



# GEORGIA

PEACH STATE PATHWAYS

Career, Technical, & Agricultural Education

## BUSINESS & COMPUTER SCIENCE

**PATHWAY:** Financial Management - Accounting

**COURSE:** Principles of Accounting II

**UNIT 3:** Liabilities



## INTRODUCTION

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**Annotation:**

This unit expands a student's knowledge of current and long-term liabilities, including the topics of notes payable, mortgage payable, and bonds payable.

**Grade(s):**

|   |                  |
|---|------------------|
|   | 9 <sup>th</sup>  |
| X | 10 <sup>th</sup> |
| X | 11 <sup>th</sup> |
| X | 12 <sup>th</sup> |

**Time:** 20 hours

**Author:** Dr. Marilyn K. Skinner

**Additional Author(s):**

**Students with Disabilities:**

For students with disabilities, the instructor should refer to the student's IEP to be sure that the accommodations specified are being provided. Instructors should also familiarize themselves with the provisions of Behavior Intervention Plans that may be part of a student's IEP. Frequent consultation with a student's special education instructor will be beneficial in providing appropriate differentiation.



## FOCUS STANDARDS

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### **GPS Focus Standards:**

**BCS-PAII-3. Students will use Generally Accepted Accounting Principles (GAAP) to determine the value of liabilities.**

- a. Differentiate current and long-term liabilities and analyze their effect on financial statements.
- b. Explain the purpose of notes payable; establishes, calculates and maintains records for payables and related interest.
- c. Apply GAAP and techniques to analyze and record the issuance, amortization, and retirement of bonds.
- d. Analyze and record mortgage and lease obligations.
- e. Use manual and computerized accounting systems for liabilities.

### **GPS Academic Standards:**

*ELA11RC3. The student acquires new vocabulary in each content area and uses it correctly.*

*ELA11C1. The student demonstrates understanding and control of the rules of the English language, realizing that usage involves the appropriate application of conventions and grammar in both written and spoken formats.*

*ELA11SLV1. The student participates in student-to-teacher, student-to-student, and group verbal interactions.*

*MM3P1. Students will solve problems (using appropriate technology).*

*MM3P4. Students will make connections among mathematical ideas and to other disciplines.*

### **National / Local Standards / Industry / ISTE:**

Accounting II: Apply generally accepted accounting principles to determine the value of assets, liabilities, and owner's equity.



## UNDERSTANDINGS & GOALS

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### **Enduring Understandings:**

- While debt is useful, even necessary, for both individuals and businesses, it must be carefully controlled to prevent financial problems in the future.

### **Essential Questions:**

- What effect do current liabilities have on a company's financial statements?
- How are notes payables recorded in the financial records?
- When companies sell bonds to raise money, how are the related transactions recorded?

### **Knowledge from this Unit:**

Students will know:

- The difference between an interest bearing and non-interest bearing notes payable
- Which liability accounts need to be adjusted at the end of the financial period
- The difference between a mortgage and other long-term notes payable
- The advantages and disadvantages of issuing bonds
- How companies save to redeem bonds
- Why bonds are sold at a discount or a premium

### **Skills from this Unit:**

Students will be able to:

- Record interest expense for both interest bearing and non-interest bearing loans
- Record end-of-period adjustments for current liabilities
- Record issuance and payment of mortgage notes including interest expense
- Record the issuance, amortization, and retirement of bonds payable as well as the interest expense associated with a bond
- Record the proper handling of a Bond Sinking Fund



## ASSESSMENT(S)

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### Assessment Method Type:

- ☐ Pre-test
- ☒ Objective assessment - multiple-choice, true- false, etc.
  - ☐ Quizzes/Tests
  - ☒ Unit test
- ☐ Group project
- ☐ Individual project
- ☒ Self-assessment - May include practice quizzes, games, simulations, checklists, etc.
  - ☐ Self-check rubrics
  - ☐ Self-check during writing/planning process
  - ☐ Journal reflections on concepts, personal experiences and impact on one's life
  - ☐ Reflect on evaluations of work from teachers, business partners, and competition judges
  - ☐ Academic prompts
  - ☒ Practice quizzes/tests
- ☐ Subjective assessment/Informal observations
  - ☐ Essay tests
  - ☐ Observe students working with partners
  - ☐ Observe students role playing
- ☐ Peer-assessment
  - ☐ Peer editing & commentary of products/projects/presentations using rubrics
  - ☐ Peer editing and/or critiquing
- ☒ Dialogue and Discussion
  - ☐ Student/teacher conferences
  - ☒ Partner and small group discussions
  - ☒ Whole group discussions
  - ☐ Interaction with/feedback from community members/speakers and business partners
- ☐ Constructed Responses
  - ☐ Chart good reading/writing/listening/speaking habits
  - ☐ Application of skills to real-life situations/scenarios
- ☐ Post-test

### Assessment(s) Title:

Notes Receivable and Notes Payable Test

### Assessment(s) Description/Directions:

The test requires students to record notes receivable/ payable for both parties in the transaction.

