Other borrowed funds balance sheet

[Previously] notes and coins make up just three out of every hundred pounds in the economy today. Another 97 pounds exist as accounting entries on commercial banks' books. That means that a basic understanding of accounting and balance sheets is necessary in order to understand how money is made. There is no reason to be closed by [/first] accounting terminology; If you've ever borrowed money from a friend and left a note on the fridge to remind you to repay them, you've already done a half of the accounting needed to understand banking. In short, a bank's balance sheet has a record of everything it owns, is outstanding, or outstanding. The balance sheet comprises of three different parts-assets, liabilities and shareholder equity. One side of the balance sheet is the property property. The assets include everything that the bank owns or owes, from cash in its vault, to bank branch buildings in city centers, through government bonds and various financial products. The loan made by the bank usually accounts for the largest share of the bank's assets. (In fact, if you lend £100 to a friend, your friend's agreement to repay you can be entered as an asset on your own personal balance sheet.) You may find it counter-intuitive that a loan made by the bank is recorded as an asset; After all, once you borrow money, you no longer have the money, so how can you record it as an asset? However, when a loan is given, the borrower signs a contract committed to repay the full loan, plus interest. It is worth legally binding contracts as much as the borrower is committed to repaying (assuming they will repay), and can therefore be considered an asset in accounting terms. What about the other half of the liabilities balance sheet? This aspect is called the 'liabilities' of the bank. Liabilities are simply things that banks owe to other people, organisations or other banks. Contrary to the perception of most public, when you (as a bank customer) deposit the physical cash into the bank it becomes the property of the bank (an asset), and you lose your legal ownership over it. What you get in return is a promise (IOU) from the bank to pay you an amount equal to the amount deposited. This promise is recorded towards the liabilities of the balance sheet, and you see when you check your bank account balance. So 'money' in your bank account does not represent money in the bank's safe, it simply represents the bank's promise to repay you – either in cash or as a transfer to another account – when you ask it. The majority of a specific bank's liabilities are made up of 'deposits' that are owed to 'depositors'. These will usually be individuals, businesses or other organizations. Deposits in the bank can be divided into two broad groups: demand (or vision) deposits and time (or period) deposits. Demand deposit deposits that can be withdrawn or incurred immediately Customer asks, in other words 'on demand' or 'on sight'' Customer. These accounts are commonly known as checking current accounts (in the UK) or accounts (in the United States) or immediate access savings accounts. On the contrary, the time deposit notice is a period or fixed maturity date so that money cannot be withdrawn on demand. These accounts are commonly known as savings accounts. The last part of the balance sheet is equity. Equity is simply the difference between assets and liabilities, and represents what shareholders (owners) would be left to the bank if all assets were sold and income used to settle the bank's liabilities (i.e. payments from creditors). Equity is calculated by reducing liabilities from assets. A positive net equity indicates that the bank's assets are worth more than its liabilities. A negative equity on the other hand shows that its liabilities are worth more than its assets — in other words, that the bank is bankrupt. [sws_button class = size =sws_btn_medium aligned=href= target== _self label = Next: Part 3 - How do central banks make money template = sws_btn_bluetextcolor = bgcolor = brightness = sws_btn_glow] [/sws_button] [quote width=100%] For more information see: Where does the money come from? Written by a guide to the UK monetary and banking system: Josh Ryan-Collins, Tony Greenham, Richard Werner and Andrew Jackson [sws_button class=size=sws_btn_medium align=href=href= Target =_self Label = More Information and Buy Now Template = sws_btn_blue textcolor = bgcolor = bgcolorhover = brightness =sws_btn_glow] [/sws_button] [/bid] Current liabilities are usually dealt with with cash or other assets within a fiscal year or operating cycle, whichever period is long. Identify a current liability major takeaway Key point A current liability can be defined in one of two ways: (1) all liabilities of the business that have to be dealt with in cash within a firm's financial year or operating cycle, or (2) all liabilities of the business that have to be dealt with by current assets or by the creation of new current liabilities. General features of liabilities (1) are borrowed funds for use that must be repaid, (2) a duty for another party that involves payment of economic benefits, (3) a duty that forces the entity to another without avoiding settlement, and (4) a past transaction that forces the entity. Current liabilities are sometimes not current and are actually past reasons. For example, accounts payable are payable within 30 days and are usually paid