

## **13. LIABILITIES**

### **13.1 Description**

A liability is a present obligation of the NPO arising from past transactions or events, the settlement of which is expected to result in an outflow of resources from the organization embodying economic benefits or service potential. Liabilities may include: amounts payable to suppliers for the purchase of goods or services; accounts withheld from employees or other parties for taxes and for contributions to the SSS or to pension funds; accruals of expenses; deposit and advances from suppliers, officers; debt obligations for borrowed funds.

Recognition and treatment of the above-mentioned forms liabilities in an NPO is very similar to that of the business organizations. However, a very specific type of liability in an NPO arises from the recognition of a grant received, or portion thereof, that is intended for future period/s. Other specific types of liability are “pass-through accounts” or “funds-held-in-trust”.

Because these two types of liability are peculiar to NPOs, they are discussed separately below.

### **13.2 Deferred Grant**

Deferred grants represent support received that is applicable to succeeding years. The funds are to be used only for the specific projects and in compliance with the terms and conditions of the support. Under this category, unused funds at the end of the project are returned to the donors.

Since this is related directly to the accounting of grant received, discussions and examples are “deferred” and presented under Chapter 16.1 – Grants and Donations.

### **13.3 Accounts Payable**

Accounts payable represent amounts that are owed by the NPO to individuals or other organizations because of services provided or goods purchased from these entities.

For example, a supplier delivered office supplies and equipment to the NPO accompanied by a billing statement with specific terms of payment and delivery receipt. After the NPO accepted the goods, the NPO prepares these entries:

Date	Office supplies	10,000	
	Office equipment	50,000	
	Accounts payable - AAA		60,000

*To record purchase of office supplies  
and equipment to be paid after 30 days.*

After 30 days, the NPO paid AAA for the goods received

Date	Accounts payable - AAA	60,000	
	Cash		60,000

*To record payment of AR to AAA  
per billing statement number \_\_\_\_.*

### 13.4 Other Liabilities

Other liabilities such as collections of employee contributions to SSS, mutual funds, and taxes from employee compensation which are later on remitted to the respective agencies are treated as liabilities upon collection or deduction from the payroll. These are subsequently closed upon paying or remitting the amounts.

In NPOs, amounts refundable to employees arising from the liquidation of cash advances, i.e., actual expense is greater than the original cash advance amount, also fall under this category.

These liabilities are credited upon incurrence and debited when paid. Sample entries related to this type have been presented in Chapter 9.4.

### 13.5 Long-term Liabilities

Long-term liabilities are obligations of the NPO to be paid over several years or at least after more than one year. NPOs usually incur these when there are cash flow problems such as delayed remittance from donors. Long-term liabilities may also be incurred when the NPO is engaged in a long-term project, such as construction of a building, in which cash inflows from sources or donors are expected to be received over several years. The NPO borrows funds to finance the construction and repay these from the expected cash inflows.

**Pro-forma Entries**

## Upon Incurrence

Cash (or other form of asset received)	500,000	
Long-term loans payable		500,000

*To record loan received for the \_\_\_\_\_*

Re-classifying the Short-term Portion of the Loan at Period-End. Periodically, the maturing portion of the loan is re-classified under Current Liabilities.

Long-term loans payable	100,000	
Loans payable – Current		100,000

*To recognize the current portion  
of loans payable to \_\_\_\_\_*

Interest expense related to the loans should also be recognized at period-end.

Interest expense	10,000	
Interest payable		10,000

*To recognize the interest expense  
on the loans to \_\_\_\_\_ for the period.*

## Payment of Maturing Portion of the Principal and the Interest

Loans payable – Current	100,000	
Interest payable	10,000	
Cash		110,000

*To record partial payment of loans  
to \_\_\_\_\_ and payment of interest payable.*