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# Liabilities Concept

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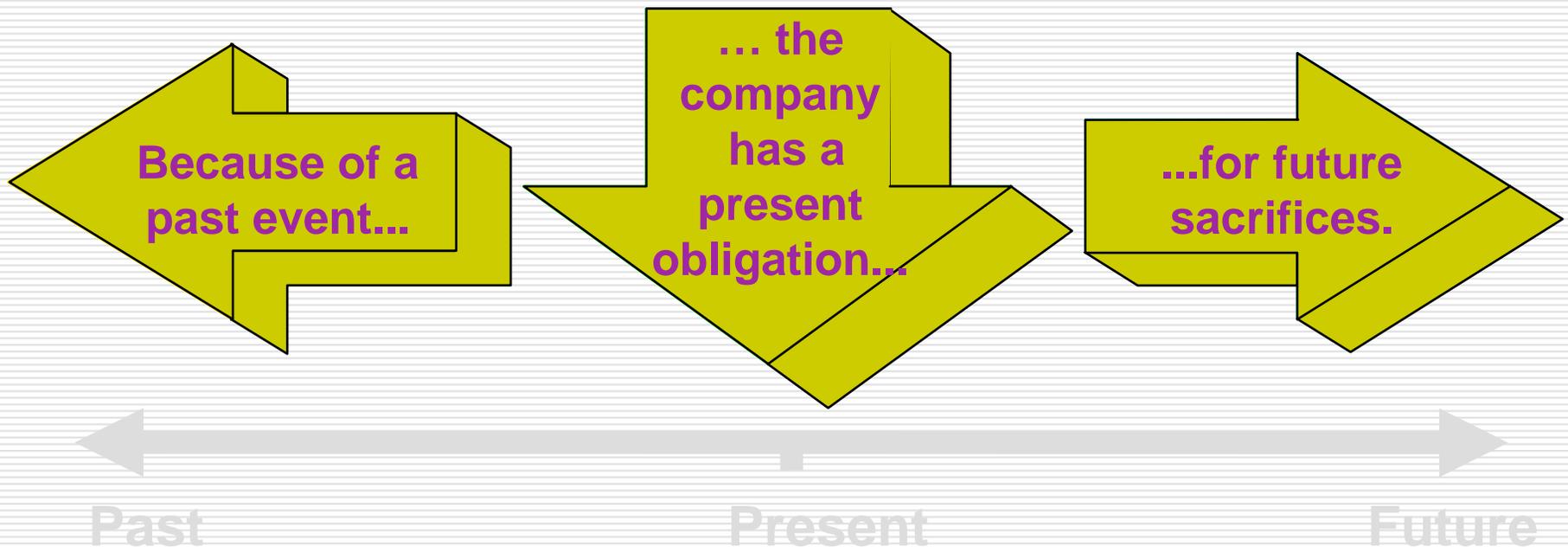
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# Liabilities

## Definition



**A liability is a probable future payment of assets or services that a company is presently obligated to make as a result of past transactions or events.**



# Liabilities

## Classification

### Current (short-term) Liabilities

Obligations whose settlement requires use of current assets or the incurrence of another current liability within one year or the operating cycle, whichever is longer.

### Noncurrent (Long-Term) Liabilities

Obligations not payable within one year or the operating cycle, whichever is longer.

# Liabilities

## Alternative Classification

### Operating Liabilities

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graph LR; A[Operating Liabilities] --> B[Obligations that arise from operating activities--examples are accounts payable, unearned revenue, advance payments, taxes payable, postretirement liabilities, and other accruals of operating expenses]; C[Financing Liabilities] --> D[Obligations that arise from financing activities--examples are short- and long-term debt, bonds, notes, leases, and the current portion of long-term debt];
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Obligations that arise from operating activities--examples are accounts payable, unearned revenue, advance payments, taxes payable, postretirement liabilities, and other accruals of operating expenses

### Financing Liabilities

Obligations that arise from financing activities--examples are short- and long-term debt, bonds, notes, leases, and the current portion of long-term debt

# Liabilities

## Disclosures for Current (Financing) Liabilities

- **Compensating balance arrangements, including those not required by law**
- **Balance sheet segregation of (1) legally restricted compensating balances and (2) unrestricted compensating balances related to long-term borrowing arrangements if balances are computable at a fixed amount**

# Liabilities

## Disclosures for Current (Financing) Liabilities

- **Short-term bank and commercial paper borrowings, including:**
  - **Commercial paper borrowings separately listed in balance sheet**
  - **Weighted-average interest rate and terms separately stated for short-term bank and commercial paper borrowings**
  - **Weighted-average interest rate, average outstanding borrowings, and maximum month-end outstanding borrowings for short-term bank debt and commercial paper combined for the period**
- **Disclosure of amounts and terms of unused lines of credit for short-term borrowing arrangements (with amounts supporting commercial paper separately stated) and of unused commitments for long-term financing arrangements**

# Liabilities

## Accounting-Based Liability Restrictions (Covenants)

### **Aim: Safeguard creditors' investments**

#### **Common restrictions include:**

- **Dividend distribution restrictions**
- **Working capital restrictions**
- **Debt-to-equity ratio restrictions**
- **Seniority of asset claim restrictions**
- **Acquisition and divestment restrictions**
- **Liability issuance restrictions**

**Potential information sources: Liability prospectus, annual report, SEC filings, and creditor information services (e.g., *Moody's*)**