within 30 days. However, they often run the last 30 days in certain situations. Key Conditions Obligation: A legal agreement stipulating specified payment or action; Documents with such agreements. Settlement: Delivery of goods by seller and payment for them by buyer, entered under previously agreed business or transaction or contract In financial accounting, a liability is defined as the liability of an entity arising from previous transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other consequences of future economic benefits. Liabilities are reported on the balance sheet, along with the property and the owner's equity. They are an important part of the basic accounting equation - assets = liabilities + owner's equity. An obligation is defined by one of the following features: borrowing money from individuals or banks to improve a business or personal income that is payable during a short or long period of time. A duty or responsibility for others that insist on future transfers or use of assets, provision of services, or other transactions giving economic benefits, on a specified date, on the event of a specified event, or settlement on demand. A duty or responsibility that forces the unit to another entity, with no option to avoid settlement. A transaction or event that has already taken place and forces the unit. The definition of current liability can be defined in one of two ways: (1) all liabilities of the business that have to be dealt with in cash within a firm's financial year or operating cycle, whatever term is long or (2) all liabilities of the business that are to be dealt with by current assets or by the creation of new current liabilities. Another important point is that current liabilities are sometimes not current and indeed the reasons are the last. For example, accounts payable are payable within 30 days and are usually paid within 30 days. However, they often run the last 30 days or 60 days in certain situations. Therefore, accounts reported on the balance sheet under current liabilities may include amounts that are more than 30 days. Current liability such as credit purchase can be documented with an invoice. : Current liabilities are outstanding loans as compared to the current accounting period and are not payable later. The account payable is money owed by a business to its suppliers and creditors and is generally shown on its balance sheet as a current liability. Distinguish between trade and expense payable and give examples of general accounts- Due terms Key takeaway key points are entered in A/P sub-ledger at the time of voucher being made for account payment payable. The voucher means that an invoice is approved for payment and entered into an outstanding, or open, general account or A/P subledge as liability because it has not been paid. Dues are often classified as trade dues, which are for the purchase of physical goods that are recorded in inventory; Another category is the expenditure payable or the purchase of goods or services that are spent. Common examples of expense dues are advertising, travel, entertainment, office supplies and utilities. These items are obtained through credits that suppliers provide to their customers by allowing them to pay After receiving or using the product or service. Key terms sub-account: A subset of the general account used in accounting. The subledger shows in detail for the share of accounting records such as property and equipment, prepaid expenses, etc. The account payable (A/P) is money owed by a business to its suppliers and creditors. This is generally shown on its balance sheet as a current liability. In addition to its disclosure on the balance sheet, the accounts payable are recorded in the A/P sub-ledger at the time of voucher of invoice for payment. The voucher, or confirmation, means that an invoice is approved for payment and entered into an outstanding, or open, general account or A/P sub-ledger as liability because it has not been paid. Dues are often classified as trade dues, or purchases of physical goods that are recorded in inventory. Another category is the expenses payable, or the purchase of goods or services that are incurred. Common examples of expense dues are advertising, travel, entertainment, office supplies and utilities. A/P provide its customers a form of credit by allowing suppliers to pay for a product or service after it has been received. Suppliers offer various payment terms for invoices. Invoices payable in 30 days are usually recorded as accounts payable. : In most businesses, accounts payable are a common type of current liability. Processing accounts payable A/P payment terms may include offering cash discounts to pay invoices within a specified day. For example, the 2/10 net 30 period means that the seller will deduct the invoice 2% from the total if the payment is made within 10 days and the invoice must be paid within 30 days. If the payment is delayed by 31 days, the full amount of the invoice is due and the previous charges may apply. Since the invoice is paid, the cash amount is recorded in the balance accounts deducted in the liability section and the assets section of the balance sheet. The A/P payment process begins as an invoice is received by the buyer and matches a packing (received) slip and purchase order. The Challan is paid when the three documents are matched. It is referred to as a three-way match. A three-way match can