### Attachments for Assessment(s):

Notes Receivable and Notes Payable Test



# LEARNING EXPERIENCES

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## Sequence of Instruction

### BCS-PAII-3

#### Lesson 1 – What effect do current liabilities have on a company's financial statements?

- **Define Vocabulary**
  - **Current Liabilities** – debts or obligations a business hopes to pay within a year
  - **Dividend Payable** – distribution of earnings of a corporation to the stockholders that have been declared by the Board of Directors but not yet paid
  - **Net amount method** – assumes a business always takes cash discounts
  - **Unearned Revenue** – revenue received in advance but not yet earned
- **Introduce the concepts** – Review with students the adjusting entries done at the end of a financial period. Discuss which entries affect current liabilities: Federal Income Tax Payable, Payroll Liabilities, Salaries Payable, Unearned Revenue, Interest Payable. Demonstrate the journal entries along with the calculations for the adjusting entries.
- **Supplemental Activities** – Use the crossword puzzles found at <http://www.accountingcrosswords.com/adjusting-entries.php> to help students review adjusting entries. Puzzles are in a downloadable PDF format.
- **Extension Activity:** Have students use the internet to research this question: Why are investors interested in the amount of current liabilities a company has. Possible resources include Motley Fool, About.Com Investing for Beginners, eHow.com, and Wise Geek. They should write a paper in proper MLA style that answers the question.
- **Assessment** – Teachers should use a self made assessment or one provided by the textbook.

#### Lesson 2 - How are notes payables recorded in the financial records?

- **Define Vocabulary**
  - **Accrued expense** – expense incurred in one accounting period but not paid until a later accounting period
  - **Discounted note payable** – interest is paid up front when the money is borrowed as the bank deducts interest from the face value of the note and gives the borrower the difference
  - **Face Value**
    - Interest bearing note – face value equals principal
  - **Mortgage** – a long-term note payable backed by real property.
    - Noninterest-bearing note – face value equals maturity value
  - **Note payable** – a promissory note issued by a person or business
- **Introduce the concepts** of interest bearing and noninterest bearing notes payable using the text. Discuss the differences between a note payable and a mortgage payable. Remind students that previously they had studied how to record notes receivable for a

company. Explain that this is the other side of the entry for the company that is doing the borrowing.

- **Supplemental activity** – Once students are comfortable with making entries for notes payable, give them problems and have them record the entries for both the note receivable and the note payable.
- **Extension activity** – Have students research the requirements of negotiability. Allow them to report on their findings by choosing to do a report, a PowerPoint, or a poster.
- **Assessment** – Teacher prepared test or from the text.

### **Lesson 3 - When companies sell bonds to raise money, how are the related transactions recorded?**

- **Define Vocabulary**
  - **Amortize** – writing off a portion of the bonds premium or discount against the interest expense account.
  - **Bond** – a long-term promissory note issued by a corporation or a government.
  - **Bond certificate** – document that is proof of a corporation's debt
  - **Bond indenture** – a written document between the issuer of a bond and their bondholder, usually expressing interest rate, maturity date, convertibility, and other terms
  - **Bond issue** – bonds issued at one time
  - **Carrying value** – face value of bonds plus the premium or less the discount
  - **Contract interest rate** – interest rate stated on the bond
  - **Coupon bonds** – interest coupons are attached to the bond certificate
  - **Discount** – selling bonds at less than face value
  - **Leverage** – advantage achieved by a corporation when it is able to invest bond money received at a greater return than the interest it must pay.
  - **Market interest rate** – rate the borrower is willing to pay
  - **Premium** – selling bonds at more than face value
  - **Registered bonds** – corporation records the names of the owners
  - **Secured bonds** – bonds backed by company assets
  - **Serial bonds** – bonds with staggered maturity dates
  - **Term bonds** – all bonds mature at the same time
  - **Underwriter** – investment firm that buys bonds from the issuing company and sells them to the public
  - **Unsecured bonds** – bonds not backed by company assets
- **Introduce Bonds** – using the text and the PowerPoint provided discuss how bonds work. Explain why a corporation would issue bonds rather than sell more stock. Have students list the advantages and disadvantages of bonds. Discuss why bonds are sold at a discount or at a premium. Demonstrate the entries for bonds sold at face value, premium, and discount. Demonstrate the entries for amortizing the discount or premium. Discuss how corporations prepare to pay back bonds through the use of a bond sinking fund. Demonstrate the appropriate entries for the fund.

