Accounting Department – Second Stage

Intermediate accounting
Second semester
2022/2023

Current Liabilities

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<u>First : Current liability</u> : is debt with two key features:

1. Company expects to pay the debt from <u>existing current assets</u> or through the <u>creation of other current liabilities</u>.

2. Company will pay the debt within one year or the operating cycle, whichever is longer.

Current liabilities include **notes payable**, **accounts payable**, **unearned revenues**, and accrued liabilities such as **taxes payable**, **salaries payable**, and **interest payable**.

1- Notes Payable:

- Written promissory note.
- Require the borrower to pay interest.
- Issued for varying periods.

Example: On March 1, 2010, Cole Williams borrows $100,000 from First National Bank on a 4-month, 12% note.

Instructions

1- Prepare the entry on March 1.

2- Prepare the adjusting entry on June 30, assuming monthly adjusting entries have not been made.

3- Prepare the entry at maturity (July 1).

1- Prepare the entry on March 1

Cash 100,000

Notes Payable 100,000

2- Prepare the adjusting entry on June 30.

$100,000 x 12% x 4/12 = $4,000

interest expenses 4000

interest Accrued 4000

3- Prepare the entry at maturity (July 1).

Notes payable 100,000

interest Accrued 4000

Cash 104,000

2- Sales Tax Payable:

- Sales taxes are expressed as a stated percentage of the sales price.
- Either rung up separately or included in total receipts.
- Retailer collects tax from the customer.
- Retailer remits the collections to the state’s department of revenue.

Example: The March 25 cash register reading for Cooley Grocery shows sales of $10,000 and sales taxes of $600 (sales tax rate of 6%), the journal entry is:

Cash 106,00

Sales 10,000

Sales Tax Payable 600

3-Unearned Revenue:

Revenues that are received before the company delivers goods or provides services.

1. Company debits Cash, and credits a current liability account (unearned revenue).
2. When the company earns the revenue, it debits the Unearned Revenue account, and credits a revenue account

Example: Assume that Superior University sells 10,000 season football tickets at $50 each for its five-game home schedule. The university makes the following entry for the sale of season tickets:

Aug 6. Cash 50,000

Unearned Revenue 50,000

As the school completes each of the five home games, it would record the revenue earned.

Sep 7 Unearned Revenue 100,000

Ticket Revenue 100,000