be changed to speed up payments. For example, a three-way match can only be limited to large value invoices, or the match is automatically approved if the quantity received is within a certain percentage of the authorized amount in the purchase order. A note payable is an obligation where one party makes an unconditional written promise to pay a specific amount of money to another. Explain how the payable note differs from other liabilities Key takeaway Key Point Note terms usually include the principal amount, interest rate (if applicable), the party involved, date, repayment terms (which may include interest), and maturity date. Negotiable word notes are extensively used in combination with mortgages Financing of real estate transactions. Notes are also issued along with commercial papers to provide capital to businesses. Note to report as current liability it must be payable within a period of 12 months or within the current operating cycle, whichever is longer. The amount payable may include the principal as well as the interest payment amount payable. Key Terms Negotiable: Able to transfer to another person with or without support. Default: Condition of failing to fulfill an obligation. Notes Payable: A promissory note due to company mortgage due notes: A written promise to repay a specified amount of interest over money at a specified rate and length of time to fulfill the promise, especially a promissory note for loans secured by real property is a negotiable instrument, where a party (manufacturer or issuer) makes under specific terms An unconditional promise in writing to pay the specified funds to the other (payee), either at a certain or determinant future time or on demand by the payee. The terms of the note usually include the principal amount, interest rate (if applicable), the party involved, date, repayment terms (which may include interest), and the maturity date. Sometimes, provisions are included relating to the rights of the payee in the event of default, which may include foreclosure of the property of the manufacturer. Demand pledge notes are notes that do not take a specific maturity date, but are payable on demand by the lender. Usually the lender will only give a few days' notice to the borrower before the payment is due. For loans between individuals, writing and signing a promissory note have often been instrumental for tax and record keeping purposes. 1926 Promissory Note from Bank of India.: Promissory Note payable in less than one year is intimated under the existing liabilities. Accounting payable for notes the negotiable pledging notes are extensively used in combination with mortgages in the financing of real estate transactions. Notes are also issued along with commercial papers to provide capital to businesses. When a note is signed and it becomes a binding agreement, notes payable to report the loan on the balance sheet can be entered. Note to report as current liability it must be payable within a period of 12 months or within the current operating cycle, whichever is longer. The amount payable may include the principal as well as the interest payment amount payable. If periodic payments are made during the period of note, the payment will reduce the balance of the notes payable. It is important not to confuse a note with a loan contract, which is a legally separate document from the note. This is non-negotiable, and does not include an unconditional promise to pay the clause. The share of long-term liabilities to be paid over the coming 12-month period is classified as current liabilities. A Long-Term Debt Key Takeaways Key Points Explaining The Current Portion Of Long-Term Liabilities Are Liabilities With A Reason That extends by more than one year, such as bonds payable with a maturity date of 10 years. Long-term liabilities are a way of showing the existence of debt that can be paid over a time period of more than one year. The share of long-term liabilities to be paid over the coming 12-month period is moved from the long-term liability section to the current liability section of the balance sheet. The current loan on the balance sheet is listed by the maturity date, in respect of the due date of other current liabilities. If the account payable in the current liability section (payable in 30 days) is account, the current balance of the loans payable (payable in 12 months) will be listed after the accounts payable. Key Terms Debentures: A certificate that certifies the amount of money owed to anyone; A certificate of indebtedness. Declaration Date: The day the Board of Directors announces its intention to pay dividend current liability: all liabilities of the business that are to be dealt with in cash within the financial year or the operating cycle of a given firm, whichever term is a long bond: proof of a long-term loan by which the bond issuer (borrower) is obliged to pay interest when payable. , and repay the principal at maturity, as specified on the face of the bond certificate. The rights of the holder are specified in the bond indenture, which contains the legal terms and conditions under which the bond was issued. Bonds are available in two forms: registered bonds and carrier bonds. Long-term liabilities are liabilities with a due date that extends over a year, such as notes payable that mature in 2 years. In accounting, long-term liabilities are shown on the right side of the balance sheet, along with