



Accounting II - Simplified for You

Liabilities



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Nature of Liabilities

- Credit – when a company or a banking institution provides a loan to an organization
- Lender (creditor) – the organization that is extending credit.
- Borrower (debtor) – the company receiving the loan

Classification of Liabilities

- Long-term Liabilities – are due in terms longer than 1 year.
- Current Liabilities (Short term) – are due in one year (operating cycle) or less

Types of Current Liabilities

- Accounts Payable – when the company purchases supplies, inventory, etc. on account.

Journal			
Date	Account Description	Debit	Credit
07/01/14	Merchandise Inventory	3,500	
	Accounts Payable, MK Crafts		3,500
To record purchase of merchandise on account terms 2/10, n/30			

Journal			
Date	Account Description	Debit	Credit
07/31/14	Accounts Payable, MK Crafts	3,500	
	Cash		3,500
To record payment of merchandise previously purchased on account			

Types of Current Liabilities

Short term notes payable – promissory note

Interest Expense – cost of borrowing


*** Assume prior example, payment wasn't made and Unique Designs issued a note

Journal			
Date	Account Description	Debit	Credit
07/31/14	Accounts Payable, MK Crafts	3,500	
	Notes Payable, MK Crafts		3,500
Promissory note issued. Terms 10% due in 90 days			

Journal			
Date	Account Description	Debit	Credit
10/30/14	Notes Payable, MK Crafts	3,500	
	Interest Expense	88	
	Cash		3,588
To record payment of note			

Types of Current Liabilities

- Short term notes payable – promissory note
- Current portion of installment obligations
 - 30 year mortgage, payable every month. The current year is classified as short term.
- Taxes Payable
 - Sales Taxes Payable
 - Income Taxes Payable
 - Payroll Taxes Payable




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