5. Miscellaneous Accounting Components

5.1 Investments

5.2 Contingent Liabilities

5.3 Summary

5.1 Investments

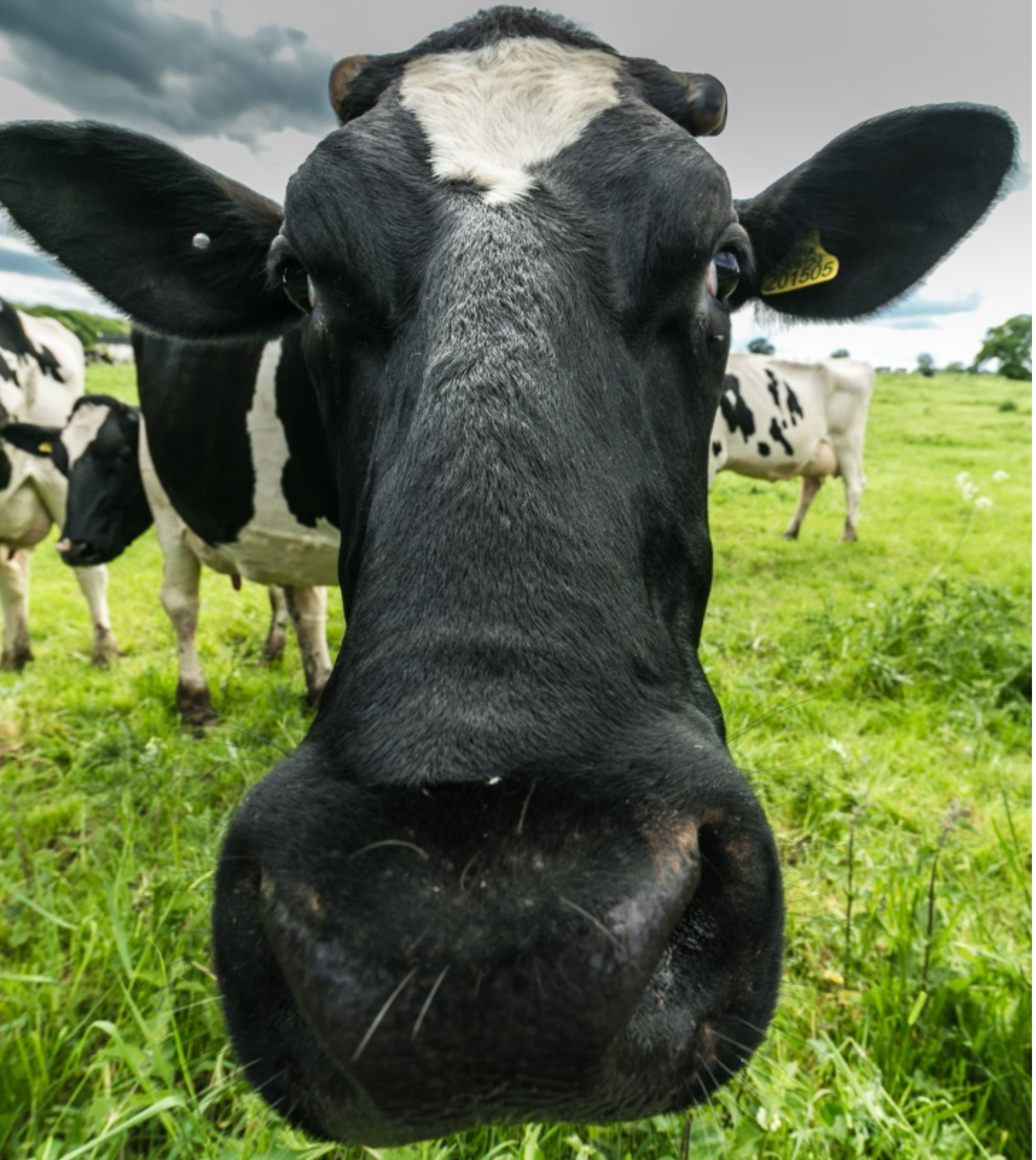
INVESTMENT

- **Investments are uses of a business’s money to buy assets.**

- **Businesses also possess the option to sell assets**

- One type of Investment:
  - Long-term investments

- Another term representing Long-term:
  - Held-to-Maturity investments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- **Another type of Investment**
  - **Short-term investments**

- **These are also assets, and they may include:**

1. Certificates of deposit (CD)

2. Stock

- **An investment is any source that can change into cash within, or slightly over one year**

- **Trading Investments**
- **Available-for-Sale Investments**

-4.50
4,294,800
14,405
1,916
38.00
+0.70
4,248,800
13,360
0.00
69,707
37.47
3.38
4,232,200
34,665
16.7
+2.45
21,306
231.91
4,218,000
29,687
5.05
+1.00
19,106
231.91
4,140,000
29,687
4.6
-0.86
19,106
15.61
4,140,000
1,352
4.6
-0.86
13,462
4,029,900
19,814
3.26
-2.40
91,360
4,009,000
1,342

5.2 Contingent Liabilities

- **A Contingent Liability is a potential, yet unknown cost, that may, or may not incur.**

- **There are three categories of Contingent Liabilities**

- **High Probability:**


PROPERTY

- **Medium Probability:**

- **Low Probability:**

- **Important Example:**

- Your client sold a faulty product

- Had significant warranty claims as a result.


HELP

- Its OK= Low Probability
- If your client has:
  - Isolated the bad product
  - Recalled it
  - Settled the related warranty claims

- **Chances are LOW for dealing with similar warranty issues on that product in the future.**

5.3 Summary

- First, lets talk…..:
  - Contingent Liabilities

A Contingent Liability is a:

- 1. potential, yet;
- 2. unknown cost, that;
- 3. may, or may not incur

- **These particular liabilities are not recorded in a company's accounts, or shown in the balance sheet, unless:**

- **The scenario presents these liabilities as both probable, and reasonably estimable as 'contingency‘, or;**

- **deemed 'worst case' financial outcome.**

Three examples of contingent liabilities include:

1. Warranty of a company's products
2. The guarantee of another party's loan, and;
3. Lawsuits filed against a company

- **There are three categories of Contingent Liabilities**

High Probability: the costs can be estimated and loss must be disclosed and described in financial statements.

High Probability example:

- Property
  - Mortgage, home improvement, a catastrophe, or a sale will deem allow for a cost to be estimated, and the loss 100% is documented

Medium Probability: costs must be disclosed in statements if the contingency is probable, yet not necessarily probable.

Medium Probability example:

- Lawsuits
  - Sometimes a contingent liability can arise suddenly, catching both management and investors by surprise.

- The billions in liabilities for BP related to the Deep Horizon oil spill and Volkswagen's massive liabilities from its 2015 emissions scandal are two such scenarios

Low Probability: No reporting required due to low likelihood of cost being triggered.

Low Probability example:

- Your client sold a faulty product; Had significant warranty claims as a result.
- Its OK= Low Probability
- <u>If your client has:</u>
  - isolated the bad product
  - recalled it
  - settled the related warranty claims

Chances are LOW for dealing with similar warranty issues on that product in the future.