Current Liabilities, Contingencies And The Time Value Of Money

Azhar Susanto; Meiryani

Abstract: Liability or debt is an economic sacrifice that must be made by the company in the future due to previous actions or transactions. In accounting, it is defined as the liability of a business entity or company to a third party that is paid by submitting assets or services within a specified period of time as a result of past transactions. The economic sacrifice can take the form of surrendering money, other assets, services or doing certain jobs. Transaction actions can be in the form of receipt of money, goods or services, acknowledged a cost or loss. Obligations result in a bond that gives the creditor the right to claim company assets. Obligations can usually be determined in amount or easily estimated or expressed in units of money. Obligations are funding sources originating from creditors. In a company's balance sheet, the account is combined with the amount of liabilities plus capital or owner's investment.

Index Terms: Current Liabilities, Contingencies, Time Value of Money, Accounting, Information.

1 INTRODUCTION

Current liabilities can be interpreted as possible future sacrifices of economic benefits arising from the company's current obligations to transfer assets or provide services to other entities in the future as a result of past transactions or events. A thing can be categorized as an obligation if it fulfills three main characteristics, the first is an obligation at this time that requires a settlement with the possibility of future transfers or use of cash, goods, or services. The second is an unavoidable obligation. And the last, transaction or other event that creates that obligation must have happened in the past. Short-term debt is a company liability that arises because of actions or transactions in the past to obtain assets or services, the repayment of which will only be carried out in the future, either by submitting cash, certain other assets, services or by creating new debt. Debt can result in financial obligations or implementation obligations. For example, financial liabilities such as trade payables, tax payable, dividend payables, interest payable and so on, while the implementation obligations, such as rent received in advance, expenses received in advance, guarantee money for purchases from buyers. Contingencies in the FASB (Financial Accounting Standard Board) Statement No. 5 is "a condition, situation, or set of situations that involves uncertainty regarding profit or loss for the company which will eventually be resolved if one or more future events occur or do not occur. An obligation involves spending assets or services in the future, so one of the most important characteristics is the date on which the obligation must be paid when the date is due. The characteristics of how long the date is determined to pay off the obligation is the formulation in classifying liabilities, namely whether the repayment period is less or more than a certain period of time. (classification, the obligation is divided into two, current liabilities and long-term liabilities.) Current assets are cash or other forms of assets that can be expected to be converted into cash, sold, or used in operations for a certain period. Different from current assets, current liabilities have the meaning as an obligation whose liquidity is estimated to require the use of existing resources which are classified as current assets, or the creation of other current liabilities in one operating cycle or certain period.

- *Azhar Susanto; Accounting Department, Faculty of Economics and Business, Padjadjaran University, Bandung, Indonesia*
- *Meiryani; Accounting Department, Faculty of Economics and Communication, Bina Nusantara University, Jakarta, Indonesia 11480 meiryani@binus.edu*

2 LITERATURE REVIEW

2.1 Current Liability

Current Liability According to the Financial Accounting Standards (SAK) which discusses the basic framework for preparing and presenting the Financial Statements, it is stated that the essential characteristic of liabilities is that the company has a present obligation. Obligation is a duty or responsibility to act or implement something in a certain way. Obligations can be enforced according to law as a consequence of binding contracts or legislation. Almost all companies, both small and large companies have obligations or debts. In a simple sense the obligation is a debt that must be paid by the company. In more detail the obligation is a debt or liability of a company that arises from transactions from the past and must be paid with cash, goods, or services in the future. For example, obligations arising from credit purchases, borrowing money from banks, and the obligation to pay salaries or wages to employees. Events that arise due to liabilities, among others, goods that have been purchased from suppliers but the company has not paid (trade obligations, trade accounts payable or account payable), the supplier has paid but the company has not sent goods (income received in advance or learning revenue). Other causes of liability include, among others, borrowing from one company to another, the existence of goods sold with guarantees, cash dividends and so on. Current liabilities can be interpreted as the possibility of future sacrifice of economic benefits arising from the company's current obligations to transfer assets or provide services to other entities in the future as a result of past transactions or events. A thing can be categorized as an obligation if it fulfills three main characteristics, namely: 1.It is a current obligation that requires settlement with the possibility of future transfers or use of cash, goods, or services. 2.It is an unavoidable obligation. 3.Transactions or other events that create that obligation must have happened in the past.