- **Supplemental Activities-**
  - How Bonds Work Crossword Puzzle
  - Using the pro/con graphic organizer and the Stock vs. Bonds activity have students determine why a company would issue bonds rather than sell more stock.
- **Extension Activity** – Have students investigate information on current bonds outstanding in your city or county (maybe use a city/county official as a guest speaker to come in and talk about municipal bonds). Have students determine the amount of bonds outstanding, the contract rate, and the bond rating. Also, they should note what the bond money was used for and when it has to be repaid.

#### **Attachments for Learning Experiences:**

How Bonds Work PowerPoint  
 How Bonds Work Crossword Puzzle and Key  
 Stock vs. Bonds Activity  
 Pro Con Scale

#### **Notes & Reflections:**

Suggestions for making the discussion of bonds interactive. On a piece of poster board create a classroom bond with a 6% contract rate. Assign several students to be brokers in charge of the classroom bond. Give other students an interest rate above or below 6% and let them negotiate with the brokers for the purchase of the classroom bond (i.e. Determine what they would actually have to pay for it). Debrief and consider what kind of things might determine the market price for the bond.



## **CULMINATING PERFORMANCE TASK** (Optional)

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#### **Culminating Unit Performance Task Title:**

Liabilities Mini Practice set

#### **Culminating Unit Performance Task Description/Directions/Differentiated Instruction:**

Use a text based mini practice set that can be done manually or by computer. Have students work in pairs to complete the set.

#### **Attachments for Culminating Performance Task:**



## UNIT RESOURCES

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### Web Resources:

#### Money 101

<http://money.cnn.com/magazines/moneymag/money101/lesson7>

#### Take a Risk on Investor Island Part I

<http://www.econedlink.com/lessons/index.php?lesson=NN554>

#### Take a Risk on Investor Island Part II

<http://www.econedlink.com/lessons/index.php?lesson=NN555>

#### Take a Risk on Investor Island Part III

<http://www.econedlink.com/lessons/index.php?lesson=NN577>

#### Accounting Coach

<http://blog.accountingcoach.com/current-liabilities/>

#### Long-term liabilities

<http://www.cliffsnotes.com/WileyCDA/CliffsReviewTopic/LongTerm-Liabilities-Defined.topicArticleId-21248,articleId-21178.html>

#### Adjusting Entries

<http://www.college-cram.com/study/accounting/presentations/35>

#### How Bonds Work

<http://money.howstuffworks.com/personal-finance/budgeting/bonds.htm>

#### How Bonds Work – Very Cute Short Video

<http://www.livevideo.com/video/8E406C6632EF478DA77295663CC5FBD0/how-do-bonds-work-really.aspx>

#### How Stocks and Bonds Work Together – investor video

<http://www.learningmarkets.com/index.php/200904211974/Stocks/Investing-Basics/understanding-how-stocks-and-bonds-work-together.html>

### Attachment(s):

### Materials & Equipment:

Computer, LCD Projector, accounting software, internet access, poster board.

### What 21st Century Technology was used in this unit:

|                                     |                         |                                     |                    |                                     |                                 |
|-------------------------------------|-------------------------|-------------------------------------|--------------------|-------------------------------------|---------------------------------|
| <input checked="" type="checkbox"/> | Slide Show Software     | <input type="checkbox"/>            | Graphing Software  | <input type="checkbox"/>            | Audio File(s)                   |
| <input type="checkbox"/>            | Interactive Whiteboard  | <input checked="" type="checkbox"/> | Calculator         | <input checked="" type="checkbox"/> | Graphic Organizer               |
| <input type="checkbox"/>            | Student Response System | <input type="checkbox"/>            | Desktop Publishing | <input type="checkbox"/>            | Image File(s)                   |
| <input type="checkbox"/>            | Web Design Software     | <input type="checkbox"/>            | Blog               | <input checked="" type="checkbox"/> | Video                           |
| <input type="checkbox"/>            | Animation Software      | <input type="checkbox"/>            | Wiki               | <input type="checkbox"/>            | Electronic Game or Puzzle Maker |
| <input type="checkbox"/>            | Email                   | <input checked="" type="checkbox"/> | Website            |                                     |                                 |

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