

Key Terms

Liability

Liability is an obligation of a company to pay in future for the present benefits or the acquisition of assets.

Short term liabilities

Short term liabilities are those liabilities which become due within one year.

Creditors

When revenue goods are purchased on credit it results in a short term liability.

Bills Payable

Some time creditors are given negotiable instruments mentioning that they will be paid on the due date. Such documents are called bills payable.

Outstanding Expenses

When a company incurs expenses: salary, rent etc. it has to make the necessary payment from the existing cash.

Short Term Debt

Some times companies take short term loans to meet their immediate obligations and cover the temporary shortages in cash. Such loans are taken to meet operating expenses: salary, rent, electricity bills etc.

Advance Incomes

If a company receives advance from the customer with a promise to deliver goods or services in future, such advance will not be treated as an income till the service or goods is provided to customer.

Provisions

According to the Companies Act 1956, the expression "provision" mean any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy.

Proposed Dividend

Distribution of profit as dividend is not an obligation. However, if a company declares dividend and does not disburse the amount among the shareholders, it will be treated as current liability.

Long-term Liabilities

Long term liabilities are those which are not required to be paid within one accounting period. Long term liabilities can take different forms: Long term Borrowings or loans; Bonds and Debentures; Public Deposits

Bonds and Debentures

Bond or debenture is an agreement between the borrower and a lender by which a borrower agrees to repay a stated sum on a future date and also make interest payment periodically.

Lease

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Finance lease

Finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.

Operating lease

An operating lease is a lease other than a finance lease.