

## Troubled Debt Restructuring Problem

At January 1, 2003, Jones Furniture Company, Inc., was indebted to First National Bank under a \$20,000,000, 10% unsecured note. The note was signed January 1, 1997, and was due December 31, 2006. Annual interest was last paid on December 31, 2001. Jones Furniture Company was experiencing severe financial difficulties and negotiated a restructuring of the term of the debt agreement.

### **Required:**

Prepare in good form *all* journal entries by Jones Furniture Company, Inc., to record the restructuring and any remaining transactions related to the debt under each of the independent circumstances below:

- Case A. First National bank agreed to settle the debt in exchange for land having a fair market value of \$16,000,000 but carried on Jones' books at \$13,000,000.
- Case B. First National Bank agreed to (a) forgive the interest accrued from last year, (b) reduced the remaining four interest payments to \$1,000,000 each, and (c) reduce the principal to \$15,000,000.
- Case C. First National Bank agreed to defer all payments (including accrued interest) until the maturity date and accept \$27,775,000 at that time in settlement of the debt.