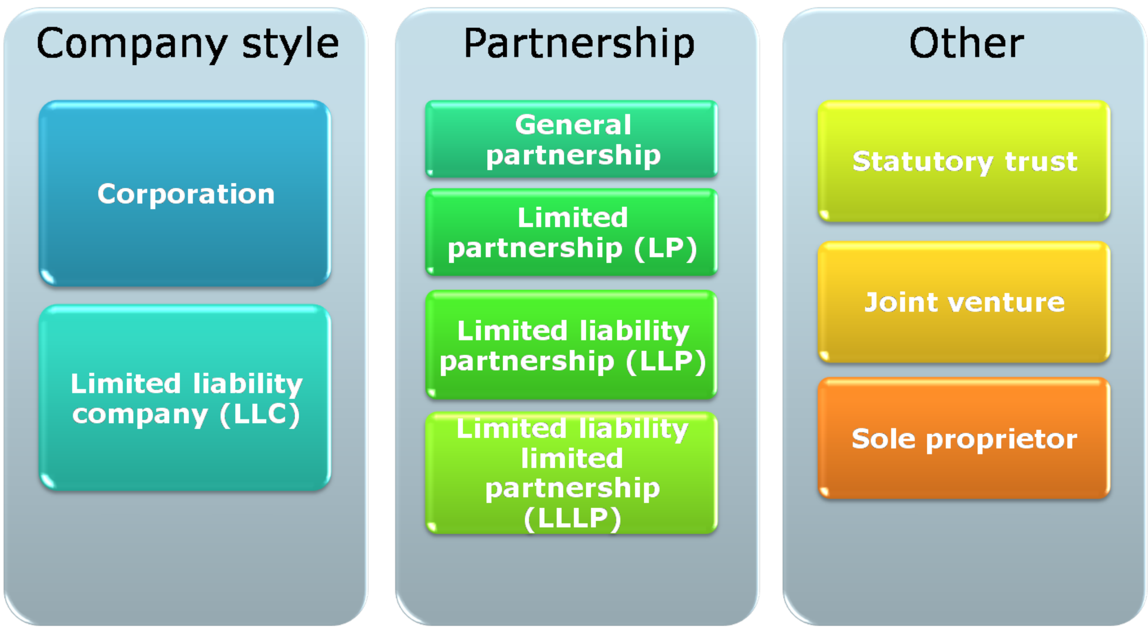
Accounting for Liabilities

We now have a more in-depth discussion about liabilities. There are current liabilities, (those that are due within one year or less) and longer term ones. Current liabilities include the accounts payable that we discussed last week (when we receive our orders without paying for them yet), notes payable (longer term credit with interest owed) and contingent liabilities. The latter is booked when there is a good likelihood that you will be incurring an expense from an obligation in the past. A good example of this is when you are being sued. The payout could be large if you lose. You will make the determination how likely a loss looks and possibly set aside monies for this potential loss.



Longer term liabilities include lines of credit and bonds. Bonds are usually bought *for more or less* than the face amount. This is because the face amount is determined when the bond is issued. But bonds are bought and sold every day! So, you may be buying one that was issued a year ago when rates were higher. This causes for the premium or discount on the interest rate of the bond to require amortization or accretion of the difference.

** Video Alert**

Here is a great video on bond premiums and discounts!

http://www.youtube.com/watch?v=I-NgLF14fk8