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LIABILITIES:

DEFINITION

It is a present responsibility to sacrifice assets in the future because of a transaction or other event that happened in the past.

Characteristics

- Are probable, future sacrifices (assets or benefits)
- Arise from present obligations
- Result from past transactions or events

This presentation contains information, in addition to the material prepared and provided by the professor, from:

1. Financial Accounting, David Spiceland, 6th Ed., McGraw-Hill
2. Intermediate Accounting, David Spiceland, 11th Ed., McGraw-Hill
3. Intermediate Accounting, Donald Kieso, 18th Ed., Wiley
4. Other: Official Websites

LIABILITIES:

ORIGIN

1. Loans, Borrowings, Notes, Bonds) (%)
2. Purchases assets on credit
3. Incurred in expenses (not paid) (Exception non- paid expenses e.g., Depreciation)
4. Cash advance from clients
5. Cash Collected for a Governmental Agency (e.g., IRS Sales Tax)
6. Declaration of Dividends
7. Contingent Liabilities
8. Current portion of Long-Term Debts
9. Leases
10. Pensions

CURRENT LIABILITIES:

Due within a year or an operational cycle.

Operating cycle

- Time it takes to complete the activities that produce revenues (e.g., buy inventory, sell to customers, and collect cash).

CURRENT LIABILITIES:

LAST NAME OF DEBTS ARE

PAYABLE

EXCEPTION...

CURRENT LIABILITIES:

➤ Cash advance from clients

- UNEARNED REVENUE
- DEFERRED REVENUE

➤ Incurred an expense and not paid

- ACCRUED EXPENSES
- ACCRUED LIABILITIES

CURRENT LIABILITIES:

ACCOUNT PAYABLE	
-	+

CURRENT LIABILITIES:

EXAMPLES: JOURNAL ENTRIES

Loan

Dr. Cash	100,000	
Notes Payable		100,000
<i>(To issue notes payable)</i>		

Accrual Expenses/Liabilities

Dr. Expense	100,000	
Cr. Expense Payable		100,000
<i>(To accrued an expense)</i>		

Cash Advance

Dr. Cash	100,000	
Cr. Unearned/Deferred Revenue		100,000
<i>(Received Cash in advance)</i>		

Purchase assets on account

Dr. Inventory	100,000	
Cr. Account Payable		100,000
<i>(Purchases of Inventory on Account)</i>		

Declared Dividends

Dr. Dividends/ Retained Earnings	100,000	
Cr. Dividend Payable		100,000
<i>(Dividends declaration)</i>		

Contingent Liability (Probable)

Dr. Contingency Loss	100,000	
Cr. Contingency Liability		100,000
<i>(Record contingency liability)</i>		

CURRENT LIABILITIES:

ABC Co. signed a 1 year Note Payable on 08/31/2001: Payment of Principal and interest due on 02/28/2002. Principal: \$100,000, 6%. Closing books 12/31/2001.

08/31/2001

Dr. Cash	100,000	
Cr. Notes Payable		100,000

12/31/2001

Dr. Interest Expense	2,000	
Cr. Interest Payable		2,000 ($\$100,000 \times 6\% \times 4/12 = \$2,000$ (2001: sept, oct, nov, dic))

02/2/2002

Dr. Interest Expense	1,000	($\$100,000 \times 6\% \times 2/12 = \$1,000$ (2002: January & February))
Dr. Interest Payable	2,000	($\$100,000 \times 6\% \times 4/12 = \$2,000$ (2001: sept, oct, nov, dic))
Dr. Notes Payable	100,000	
Cr. Cash		103,000 (principal \$100,000 + interest \$3,000) $\$100,000 \times 6\% \times 6/12 = \$3,000$ (2001: sept, oct, nov, dic/ 2002: jan, feb)

CURRENT LIABILITIES:

Purchased Inventory: 01/01/01, \$100,000, paid 25% in cash.

Dr. Inventory	100,000	
Cr. Cash		25,000
Cr. Account Payable		75,000

CURRENT LIABILITIES:

Company received utilities bills on 12/31/01 for \$1,500.