the rest of the liability section, and their sources of wealth are generally tied to capital assets. Examples of long-term liabilities are debentures, bonds, mortgage loans and other bank loans (it should be noted that not all bank loans are long-term as not all are paid in more than one year. Also long-term liabilities are a way for a company to show loans that can be paid in more than a year over a time period, a sign that the company is able to obtain long-term financing. War bonds were used to support World War II.: Bonds are a form of long-term debt because they are usually maturing several years after their original issue date. Long-term debt payable in the current period the share of long-term liabilities to be paid over a period of 12 months is classified as current liabilities. Part of the current liability to be considered is moved from the Long Term Liabilities section to the Current Liabilities section. The status of where the loan should be disclosed is based on its maturity date in respect of due date of other current liabilities. For example, a loan for which two payments of USD 1,000 are due - one in the next 12 months and the other after that date - will be divided into a USD 1000 portion of the classified loan A current liability, and another USD 1000 as a long-term liability (note this example does not take into account any interest or discount effects, which may be required based on accounting rules that may apply). If there is an account already payable in the current liability section (balance amount which is usually paid in 30 days), the current portion of the loan payable (payable within 12 months) will be listed after the accounts payable. According to FASB 6, current obligations that an enterprise intends and are able to refinance with long-term loans have different reporting requirements. Explain why a company will refinance a debt key Takeaways key points can mention the replacement of an existing debt obligation, or current liability, under different conditions would be refinancing with a debt obligation. The most common type of loan refinancing occurs in the home mortgage market. Reasons for refinancing include achieving a better interest rate; to strengthen current debt; to free up cash and reduce periodic payments; and to reduce credit risk. Calculating the up-front, ongoing and potentially variable transaction costs of refinancing is an important part of the decision to refinance, as they can wipe out any savings arising from the new loan terms. Key Conditions Recourse to Loan: A loan which is not supported by collateral from the borrower. Current replacement cost: The amount that an entity must pay to replace an asset at the current time, according to its current value non-recourse loan: a secured loan (loan) that is secured from the pledge of collateral, is typically real property, but for which the borrower is not personally liable. If the borrower defaults, the lender/issuer can forfeit the bail, but the lender's recovery is limited to the bail. Closing charges: A variety of costs associated with the transaction (above and beyond the price of the property) and incurred by the buyer or seller. These costs are generally paid in future times, known as closing when the title switches hands. Refinance can refer to the replacement of the existing debt liability with debt liability under various conditions. The terms and conditions of refinancing can vary widely from the type of loan involved and are based on a number of economic factors such as: the underlying and approximate risk of an asset(s) supporting the loan, the financial stability of the lender, the credit availability, banking rules, the borrower's loan worthiness, and the net value of the borrower. If the replacement of debt is under the financial crisis, refinancing can be referred to as debt restructuring. The most common type of loan refinancing occurs in the home mortgage market. Deciding to refinance the loan can be a balancing act between the requested money and the interest rate charged on the money charged. : Refinance loan should be finalised and replaced for old loan in approved new loan terms and liability section before reporting it. cause Loans A loan or other type of loan can be refinanced for various reasons: to take advantage of a better interest rate or loan terms (a lower monthly payment or a short term) to strengthen other loan(s) into a loan (interest rate difference and a potentially long/short-term contingent on charges) to reduce monthly repayment amounts (often for long periods, Interest rate differentials and contingent on fees) to reduce or change risk (e.g. switching from a variable rate to a fixed rate loan) to cash-free (often for a longer period, interest rate differential and contingent on charges) calculate the risk of refinancing loans up front , ongoing, and potential variables of refinancing are an important part of the decision on transaction costs or not to refinance. If the refinance loan reduces monthly repayments or consolidates other loans for the same repayment, it will result in a large total interest cost on the life of the loan and as a result the borrower will remain in the loan for several more years. Most fixed-term loans are subject to closing fees and points and are penalty clauses that begin with early repayment of the loan, in part or in full. Penalty clauses apply only to loans paid before maturity and include