

Chapter 13

Current Liabilities- Due within 1 year or business cycle, whichever is longer. Paid with current assets.

Liability- Present obligation for a future payment. The obligation has already occurred and is unavoidable.

Accounts Payable- Usually referring to trade payables (inventory).

Dividends Payable- Liability on date of declaration. Current liability. Payment date is when they are paid.

Dividends in Arrears- Shows in the notes section of balance sheet. Happens with cumulative preferred stock.

Cumulative preferred is less volatile than common stock, gets dividends first but the yield is lower.

Refinancing

Once management has the intent and ability to refinance short term debt into long term debt, they get reclassified. Debit CL, Credit LTL, and make a note.

Stock Dividends

Small Stock Dividend- Capitalization of retained earnings.

With a dividend the price of the stock goes down, but the amount of outstanding stocks goes up. Market Cap stays the same.

Debit RE, Credit Stock dividends to be distributed, Credit Add paid in cap stock dividends. Amount in stockholders equity stays the same.

Sales Tax Payable

Vendor- Debit Cash, Credit Sales, Credit Sales tax payable. Can pay sales tax monthly,