

What is Liability Classification?

Worksheet

Liabilities are classified as current (due within one year) or long-term/non-current (due after one year), and together they equal total liabilities: $\text{Total Liabilities} = \text{Current Liabilities} + \text{Long-Term Liabilities}$.

Questions

- Which of these is a long-term liability?
 - Accounts payable
 - Wages payable
 - Bonds payable (due in 10 years)
 - Short-term loan due in 3 months
- A company has \$45,000 current liabilities and \$80,000 long-term liabilities. What are its total liabilities?
 - \$35,000
 - \$80,000
 - \$125,000
 - \$45,000
- Current liabilities are due within:
 - 1 month
 - 6 months
 - 1 year
 - 5 years
- The portion of a 15-year loan due in the next 12 months is classified as:
 - Long-term liability
 - Current asset
 - Current liability
 - Equity
- A company owes \$15,000 in accounts payable due next month and a \$200,000 mortgage due over 20 years. Classify each.
- A business has \$30,000 current liabilities and \$120,000 long-term liabilities. What are its total liabilities?
- A 10-year, \$100,000 bond has \$10,000 due within the next 12 months. How is it split on the balance sheet?
- Define: What are current liabilities?
- Define: What are long-term liabilities?
- Define: Why classify liabilities?

Answer Key

1. C) Bonds payable (due in 10 years) - Bonds payable due in 10 years are due after a year, making them long-term.
2. C) $\$125,000 - 45,000 + 80,000 = \$125,000$.
3. C) 1 year - Current liabilities are due within one year (or the operating cycle).
4. C) Current liability - The amount due within 12 months is reclassified as a current liability, even if the loan is long-term overall.
5. Accounts payable (\$15,000): current liability - due within a year Mortgage (\$200,000): long-term liability - repaid over 20 years, only the portion due within 12 months is reclassified as current
6. Total Liabilities = Current + Long-Term = $30,000 + 120,000 = \$150,000$
7. \$10,000 due within 12 months is reported as a current liability (current portion of long-term debt) The remaining \$90,000 stays classified as a long-term liability
8. Obligations due within one year, like accounts payable and short-term loans.
9. Obligations due after one year, like bonds payable and long-term loans.
10. It helps assess a company's short-term solvency versus long-term financial obligations.

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