

FINANCE AT A GLANCE

How are LIABILITIES classified?

Lesson 08

Liabilities are classified into:

- Current liabilities**
- Long-term liabilities**

Current liabilities can safely be regarded as those that are to be paid within a year. This definition does not hold when a company's operating cycle is longer than a year. (We will not delve into the latter case, as such is not common.)

Current liabilities can be considered as the reverse of current assets:

Current assets are resources that are expected to be used up within a year (in most cases).

Current liabilities are obligations that are supposed to be settled within a year.

This parallelism leads to an interesting insight: If a company has sufficient cash in addition to non-cash current assets that can be converted into cash (as in products sold and paid for by customers) within a one-year period to pay for all of its liabilities that are due within the one-year period, then the company is said to be liquid (meaning, in a position to meet its obligations currently falling due for settlement). We shall look into this concept in greater detail when we go into the analysis of balance sheets.

For now, here are the standard terms used to designate the types of current liabilities in the balance sheet:

Accounts payable	credit given by suppliers
Accrued liabilities (or expenses)	salaries owed to employees, etc.
Unearned income	advances from clients
Income taxes payable	taxes awaiting settlement
Current portion of long-term debt	portion of funds borrowed from banks that are due within the year

The next lesson will explain the types of liabilities more clearly.

Until then, thank you for your continued interest in Finance At A Glance.

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