

Current Liabilities

- ! Obligations that must be discharged in a short period of time (generally less than one year)

- ! Examples:
 - Accounts payable
 - Short-term borrowings
 - Current portion of long-term debt (portion that requires the use of current assets)
 - Deposits
 - Warranties
 - Deferred Revenues / Income

Contingencies

Resolution of uncertainty

Gain contingency

Acquisition of asset

Reduction of liability

Loss contingency

Loss or impairment of asset

Incurrence of liability



Accounting guidelines on contingencies

The accounting treatment of a contingency depends on whether the contingency is:

Probable - the future event is likely to occur

Reasonably possible - the chance of occurrence of the future event (or events) is more than remote but less than likely

Remote - the chance of occurrence of the future event (or events) is slight

In addition, the amount of the gain or loss must be reasonably estimated.

Loss Contingencies

	<u>Measurable</u>	<u>Not Measurable</u>
Probable	Accrue	Disclose in notes
Reasonably possible	Disclose in notes	Disclose in notes
Remote	None required, but note permitted	

Accrual of loss contingency:

$$A = L + E$$

Accrued liability Loss on Contingency



Gain contingencies

	<u>Measurable</u>	<u>Not Measurable</u>
Probable	Accrue in unusual circumstances, else disclose	Disclose, but avoid misleading inferences
Reasonably possible	Disclose but avoid misleading inferences	
Remote	Disclosure is not recommended	

Disclosure: An Example

Archer Daniels Midland Company, 2002 Annual Report

For this quote, see "Note 12 - Antitrust Investigation and Related Litigation" on pp. 41 of the Archer Daniels Midland Company's 2002 Annual Report, available at their web site, <http://www.admworld.com>.

