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FINANCIAL ASSET

First of all it’s necessary to say that assets are bought to increase the value of a firm or benefit the firm's operations. You can think of an asset as something that can generate cash flow, regardless of whether it's a company's manufacturing equipment or an individual's rental apartment.

In the context of accounting, assets are either current or fixed (non-current). Current means that the asset will be consumed within one year. Generally, this includes things like cash, accounts receivable and inventory. Fixed assets are those that are expected to keep providing benefit for more than one year, such as equipment, buildings and real estate.

Financial assets, also referred to as financial instruments or securities, are intangible assets. They are often used to finance the ownership of tangible assets as equipments and real estate. In general, financial assets serve two main economic functions: the first is to transfer funds from those who have surplus funds to invest to those who need a source of financing tangible assets. The second is to redistribute the risk associated to the investment in tangible assets between different counterparties according to their preferences and risk aversion. Financial assets represent legal claims to future cash expected often at a defined maturity. The counterparties involved in the agreement are the institution or entity that will pay the future cash (issuer) and the investors. Some examples of financial assets are: stocks, bonds, bank deposits, loans. All these instruments can be classified in different categories according to the features of the cash flow associated with them. They can be classified as debt instruments or equity instruments. Debt instruments as bonds or loans require a fixed amount payment; equity instruments have an uncertain cash flow, based on the issuer's earnings.

Financial asset is an intangible representation of the monetary value of a physical item. It obtains its monetary value from a contractual agreement of what it represents. While a real asset, such as land, has physical value, a financial asset is a document that has no fundamental value in of itself until it is converted to cash. Common types of financial assets include certificates, bonds, stocks, and bank deposits.

One of the most common types of financial assets is a certificate of deposit (CD). A CD is an agreement between an investor and a bank in which the investor agrees to keep a set amount of money deposited in the bank in exchange for a guaranteed interest rate. The bank may offer a higher amount of interest payment since the money is to remain untouched for a set period of time. If the investor withdraws the CD before the end of the contract terms, he or she will lose out on the interest payments and be subject to financial penalties.

Another type of financial asset is a bond. Bonds are often sold by corporations or governments to investors in order to help fund short-term projects. They are a type of legal document detailing the amount of money an investor loaned a borrower and the length of time it needs to be paid. A bond represents how much interest is guaranteed to be returned to the investor along with the original loan amount.

Stocks are one of the only financial assets that do not have an agreed upon ending date. Investing in stock means the investor has part ownership of a company and shares in the company's profits and losses. He or she can keep the stock for any length of time or decide to sell it to another investor.

Money that is deposited into a bank account also counts as a financial asset, rather than a real asset. When cash is put into a bank account, the proof of the funds is a bank statement that summarizes the value of the account. Deposited cash is not considered a physical asset because the bank uses the money to fund its business and agrees to return it when the account holder decides to withdraw it.

Valuation of financial assets is the process of determining the amount of cash the assets can be converted to. This process is often used to find out a person's personal wealth for legal reasons, such as his or her ability to pay off a debt. The value of a financial asset can drastically change depending on the point in time it is valued. For example, the value of stock can change daily depending on the company's profits.

In conclusion should say, that *financial asset* can be any of these four items:

1. Cash
2. Equity of another entity
3. A contractual right to receive cash or similar from another entity or a potentially favorable exchange of financial assets or liabilities with another entity
4. A contract probably to be settled in the entity's own equity and that is a nonderivative under which the entity may receive a variable amount of its own equity instruments, or a derivative that probably will be settled other than through the exchange of cash or similar for a fixed amount of the entity's equity.

A financial asset is typically given a maturity date in a contractual claim. If it remains untouched and unconverted to cash by that date, its value will usually increase. Cashing out an asset before its maturity date can ultimately cost a person financial penalties because it violates the terms of the agreement.

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