

Visual Learning Maps

Introductory Financial Accounting



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## VIRTUAL TEXT BOOK

### LIABILITIES – 1 OF 2

Liabilities are a category of account and represent the **L** part of the Foundation Equation. Liabilities are debts of the business. The business either **owes money or owes work** to be done for a customer in the amount of the money received / on deposit from the customer.

Liabilities are Normally in Credit balance.

There are two kinds of liabilities – Current and Long Term.

### CURRENT LIABILITIES

“Current” means that the debt will likely be paid within one year. Any debt that will be paid beyond one year is a Long Term Liability. Current Liabilities are:

- Notes Payable – promissory notes coming due within one year
- Accounts Payable – mostly owed to suppliers
- Wages and / or Salaries Payable – owed to employees
- Taxes payable – owed to government
- Payroll taxes payable – owed to government
- Sales Tax Payable – owed to government
- Interest Payable – owed to whomever holds debt instrument
- Current Portion of Long Term Debt → **See Page 2**

**AND**

- Unearned Revenue  
This is a unique liability account – it means that a customer has paid the business cash, but the business has not performed any work, so the business owes the customer the amount deposited as Unearned Revenue.

**EXAMPLE:** If you paid your guitar instructor \$200 for ten lessons over the next ten months, the instructor would have \$200 in the Unearned Revenue account until you took your first lesson. After the first lesson, the instructor **has earned \$20**, so now the instructor owes you nine lessons - the balance in the instructor’s Unearned Revenue account is \$180.

## LIABILITIES – 2 OF 2

### LONG TERM LIABILITIES

“Long Term means that the debt will be paid beyond the time period “within one year.” Long Term Liabilities are:

- Mortgages – dates specified
- Notes Payable – promissory notes specifying dates coming due beyond the “within one year”
- Bonds – dates specified

TOTAL THE ABOVE ITEMS **THEN SUBTRACT**



### Current Portion of Long Term Debt

Problems will **ALWAYS** give you this figure or the data to calculate it.

**IT MEANS:** For each item in Long Term Debt there is an amount that is due to be paid “within one year.” Loans, Notes Payable and Mortgages may be over the next five, ten or twenty years, but some of it has to be paid over the next twelve months.

The amount to be paid over the next twelve months is called the Current Portion of Long Term Debt.

### **ALWAYS...** BE SURE THAT YOU...

- Subtract the Current Portion from the Long Term Section



**ALWAYS THE SAME \$ AMOUNT**

- Add the Current Portion to the Current Liability Section