13 The balance sheet 3: liabilities

A Liabilities

Liabilities are amounts of money that a company owes, and are generally divided into two types – long-term and current. **Long-term liabilities** or **non-current liabilities** include bonds. (See Unit 33)

C **Current liabilities** are expected to be paid within a year of the date of the balance sheet. They include:

- **creditors** – largely suppliers of goods or services to the business who are not paid at the time of purchase
- planned dividends
- **deferred taxes** – money that will have to be paid as tax in the future, although the payment does not have to be made now.

Current liabilities	
Short-term debt	1,555
Accounts payable	5,049
Accrued expenses	8,593
Total current liabilities	15,197
Non-current liabilities	
Deferred income taxes	950
Long-term debt	3,402
Other non-current liabilities	1,201
Total non-current liabilities	5,553
Total liabilities	**20,750**
Shareholders' equity	
Common stock	10,309
Retained earnings	3,900
Total	14,209
Total liabilities and Shareholders' equity	**34,959**

B Accrued expenses

Because of the matching principle, under which transactions and other events are reported in the periods to which they relate and not when cash is received or paid, balance sheets usually include **accrued expenses**. These are expenses that have accumulated or built up during the accounting year but will not be paid until the following year, after the date of the balance sheet. So accrued expenses are **charged against** income – that is, deducted from profits – even though the bills have not yet been received or the cash paid. Accrued expenses could include taxes and utility bills, for example electricity and water.

C Shareholders' equity on the balance sheet

Shareholders' equity is recorded on the same part of the balance sheet as liabilities, because it is money belonging to the shareholders and not the company.

Shareholders' equity includes:

- the original share capital (money from stocks or shares issued by the company: see Units 29–30)
- **share premium**: money made if the company sells shares at above their **face value** – the value written on them
- retained earnings: profits from previous years that have not been distributed to shareholders
- **reserves**: funds set aside from share capital and earnings, retained for emergencies or other future needs.

BrE: share premium;
AmE: paid-in surplus

13.1 Are the following statements true or false? Find reasons for your answers in A, B and C opposite.

1 A current liability will be paid before the date of the balance sheet.
2 A liability that must be paid in 13 months time is classified as long-term.
3 A company's accrued expenses are like money an individual saves to pay bills in the future.
4 Shareholders' equity consists of the money paid for shares, and retained earnings.
5 If companies retain part of their profits, this money no longer belongs to the owners.
6 Companies can sell shares at a higher value than the one stated on them.

13.2 Find words in A, B and C opposite with the following meanings.

1 money that will be paid in less than 12 months from the balance sheet date
2 the money that investors have paid to buy newly issued shares, minus the shares' face value
3 delayed, put off or postponed until a later time
4 built up or increased over a period of time

13.3 Sort the following into assets and liabilities. Look at A and B opposite to help you. You may need to look at Unit 12.

Accounts payable	Land and buildings
Accrued expenses	Investments
Dividends	Cash and equivalents
Inventory	Deferred taxes
Accounts receivable	Long-term debt

Assets	Liabilities
....	....
....	....
....	....
....	....
....	....

"Oh, that three billion dollars."

Over to you

Look at the last two annual reports and balance sheets of your company or one you would like to work for. What differences do you notice in the balance sheets and what reasons can you find for these?