



## Current Liabilities

## Liabilities

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 transactions or events

## Current Liabilities

Obligations whose liquidation is reasonably expected to require the use of existing resources properly classified as current assets, or the creation of other current liabilities.

## Typical Current Liabilities

- ◆ Accounts Payable
- ◆ Notes payable
- ◆ Current maturities of long-term debt
- ◆ Short-term obligations expected to be refinanced.
- ◆ Dividends payable
- ◆ Customer advances and deposits
- ◆ Unearned revenues.
- ◆ Sales taxes payable
- ◆ Income taxes payable
- ◆ Employee related liabilities

## Notes Payable

- ◆ Interest-bearing notes.
- ◆ Zero-interest-bearing notes.

## Current Maturities of Long-Term Debt

- ◆ Portions of long-term debt that are to be paid within the next fiscal year are reclassified as current liabilities.
- ◆ There are exceptions to this rule.

### Short-Term Obligations Expected to Be Refinanced

- ◆ These are excluded from current liabilities if two criteria are met
  - The company **intends to refinance** on a long term basis.
  - The company can **demonstrate the ability** to refinance on a long term basis.

### Dividends Payable

- ◆ Dividends become a liability when the board declares them.
- ◆ Preferred dividends in arrears are not liabilities.
- ◆ Stock dividends are not liabilities.

### Employee-Related Liabilities

- ◆ Social Security Taxes
- ◆ Unemployment Taxes
- ◆ Income Tax Withholding
- ◆ Union Dues
- ◆ Compensated Absences
- ◆ Bonus Agreements

### Contingencies

An existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more events occur or fail to occur

### Contingencies

- ◆ Gain contingencies
- ◆ Loss contingencies
  - Probable
  - Reasonably Possible
  - Remote

### Contingencies

- ◆ Recognize a loss contingency if both of the following criteria are met
  - The event is probable
  - The amount of the liability can be reasonably estimated

### Common Loss Contingencies

- ◆ Litigation, claims, and assessments
- ◆ Guarantee and warranty costs
- ◆ Premiums and coupons
- ◆ Environmental liabilities

### Litigation, Claims, and Assessments

In addition to the probability and estimatability criteria, **timing** must be taken into account in matters of litigation.

### Guarantee and Warranty Costs

- ◆ Cash Basis
- ◆ Accrual basis
  - Expense warranty Approach
  - Sales-warranty Approach

### Premiums and Coupons

- ◆ This are products or cash offered to consumers to stimulate sales.
- ◆ They should be recognized as expenses in the period when the sale that benefits from the plan is made.
- ◆ Unredeemed premiums and coupons are estimated and recorded as liabilities.

### Environmental Liabilities

- ◆ Companies must recognize asset retirement obligations when there is a contractual obligation to clean up or dismantle a facility.
- ◆ Asset retirement obligations must be estimated at fair value as long term liabilities



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