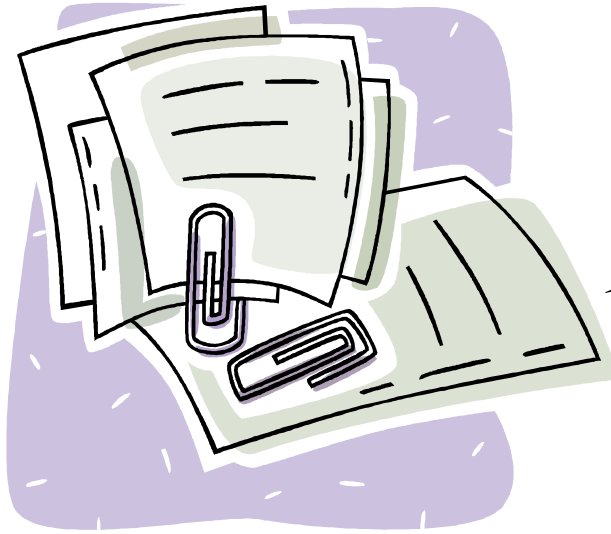
Asset - Building



Building you purchased
for \$250,000.00

Asset

- Office Supplies

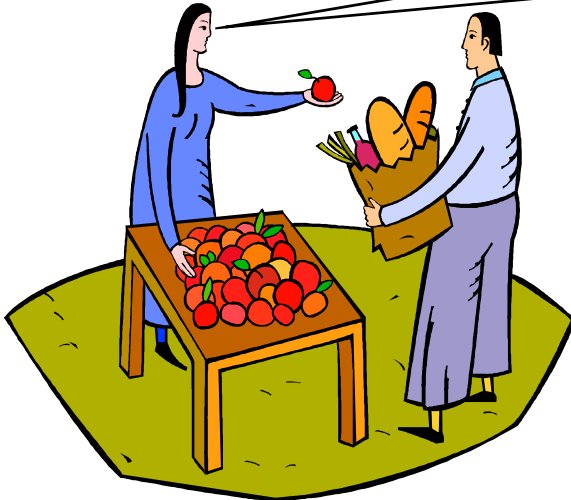


Office supplies
purchased for \$75.00

Asset

– Accounts Receivable

I will **receive**
the money
later



- When a **person owes YOU** money, this is also an asset.
- The asset is called “**Accounts Receivable**”.

Asset

– Prepaid Insurance



I've paid my 6
month
insurance
premium

- When you pay insurance premiums covering your property, this is also an asset.
- Making payments in advance is called a “prepaid asset”.

Definition of an **Asset**

- An asset is anything of **value** that is **owned**
- An asset may be something which is paid for in advance, like **prepaid** insurance or **prepaid** rent.
- Money you will receive later – **Accounts Receivable**



Check and Review

Which account is **NOT** an asset.

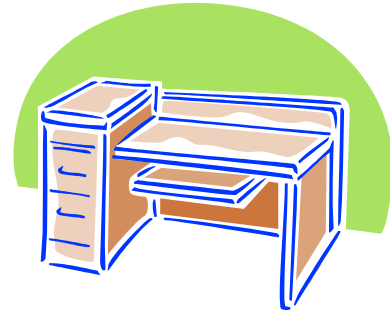
1. Desk
2. Prepaid insurance
3. Money you owe another person
4. Money that another person owes you



Prepaid Insurance

Try again... Remember, prepaid insurance is **an asset** because it has value.

Desk



Try again, a desk **is an asset** because it has value.

Money **you owe** another person



- **Great job!** Money \$ **you owe** another person would not be of value to you because you will eventually have to pay the person off.
- Money **you owe** is a **LIABILITY**

Moving onto Liabilities ...

Money that another **person** owes **you**

Let's think about this...

