

# Kentucky Class Notes

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859.252.NOTE

ACC 302 Wells  
Fall 2010  
Test 1

ACC 302

8/25/10

Chapter 13

- SFAC No. 6, “Elements of Financial Statements”
  - 3 Characteristics of a Liability (source: page 638 of textbook)
    - Probable future sacrifice of economic benefits arising from present obligations
    - Obligate a particular entity to transfer assets or provide services to other entities in the future
    - The result of a past transaction or event
  - Not considered GAAP. Think of it like words in a dictionary—SFACs are the foundation upon which GAAP is based (unlike winning a law) but are only concepts.
- Current Liabilities
  - A current liability is an obligation that is due within 1 year or the operating cycle, whichever is longer, and will be satisfied with either the use of current assets or the creation of another current liability (source: *Master Glossary of the FASB Accounting Standards Codification*)
  - Proposed Changes in Presentation (see [www.fasb.org](http://www.fasb.org) or [www.iasb.org](http://www.iasb.org))
    - Change liability classifications to “short-term” and “long-term”
    - Financial statements would be based on a one-year distinction regardless of operating cycle length

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## Chapter 13 Continued

- Current Liabilities

- Examples: Unearned rent revenue; income taxes payable; accounts payable; interest payable; customer deposits; FICA taxes payable; estimated liabilities under warranties (the part covering warranties for that year); gift receipts sold, yet not redeemed (may set up a allowance account to write off old gift cards); property taxes payable; notes payable due that year; sales taxes payable; dividends payable; bonuses payable; wages payable; estimated liabilities for premiums (A premium is a note you give a company and acts as unearned revenue. Example: Send in 3 box tops and a dollar to cereal company. The dollar is a liability); vacation wages payable
- NOT current liabilities
  - Stock dividends distributed → instead of paying cash dividends a company pays out shares of stock. Goes to stockholder's equity. Not an obligation, doesn't use assets.
  - Prepaid insurance → current asset
  - Self-insurance due to expected future injury → not a result of a past transaction. Not recorded at all.
  - Preferred stock dividends in arrears → (pages 15-17) If stock is cumulative, dividends are paid in arrears. GAAP says the only time a dividend