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
  - Oowed 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
- 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