payment of penalty fee. The above items are considered transaction fees on refinancing. These charges must be calculated before substituting the old loan for a new one, as they can wipe out any savings generated through refinancing. In some jurisdictions, refinancing mortgage loans are considered prop loans, meaning that the borrower is liable in terms of default, while UN refinancing mortgages are non-recourse loans. Dividends are paid by a corporation to its shareholders; The payment amount is reported as dividend payable on the balance sheet. Explain what a dividend is and how it's reported on financial statements Key Takeaways key points are two ways of distributing cash to shareholders: stock repurchase (reported as Treasury stock in the equity section of the owner of the balance sheet) and dividends (liability). A shareholder receives dividend in proportion to the shares of the owner by them. He must also be a shareholder on a record date to be eligible for dividend. The dividend amount per share is multiplied by the number of shares declared and this result is debited for retained income and deposited in the dividend payable. Dividend payable is recorded as a current liability on the company's books when the dividend is declared. Key Conditions Treasury Stock: A Treasury or Reseres share is the one which is purchased back by the issuing company, reducing the amount of stocks outstanding on the open market (including open market insider holdings). Retained income: Retained income is the part of net income that is maintained by the corporation instead of distributing it to its owners as dividends. Dividends are part of corporate Shareholders paid. When a corporation earns a profit or surplus, that money can be kept for two uses: it can either be re-invested in the business (called retained income), or it can be distributed to shareholders in the form of dividends. There are two ways to distribute cash to shareholders: share repurchase (reported as treasury stock in the equity section of the owner of the balance sheet) or dividends. Many corporations maintain a share of their income and pay the remaining income as a dividend. Dividends are allocated as a fixed amount per share. Therefore, a shareholder receives a dividend in proportion to the shares he owns — for example, if the shareholder owns Y 100 shares when the company Z declares a dividend of 1.00 U.S. dollars per share. Then shareholder Y will receive a dividend of USD 100 for its shares. Dividends are considered a form of passive income for investors.: Companies that declare dividends must record an obligation for the amount of dividend that will be paid to investors. For the company, a dividend payment is not an expense, but a post-tax profits split between shareholders. On the date of the dividend announcement, a company's board of directors announced its intention to pay dividends to shareholders on record as a fixed date (record date). The dividend amount per share is multiplied by the number of outstanding shares and this result is debited for retained income and deposited in the dividend payable. Dividends payable are recorded as a current liability on the company's books; The journal entry confirms that dividend payments are now outstanding on stockholders. On the date of declaration, the board announces the record date and the date of payment; The date of payment is the date when the money is sent to shareholders and the dividend payable for the payment amount is reduced. Deferred revenue is recognized when cash advances are received for a product for a service before delivery or before rendering. Explain the purpose of classifying transactions as either deferred or unearned revenue key takeaway Key point in a deferred item, accrual accounting, any account where a revenue or expense is entered as an obligation or asset, is not realized until a future date (accounting period) or until the transaction is completed. Unearned revenue is recorded as the income process is not complete on receipt of cash, hence the cash is recorded as liability for products or services due to the buyer. An example of deferred revenue is the money received for a 12-month magazine subscription. The income on membership relates to future benefits (magazines) for the buyer that he will receive over the course of 12 months. Key Conditions Unearned Revenue: Money received for goods or services that have not yet been spent: In accounting, an expense spent money or costs spent in businesses' efforts to generate revenue revenue: the income that a company receives from its normal business Usually by selling goods and services to customers. Accrual accounting is a deferred item, any account where a revenue or expense, which has been recorded as a liability or asset, is not realized until a future date (accounting period) or until the transaction is completed. Examples of deferred items include annuities, fees, taxes, income, etc. If the deferred item is related to an expense (cash has been paid), it is made as an asset on the balance sheet. If the deferred commodity is related to revenue (cash is received), it is done as a liability. A deferred revenue is specifically recognized when a service receives cash advances for a product before delivery or before rendering. In these cases, the income process is not complete upon receipt of cash, so cash is recorded as liability for products or services due to the