

BUS 120: Ch. 9 Vocabulary

Known Liabilities

- The majority of a company's liabilities.
- You **know who** you owe **and how much you owe** them.
- *Examples:*
 - *Note payable on a car loan.*

Estimated Liabilities

- Known obligation of an unknown amount.
- *Examples:*
 - *Warranties*

Contingent Liabilities

- Potential liability
- Depends on the outcome of a future event
- *Examples:*
 - *Outcome of a lawsuit*

Sales Tax Payable

- **Sales tax is always a liability**
- Upon sale of a good or service, sales tax should be credited to a Sales Tax Payable account.

Accrued Expenses

- Expenses incurred but not yet paid
- Most include interest
- *Examples:*
 - *Interest*
 - *Salaries*
 - *Wages*
 - *Payroll*
 - *Income Taxes*

Unearned Revenues

- Occurs when a business **receives cash in advance** of providing a good or service.

Term Bonds

- All mature at the same time
- Due on the same due date

Serial Bonds

- All mature at different times
- Due on multiple due dates

Secured Bonds

- Gives bondholders the right to take specified assets of the issuer if the issuer fails to pay principal or interest.
- Think of these as bonds with an extra safety net to ensure that bondholders will get their money's worth no matter what.

Unsecured Bonds

- Backed only by the general credit of the company
- No guarantee that the bondholders will get their money back
- Essentially a donation to the company

Convertible Bonds

- May be converted into the common stock of the issuing company
- Think: Bond -> Common Stock

Callable Bonds

- Issuer may call, or pay off, at a specified price before maturity
- Basically, the company can pay these off early

Principal Amount

- This is the base amount that the company owes bondholders on the maturity date.
- This amount does not include interest

Maturity Date

- The date that the company (issuer) must repay the principal amount to the bondholders.

Lease Liabilities

- An agreement, in which, a business pays to use an asset
- *Examples:*
 - *Expensive Equipment*
 - *Vehicles*

Operating Lease

- An agreement that grants the use of an asset for a set duration, in exchange for regular payments
- Basically, renting out something from someone, such as equipment or a building.

Capital Lease

- A financed purchase of a long-term asset.
- Basically, rent-to-own
- Benefits of this: You can return it at any time

Debt Ratio

- Debt Ratio = Total Liabilities / Total Assets
 - Typically, the lower the number, the better, because that means Total Liabilities are less than Total Assets.
 - If Debt Ratio = 1, then Total Liabilities equals Total Assets
- Good Trend: Debt ratio becomes less and less over time.
- Bad Trend: Debt ratio gradually rises over time.

Stated Interest Rate

- The interest rate that determines the amount of cash interest the borrower pays and the investor receives each year.
- This rate does not change from year to year
- Printed on the bond

Market Interest Rate

- The interest rate investors are expecting to receive for similar bonds of equal risk at the current time.
- Basically, this is the average of the entire Market of bonds.
 - The Market of bonds is a pool of bonds of equal risk from all companies.