



# **SNS COLLEGE OF TECHNOLOGY**

## **An Autonomous Institution**

### **Coimbatore-35**



Accredited by NBA – AICTE and Accredited by NAAC – UGC with ‘A+’ Grade  
Approved by AICTE, New Delhi & Affiliated to Anna University, Chennai

## **Department of Automobile Engineering**

### **III YEAR/ VI SEMESTER**

19MEE301 / Engineering Economics and cost Analysis

#### **UNIT-4**

##### **Debt:**

Debt is money a company has borrowed and must pay back to the lender, often with interest, or money that is owed for goods and services already received by a company. In accounting, debt is classified as either short-term debt or long-term debt.

##### **Short-Term Debt**

An account shown in the current liabilities portion of a company's balance sheet. This account is comprised of any debt incurred by a company that is due within one year. The debt in this account is usually made up of short-term bank loans taken out by a company.

The value of this account is very important when determining a company's financial health. If the account is larger than the company's cash and cash equivalents, this suggests that the company may be in poor financial health and does not have enough cash to pay off its short-term debts. Although short-term debts are due within a year, there may be a portion of the long-term debt included in this account. This portion pertains to payments that must be made on any long-term debt throughout the year.

##### **Long-Term Debt**

Long-term debt consists of loans and financial obligations lasting over one year. Long-term debt for a company would include any financing or leasing obligations

that are to come due in a greater than 12-month period. Long-term debt also applies to governments: nations can also have long-term debt.

Financial and leasing obligations, also called long-term liabilities, or fixed liabilities, would include company bond issues or long-term leases that have been capitalized on a firm's balance sheet. Often, a portion of these long-term liabilities must be paid within the year; these are categorized as current liabilities, and are also documented on the balance sheet. The balance sheet can be used to track the company's debt and profitability.

On a balance sheet, the company's debts are categorized as either financial liabilities or operating liabilities. Financial liabilities refer to debts owed to investors or stockholders; these include bonds and notes payable. Operating liabilities refer to the leases or unsettled payments incurred in order to maintain facilities and services for the company. These include everything from rented building