2.2 Obligation

An obligation involves spending assets or services in the future, so one of the most important characteristics is the date on which the obligation must be paid at the due date. The characteristics of how long the date is determined to pay off the obligation is the formulation in classifying liabilities, namely whether the repayment period is less or more than a certain period of time. Classification of liabilities is divided into two, current liabilities and long-term liabilities. The following are several types of current liabilities: 1. Trade Payables Business debt is a balance owed to another party for goods, or services purchased on credit. This credit repayment period usually ranges from 30 to 60 days. 2. Payment Notes Pay Notes are written promises to pay a certain amount of money on a certain date in the future and can come from purchases, financing, or other forms of transactions. This type of debt is needed as part of a purchase or sale transaction. Whereas the notes payable to the bank come from cash or cash loans. 3. Debt Debt Dividend Dividend has the meaning as the amount owed by the company to its shareholders as a result of the authorization of the board of commissioners or directors (there is an announcement date, the company places shareholders as creditors for dividends). Dividends are classified as current liabilities because dividends will be paid for the following year after the announcement to the shareholders. Meanwhile, cumulative preferred stock dividends that have not been announced are also considered as current liabilities because the arrears in arrears are not an obligation, until the board of directors takes action to authorize the distribution of company profits. 4. Advances and Deposits The Company's customers can accept deposits from customers and from their own employees. The company accepts deposits from customers to guarantee payment of expected obligations in the future and also as collateral for possible damage to goods in the customer's hands. While the company accepts deposits from employees for guarantees and returns on company property used by employees who assist the operational activities of these employees. 5. Unearned Income Unearned income is a condition in which a company receives cash as payment of trade results or services from customers before exchanging goods or performing certain services and ownership rights have not been obtained by the customer but have been recorded as income by the company. 6. Sales Tax Debt The company must collect sales tax on product transfers and for certain services must be billed from customers and submitted to the government in the form of taxes. Income Tax Debt Each State Income Tax has a different portion of the annual profit. By using available information and advice, the company must prepare an income tax return and calculate the income tax payable resulting from current operations. Tax debt on company profits, as calculated per tax return must be classified as a current liability. 8. Obligations Associated with Employees The company also reports the amount owed to employees for salaries and wages at the end of the accounting period. The form of obligations relating to employees is categorized into: a.Payroll deductions Salary deductions are insurance premium taxes, employee savings, and union fees. If the amount deducted has not been submitted to the authorized party at the end of the accounting period, then the amount must be recognized as a current liability. b.Compensated time attendance Compensated attendance has the meaning of being absent from work, which includes leave, sickness and holidays. c.Bonus Agreements Large companies give bonuses to all their employees in addition to their regular salary or wages. And the bonus amount depends on the annual profit of the company concerned. Payment of bonuses to employees can be considered as additional wages and must be included as a deduction in determining the current year's net income. Liabilities, namely debt profit sharing bonuses, will usually be paid in a short period of time and must be recorded as current liabilities in the balance sheet. Long-term debt due in one year Examples are bonds, mortgage notes, and other long-term debt that are due in the next fiscal year. Long-term debt is not recorded when the current maturity is a current liability if it will: a. Drawn or repaid with accumulated assets for that purpose which are not shown as current assets. b. If it will be refinanced or repaid from the proceeds of the issuance of new debt. c.

Converted to share capital. 10.
Short-term Liabilities Expected to be Refinanced Short-term liabilities are types of debt that are certain to mature within one year after the company's balance sheet date or in the company's operating cycle, whichever is longer and usually in accordance with company policy. Some short-term obligations are expected to be refinanced on a long-term basis. And therefore, it is estimated that it does not require the use of working capital during the next period. a.

Returning Criteria
To determine a situation where short-term liabilities can be issued from current liabilities, a company must issue these short-term obligations from current liabilities, with the following conditions: (1) Companies must have plans to refinance obligations on a long-term basis. (2) The company must demonstrate the ability to carry out the return fund. That is, the company intends to refinance short-term obligations so that the use of working capital is no longer needed during the fiscal year Contingencies are conditions in which there is uncertainty about whether the obligation to transfer cash or other assets has arisen and or the amount that will be asked to pay off these obligations, or in a broader sense, contingencies are a set of conditions or situations, which involve uncertainty regarding profit or loss for the company which will eventually be known when one or more future events occur or do not occur. 1.Contingent Advantages Contingent benefits are claims or the right to receive assets whose existence is uncertain, but in the end they may become legitimate. These advantages are: a. Possible acceptance of money from gifts, donations, bonuses, etc. b. Possible refunds from the government for excess taxes. c.Delaying court cases whose results might be beneficial. d.Tax compensation is compensated in the future. 2. Contingent Losses Contingent losses involve the possibility of losses. Liabilities incurred as a result of contingent losses are the meaning of contingent liabilities.

3 DISCUSSION

Presentation of Current Liabilities Current liabilities accounts are usually presented as the first classification in the liabilities section and shareholders' equity in the balance sheet. In the current liability group, these accounts can be listed according to the period or due date and according to the level of liquidity. Additional information relating to current liabilities must meet the requirements full disclosure. In addition, there are important exceptions if the obligation that is due in the current period must be paid for from assets classified as long-term liabilities such as repayment of bonds maturing in the current period. If a company issues short-term liabilities from current liabilities due to refinancing, the following must be included in the notes to the financial statements: 1.General description of the financial agreement. 2.Requirements for new obligations that have or will occur. 3.Requirements of capital securities that have or will occur. Contingency Presentation The Company records contingent losses and liabilities if the loss is an estimate that can be ascertained and if there is a small possibility of loss, then the disclosure must contain the nature of the contingency and the estimated possible loss. The company must disclose other contingent liabilities even though the possibility of losses can be reduced, as follows: 1. Collateral for the debt of another party. 2. Obligations of commercial banks under "always ready credit letters". 3. Guarantee to repurchase receivables (or other related property) that have been sold or specified

4 CONCLUSION

Current liabilities can be interpreted as the possibility of future sacrifice of economic benefits arising from the company's current obligations to transfer assets or provide services to other entities in the future as a result of past transactions or events and contingencies are conditions where uncertainty exists about whether the obligation to transfer cash or other assets has arisen and or the amount that will be asked to pay off these obligations, or in a broader sense, contingencies are a set of conditions or situations, which involve uncertainty about profits or losses for the company which will eventually it is known when one or more future events occur or do not occur.

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