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

<table>
<thead>
<tr>
<th></th>
<th>Measurable</th>
<th>Not Measurable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Probable</strong></td>
<td>Accrue</td>
<td>Disclose in notes</td>
</tr>
<tr>
<td><strong>Reasonably possible</strong></td>
<td>Disclose in notes</td>
<td>Disclose in notes</td>
</tr>
<tr>
<td><strong>Remote</strong></td>
<td>None required, but note permitted</td>
<td></td>
</tr>
</tbody>
</table>

### Accrual of loss contingency:

\[
A = L + E \\
\text{Accrued liability} + \text{Loss on Contingency}
\]
## Gain contingencies

<table>
<thead>
<tr>
<th></th>
<th>Measurable</th>
<th>Not Measurable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Probable</strong></td>
<td>Accrue in unusual circumstances, else disclose</td>
<td>Disclose, but avoid misleading inferences</td>
</tr>
<tr>
<td><strong>Reasonably possible</strong></td>
<td>Disclose but avoid misleading inferences</td>
<td></td>
</tr>
<tr>
<td><strong>Remote</strong></td>
<td>Disclosure is not recommended</td>
<td></td>
</tr>
</tbody>
</table>
Disclosure: An Example

Archer Daniels Midland Company, 2002 Annual Report