

Toward Business Literacy: Accounting Outlines



Current Liabilities

Liability: “probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.” SFAC #6

- Present obligation
- Unavoidable
- Transaction or other event creating obligation has already occurred

Current Liability

- One year or a single operating cycle (whichever is longer)
 - Operating cycle: time between purchasing or manufacturing goods or services and final cash realization
- Expected to be paid from current assets

Types of current liabilities

- Accounts payable: owed on open account
- Notes payable: written promise to pay
 - Interest bearing (accrue every accounting period)
 - Zero interest: borrower pays back more at end than rec'd
 - Discounted note payable
- Current maturities of long-term debt (12 months or less) unless:
 - Current portion is going to be retired by long-term assets
 - Note is refinanced or retired by proceeds of new debt issue
 - Note will convert to capital stock

**** Due on demand: if callable by creditor, note is current
- Short term obligations to be refinanced
 - Refinancing may not occur; can exclude short term if:
 - Intend to refinance
 - Demonstrate an ability
- Dividends payable
 - Owed by corporation to stockholders ← board's decision
 - Preferred dividends in arrears are not an obligation until authorized (arrears means outstanding or not completed)
 - Stock dividends are not a liability; Retained earnings are converted to paid-in-capital
- Returnable deposits
 - Customers give deposits to guarantee property or performance of a contract
 - Current if deposit date and termination and return < 1 year

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- Unearned revenue

- Advance received

JE: Cash	xxx	
Unearned Revenue (w/source)		xxx

- Service performed

JE: Unearned Revenue (Bal. sheet)	xxx	
Service Revenue (Income statement)		xxx

- Sales tax payable

- Transfers of tangible personal property and certain services
- Collected from customers and payable to government

JE: Cash or Accounts Receivable	1080	
Sales	1000	
Sales Tax Payable		80

- Income tax payable

- A corporation must estimate a period's tax expense
- The expense may not match the actual payable due because of permanent and temporary differences: GAAP ← → IRS

- Employee related

- Must make period end adjustments for salaries and wages
- If not remitted to authorities, it becomes a current liability