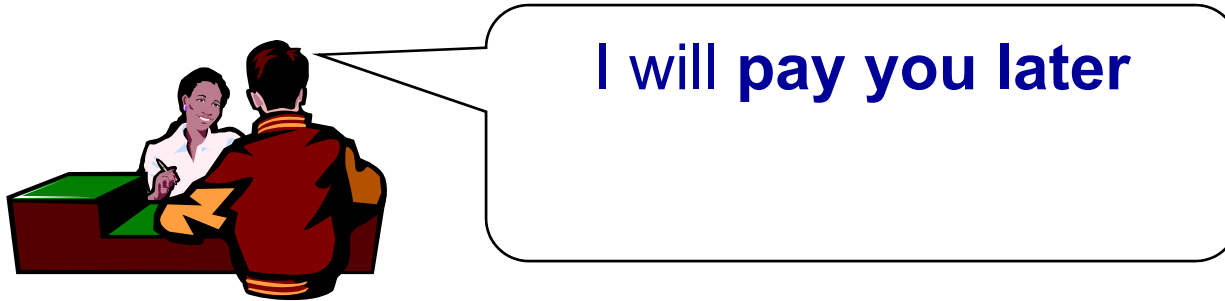


Money that another **person owes you**



- If a person **owes you** money, this is a good thing because you eventually will receive the money & this has value.
- The question was which account is **NOT** an asset.

Liability



A liability is when **you owe** another person or business money.

Liability

1. A liability is when **you owe** another person or business money.
2. Liabilities typically include the word “**payable**” in the description.



Examples of Liability Accounts

- Accounts **Payable**
- Notes **Payable**
- Federal Income Tax **Payable**
- Social Security Tax **Payable**



Check and Review

So what's the key word for a **liability**?

Payable

Receivable

Let's think...



Receivable means that you will “**receive**” money at a later date.

Liability Review Accounts Payable

Great job, 

The key word for liability is **payable**



Check and Review - Asset

Select the asset below

Money I **owe**
a business

Money that **someone**
owes me

Asset Review – Accounts Receivable

Great job, 

An asset is something of value.

since someone owes you money it's a good thing. It's worth something!!!

Review – Accounts Payable

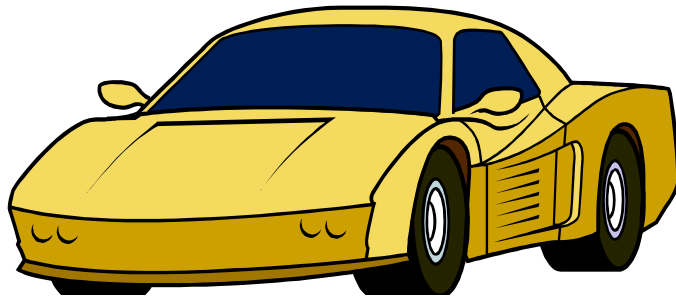
Let's think about this...




Review – Accounts Payable

Remember, if you owe another person money it's not really a good thing. When you owe another person, you have a **Liability**.

Which asset would require you to borrow more money from the bank?



Larger asset/larger debt

Great job, 

Since the building is a larger asset which costs more than a car, you would incur a higher debt.

Smaller asset/smaller debt

Try Again,

Since the car probably costs less than the building, you would not need to borrow as much money from the bank.



Check and Review

Which would you prefer?

Accounts **Payable**

Accounts **Receivable**

Review – Accounts Payable

Let's think about this...



Review – Accounts Payable

Remember, if you owe another person money it's not really a good thing. When you owe another person, you have a **Liability**.

Accounts Receivable

Give yourself a high 5!!!

You've mastered the concept of distinguishing between **accounts receivable (an asset)** from **accounts payable (a liability)**.



[Finished – return to home page](#)

Verify that you have mastered the 2 objectives of this lesson. Submit a one-minute paper answering the questions & mention how you liked this lesson.

Review – Accounts Payable

Remember, if you owe another person money it's **not** really a **good thing**. When you owe another person, you have a **Liability**.