Dr. Utilities Expense	1,500	
Cr. Utilities Payable		1,500

CURRENT LIABILITIES

PAYROLL

EMPLOYEE OBLIGATION

1. FICA: Federal Insurance Contributions Act
7.65% (6.2% + 1.45%) Social Security + Medicare
2. Income Tax (% depends on the civil status)

OPTIONAL

3. Medical Insurance
4. Life Insurance
5. Retire

EMPLOYER OBLIGATION

1. FICA
7.65% (6.2% + 1.45%) Seguro Social y Medicare
2. Unemployment
Federal: FUTA and State: SUTA

OPTIONAL

3. Medical Insurance
4. Life Insurance
5. Retire

Disability payment is required only in some states

CURRENT LIABILITIES

PAYROLL

JOURNAL ENTRIES

SALARY OBLIGATION

Dr. Salary Expense
 Cr. FICA Payable
 Cr. Income Tax Payable
 Cr. ASUME **(if apply)**
 Cr. Life Insurance Payable **(optional)**
 Cr. Retire Payable **(optional)**
 Cr. Cash/ Salary Payable

PAYROLL OBLIGATION

Dr. Payroll Expense
 Cr. FICA Payable
 Cr. FUTA Payable
 Cr. SUTA Payable

CURRENT LIABILITIES:

PAYROLL

Total Payroll	\$200,000 (20 employees)
Total Income Tax	\$20,000
Health Insurance- Employer portion	\$5,000
Retire – Employer portion	\$25,000
FICA (Social Security and Medicare)	7.65%
FUTA & SUTA	6.2%

SALARY OBLIGATION

Dr. Salary Expense	200,000
Cr. Income Tax Payable	20,000
Cr. FICA Payable	15,300
Cr. Salary Payable	164,700

Marginal Benefits

Dr. Salary Expense	30,000
Cr. Health Insurance Payable	5,000
Cr. Retire Payable	25,000

PAYROLL OBLIGATION

Dr. Payrol Expense	27,700
Cr. FICA Payable	15,300
Cr. FUTA & SUTA Payable	12,400

Total Payroll	\$300,000
Income Tax	\$30,000
Health Insurance (75% employer 25% employee)	\$10,000
Retire (50% employer 50% employee)	\$20,000
Life Insurance (employer)	\$30,000
FICA (Social Security y Medicare)	7.65%
FUTA Y SUTA	6.2%

Employee Obligation

Dr. Salary Expense	300,000
Cr. Income Tax Payable	30,000
Cr. FICA Payable	22,950
Cr. Salary Payable	247,050

Marginal Benefits

Dr. Salary Expense	12,500
Cr. Health Insurance Payable (employee portion)	2,500
Cr. Retire Payable	10,000

Employer Obligation: Salary

Dr. Salary Expense	47,500
Cr. Health Insurance Payable (employer portion)	7,500
Cr. Retire Payable (employer portion)	10,000
Cr. Life Insurance (employer portion)	30,000

Employer Obligation: Payroll

Dr. Payrol Expense	41,550
Cr. FICA Payable	22,950
Cr. FUTA & SUTA Payable	18,600

CURRENT LIABILITIES:

ABC sold gift card on 01/01/01 for \$100. On 02/14/01 the client purchased \$70 value (taxes included). Cost of merchandise \$50.

01/01/01

Dr. Cash	100	
Cr. Unearned/Deferred Revenue		100

02/14/01

Dr. Unearned/Deferred Revenue	70	
Cr. Sales Revenue		70
Dr. Cost of Goods Sold	50	
Cr. Inventory		50

CURRENT LIABILITIES:

ABC Co. sold Inventory on 01/01/01 for \$200 cash and \$1,800 on credit. Sales tax 11.5%. Cost of Inventory \$500.

Sale of Inventory

Dr. Cash	200	
Dr. Account Receivable	1,800	
Cr. Sales Revenue		2,000

Dr. Cost of Goods Sold	500	
Cr. Inventory		500

Sales tax collection

Dr. Cash (2,000 x 11.5%)	230	
Cr. Sales tax payable		230

CURRENT LIABILITIES:

Declared cash dividend

01/01/01

Dr. Retained Earnings	1,000	
Cr. Dividend Payable		1,000

Paid: 01/23/01

Dr. Dividend payable	1,000	
Cr. Cash		1,000

Declared Small Dividend: 10% (100,000 shares, par value \$2)

01/01/01

Dr. Retained Earnings (100,000 x .10 x 2 par value)	20,000	
Cr. Common Stock distributable		20,000

Distributed: 01/23/01

Dr. Common Stock distributable	20,000	
Cr. Common Stock		20,000

Declared Large Dividend: 30% (100,000 shares, par value \$2). Market Value \$5

01/01/01

Dr. Retained Earnings (100,000 x .30 x \$5 market value)	150,000	
Cr. Common Stock distributable (100,000 x .30 x \$2 par value)		60,000
CR. Capital in Excess (100,000 x .30 x \$3 par value)		90,000

Distributed: 01/23/01

Dr. Common Stock distributable	60,000	
Cr. Common Stock		60,000