Questions

[Finance](#)

Finance and Accounting Finance and Accounting Question Current liabilities are the total outstanding amount of debts in a firmwithin a fiscal year. Businesses have to record this liability in their balance sheets. Examples of this liability encompass the short-term debts, accounts payable and accumulated liabilities. Long-term liabilities are the total amount of debts that are due after one fiscal year. They are also recorded in the balance after current liabilities. Examples of such liability include the mortgage payable, postponed income taxes, and the notes billed. In most cases, the values of the long-term liabilities are the same as the future cash flow (Kimmel, Weygandt & Kieso, 2010).

Contingent liability is the company's potential debts that arise from the past transactions. Company's can only verify the existence of this liability by the occurrence of the expected event that the business cannot control. This liability should not be incorporated in the balance sheet. An example of this liability includes the product warranty. If a company promises to replace good with defects without charging the customers, the amount of the returned goods will be contingent liability. It is vital for businesses to distinguish the liabilities. This is because it will make it simple for investors and creditors to evaluate the risks the liabilities caused in the business in the future (Porter & Norton, 2011).

Question 2

The Time Value of Money is the sum of interest a certain amount of money earns within a definite time. According to the concept of time value of money, a certain amount of money one has today has more value than the same amount one expects to get in the future. This is because one can invest the money he has today and earn interests (Peavler, 2012). It is vital for accountants to comprehend the current and the future value concept. This is because it enables them to know the precise worth of the current business money. Furthermore, the concept enables accountants to know the value of the money the business is expecting (Lieuallen, 2008). The concept also enables them to differentiate between the values of savings opportunities that offer returns at varied durations. The accountants should also understand the concepts to advice the business on the amount of money the business should invest by calculating the values of the investments (Storer &Usinger, 2008).

The present and future value concepts are applicable to business decisions in various ways. For instance, it is applicable in the business decision regarding the amount of the money the business should put in the saving accounts. The concepts can also help in calculating and reducing the opportunity costs in money usage (Franknlin, 2012). This enables the business to know whether to invest the money in saving accounts or using in other ways. For instance, a business can decide to use 200 dollars instead of putting the money in the saving accounts that would earn an interest of about 10 percent. This means that the business has forfeited the future benefits of saving the money. Before making this decision, the business should ensure that using the money would result into greater opportunity cost compared to saving the money.

References

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