

**Illustrations of FASB No. 15 (and FASB No. 114 for the creditor)
Accounting for Troubled Debt Restructurings**

- Case 1. X Company owes Y Company a \$10,000, 10% stated interest rate, note maturing in three years. Because of X's financial difficulties, the debt is restructured whereby the maturity value is reduced to \$9,000 with the periodic interest payments remaining at \$1,000. Interest payments continue to be due at the end of each year.
- Case 2. Edwards Company owes Bell Company a \$40,000, 10% note due on December 31, 2003. Interest is paid annually on December 31. On January 3, 2000, Edwards notifies Bell Company that it is experiencing financial difficulty and may not be able to fulfill its obligations under the note. In order to minimize any potential loss due to Edward's financial difficulty, Bell Company agrees to a restructuring of the debt whereby the principal amount of the debt is reduced to \$30,000 and the stated interest rate is lowered to 8% per year.
- Case 3. Dixie Company owes Mason Company a \$10,000, 10% note due in 4 years. Because of Dixie Company's financial difficulties, the debt is restructured whereby the amount of interest payments are reduced to \$500; all other terms remain the same. The interest continues to be payable at the end of each year.
- Case 4. The Shadow Company owes Box Company a \$60,000 note. The note has a stated interest rate of 15% and is due in two years. Because of Shadow's financial difficulties, it is agreed that Box will accept a parcel of land from Shadow in full settlement of the debt. The land cost Shadow \$15,000 when purchased, but has a current fair value of \$45,000.
- Required: For each case, discuss how the restructuring is to be accounted for, including the necessary journal entries to record the impact of the restructuring over the remaining life of the notes. Consider the cases only from the debtor's position.
- Case 5. Refer to the facts in Case 3. Discuss how the restructuring is to be accounted for by the creditor. Include any necessary journal entries to record the impact of the restructuring over the remaining life of the note. (*see FAS No. 114*)