buyer. Receipts for magazine subscriptions are a type of deferred revenue. : A deferred revenue item involves cash received before the income process is completed. An example of deferred revenue accounting for deferred and unearned revenue is the money received for a 12-month magazine subscription. The income on membership relates to future benefits (magazines) for the buyer that he will receive over the course of 12 months. Since the seller has received full payment for all 12 issues to be distributed during the year, the payment is recorded as unearned or deferred revenue in the current liability section of the balance sheet. If the cash received is for benefits that extend the current accounting period, a long-term liability will instead be recorded. As each magazine is distributed to the buyer (the income process is now completed), the applicable earned share of the original payment is transferred from the liability account to the subscription revenue, which is stated on the income statement. Other current liabilities reported on the balance sheet are sales tax, income tax, payroll and customer advance (deferred revenue). The major takeaway key point is a sales and tax paid to the governing body by a vendor for the sale of certain goods and services using. An income tax is a tax levied on the income of individuals or businesses (corporations or other legal entities). Wages and salaries in cash consist of wages or salaries payable at regular weekly, monthly or other intervals. This includes results and piecemeal payments as well as allowances such as those working overtime. Deferred revenue, in accrual accounting, is the money received for goods or services that have not yet been distributed and revenue on sale has not been earned. Main Terms Capital Gains: A profit that results from the nature of capital assets, such as stocks, bonds or real estate, where the amount felt at the temperament exceeds the purchase price. The limit or area within which the authorization deferred tax can be used: a time difference arises when an item of income or expenditure is recognised for tax purposes, but not for accounting purposes, or vice versa, creating an asset or liability. Sales and use are tax paid by a seller to the Governing Body for the sale of certain goods and services. Tax is paid by the seller from time to time and varies depending on the jurisdiction. Usually laws allow the seller to collect (or require) funds for tax from the consumer at the point of purchase. Laws may allow sellers to item tax separately from the price of goods or services, or may need to include it in price (tax-inclusive). The tax amount is usually calculated by applying the percentage rate to the taxable value of the sale. The sales tax payable can be earned by debiting the sales tax expense on a monthly basis and depositing the sales tax payable for the tax amount applicable to the monthly sale. Sales tax payable account is reported in the current liability section of the balance sheet until the tax is paid. A company can bear various types of tax liabilities. : Taxes, employee salaries and customer advances that will be payable or earned within a period of 12 months can be reported as current liabilities. Income tax payable is a tax levied on the income of individuals or businesses (corporations or other legal entities). Corporate tax refers to the direct tax levied on net income made by companies or associations and often involves the capital gains of a company. Net income is generally considered to be gross revenue zero expenditure. Expenses may vary; For example, corporate expenses related to fixed assets are usually deducted in full in their useful lives using percentage rates based on the class of assets. Accounting principles and tax rules on the recognition of expenses and revenue will sometimes vary, giving rise to book-tax differences. If the book-tax gap is made for more than a year, it is referred to as deferred tax. Future assets and liabilities created by a deferred tax are reported on the balance sheet. Income tax payable can be earned by debiting the income tax expenses and depositing the income tax payable for outstanding tax; The due is disclosed in the current liability section until the tax is paid. Salaries and wages payable wages and salaries in cash consist of regular weekly, monthly, or other intervals of wages or salaries payable, including payments by result and laminate payments, as well as allowances such as: working overtime; amounts paid to employees away from work for a short period (for example, on leave); ad hoc bonuses and similar payments; Commissions, gratuity and suggestions received by the employees. Customer upfront (deferred revenue) in deferred revenue, accrual accounting, is the money received for goods or services that have not yet been delivered and revenue on sale has not been earned. in accordance with Recognition principle, deferred amount is recorded as liability until delivery, at which time it is converted into revenue. An example of a specific customer advance is the receipt of the annual maintenance contract fee, where the entire contract is paid in front. A receipt of $12,000 for the annual maintenance contract is initially recorded as deferred revenue. As the maintenance service is provided and a portion of the fee is earned, $1,000 is recognized from time to time every month as revenue and deferred revenue account is reduced. Less.