

BISHOP GEORGE

SCHOOL & COLLEGE

CLASS - XIth

SUBJECT - ACCOUNTS

CHAPTER - BASIC

ACCOUNTING TERMS

WORKSHEET - 4th

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CLASS - XIth

CH. - BASIC ACCOUNTING TERMS

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9) Liability:-

It refers to the amount which the firm owes to outsiders (excepting the amount owed to proprietors). In the words of Finney & Miller "Liabilities are debts, they are amounts owed to creditors." This can be expressed as:

$$\text{Liabilities} = \text{Assets} - \text{Capital}$$

Liabilities may be divided into two parts:

i) Internal Liabilities:- All amounts which a business entity has to pay to the proprietor or owners are internal liabilities such as capital & accumulated profits

ii) External Liabilities :- All amounts which a business ~~which~~ a entity has to pay to outsiders are known as external liabilities such as creditors, bank overdraft, loans etc.

Liabilities may be further classified as under :-

i) Non - Current Liabilities :- These refer to those liabilities which fall due to for payment in a relatively long period (normally after more than one year) for example, Long term loans & Debentures etc.

ii) Current Liabilities :- Current liabilities refer to those liabilities which are to be paid in near future (normally within one year). For example, Bank Overdraft, Bills Payable, Creditors, Outstanding Expenses and Short Term Loans etc.

iii) Contingent Liabilities :- These are not the actual liabilities on the date of Balance sheet, but

may become payable only on the happening of some specific event. Examples are:

A) Bills Discounted but not matured:

The firm will become liable to pay the amount of such a Bill only if an acceptor dishonours the bill accepted by him on the due date.

B) If a suit against the firm is pending in the court, the actual liability in this respect will arise only if the suit is decided against the firm.

C) If the firm has given a Guarantee for another person, the actual liability in this respect will arise only if the person for whom the guarantee is given fails to meet his obligation.