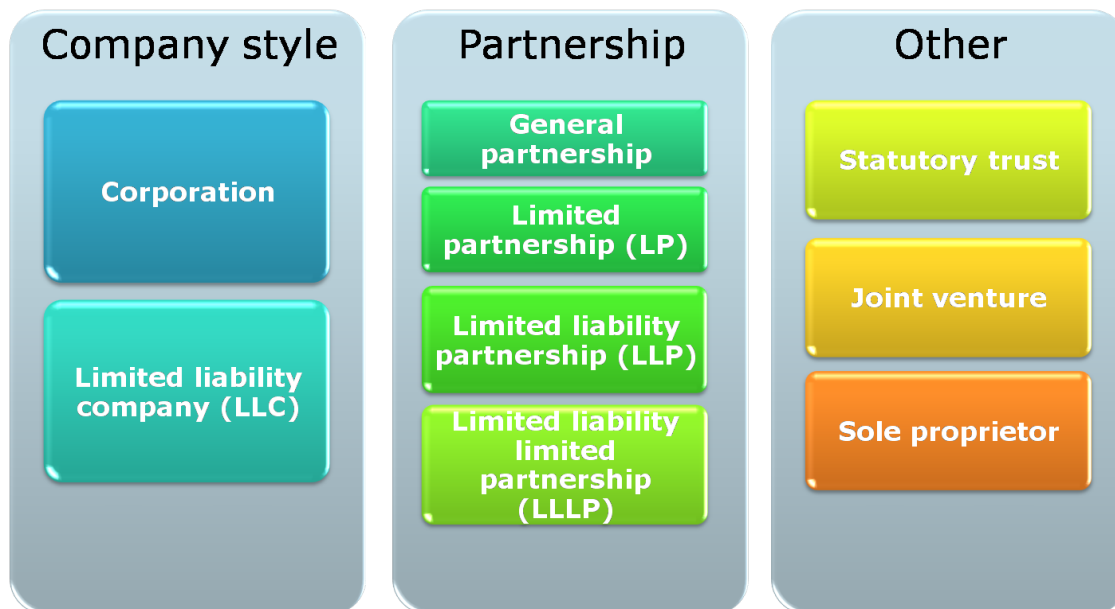


Accounting for Liabilities

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>

Proprietorships, Partnerships and Corporations

Ok, we'll keep going! This portion of the lecture is on business entities. When you decide to go into business, you need to decide what entity you will be. There are pros and cons of each type, as you will learn this week. This topic is such a "takeaway" as many of you will contemplate opening your own business someday. You will be glad you were here for this.

Overview of Business Entities

	Sole Proprietorship	General Partnership	Corporation	S-Corp	LLC
Forming	Easy just need federal and/or state tax numbers.	Should have an agreement and required tax numbers.	State regulated. Need Articles of incorporations and bylaws. Tax numbers.	Same as C-Corp also need IRS Form 2553.	State regulated and Articles of Organization and required tax numbers.
Management	1 person and the business ends when the owner quits or dies.	2 or more people (or entities). Continuity depends on agreement but generally ends when majority of the partners leave or die.	Individuals or entities. Indefinite life because ownership in shares.	Same as C-Corp.	Acts like a partnership or sole proprietorship depending on number of owners..
Changing	Easy to change to another entity.	Can generally incorporate without a tax consequence.	Special rules apply to changing.	Can generally change to a C-corp., partnership, or LLC without a tax consequence.	Can generally incorporate without a tax consequence.
Books	Any system as long as it is consistent.	Double entry bookkeeping required. Besides income and expenses must track partner shares of the business.	Most complicated bookkeeping.	Same as partnership.	Same as partnership.
Taxation (All must file required payroll returns.)	Owner pays tax and SE on profit on personal return.	A business return is filed but each partner pays the tax and SE on their share on their personal return.*	The business' profits are taxed on the business' return. Dividends are then taxed on the shareholder's return.	Same as partnership.*	Generally the same as a partnership* but can elect to file as a corporation. A single person LLC acts like a sole proprietorship.
Liability*	Owner is liable for all debts and actions.	A partner is personally for all partnership debt.	Shareholders not liable for the corporation's debts.	Shareholders not liable for the corporation's debts.	Depends on the state.
IRS Form	Form 1040	Form 1065	Form 1120	Form 1120S	Form 1065
IRS Pub.	334	541	542	589	541

*More complicated than can fit in a little box.

There is then a bit about stock issuance and some new terms relating to this. Stocks are issued at various amounts, they are split as declared by the company and there are two classes of stock: common and preferred. There are reasons to invest (or issue) in either of these. Lastly, we end with dividends. That is a good reason for buying stock. You want an interest payment! And if it is *your* company, then you need to pay dividends to your investors. Good material, and I hope you enjoy it!

Enjoy your week!

Debra Touhey, MSA, CFE

Reference

[Edmonds, T. O., & Tsay, B. \(2012\). Survey of Accounting \(3rd edition ed.\). New York: McGraw-Hill Irwin](#)