

**Statement of  
Financial Accounting Standards  
No. 13**

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**Accounting by Debtors and Creditors for Troubled  
Debt Restructuring**

**I Introduction**

- (1) This Statement establishes the standards for accounting treatments by debtors and creditors for a troubled debt restructuring.
- (2) A troubled debt restructuring, for the purpose of this Statement, refers to the settlement agreement reached by a debtor who cannot pay off the debt as required due to financial difficulty, and the creditor who prevents more loss by granting to the debtor a concession that would not be considered under normal circumstances.
- (3) This Statement does not apply to accounting for changes in debt terms under normal circumstances, or for any estimation of an amount of uncollectible receivables.

**II Explanation**

- (4) A troubled debt restructuring may include one or a combination of the following events:
  - (a) transfer from the debtor to the creditor of assets that have a fair value which is less than the debt amount to satisfy fully or partially the debt;

- (b) issuance by the debtor to the creditor of equity securities to satisfy fully or partially the debt;
- (c) modification of the debt terms in one or more of the following ways to lessen the burden on the debtor:
  - (i) reduction of the interest rate for the remaining life of the debt;
  - (ii) extension of the maturity date(s) at an interest rate lower than the market interest rate;
  - (iii) reduction of the principal or the maturity amount;
  - (iv) reduction of the accrued interest or the default penalty.
- (5) This Statement does not apply to a debt restructuring in the following situations, despite the debtor being in financial difficulty:
  - (a) the fair value of cash, other assets, or equity securities accepted by the creditor is equal to or greater than the creditor's book value of the net receivable;
  - (b) the fair value of cash, other assets, or equity securities surrendered by the debtor is equal to or greater than the debtor's book value of the debt;
  - (c) the creditor reduces the effective interest rate on the debt to reflect a decrease in the market rate or in the risk so as to maintain a relationship with the debtor such that the debtor would not replace the debt by new debt raised from other sources of funds;
  - (d) the debtor issues a new debt or borrows at the current market interest rate to pay off or exchange the debt.

### III Accounting standards

#### Accounting treatment by the debtor

- (6) When the debtor transfers assets or issues equity securities to the creditor to satisfy fully or partially the debt, the debtor shall compare the book value of the debt satisfied with the fair value of the assets or equity securities surrendered. The excess of the former over the latter shall be reported as a gain from debt restructuring, and as an extraordinary gain if material in amount. The difference, if any, between the fair value of the assets surrendered and their book value shall be reported as a gain or loss from disposal of assets.
- (7) Regarding any modification of the terms of the debt, if the total of the future cash payments is less than the book value of the debt at the time of restructuring, then the debtor shall reduce the book value of the debt to the amount of the total future cash payments and shall report the difference as a gain from debt restructuring in the income statement as prescribed in the previous paragraph. Interest payments made in the future shall be treated as repayments of the book value of the original debt. If the total future cash payments are greater than the book value of the debt at the time of restructuring, the debtor shall recalculate the effective interest rate for reporting interest expense of the future periods and shall not report any gain from debt restructuring in the period of the restructuring.
- (8) When modification of the terms of the debt involves contingent payments after restructuring and the total of the future cash payments (including the contingent payments) is greater than the book value of the debt, the debtor shall not report any gain from debt restructuring; however, the debtor shall exclude the contingent payments from the recalculation of the effective interest rate. The contingent payments shall be reported as interest expense when they are made or become certain; however, they shall be reported as repayments of the book value of the original debt, up to the difference between the book value of the debt and the total future cash payments (excluding the contingent payments), if the former is

greater than the latter.

- (9) When the debtor transfers assets or issues equity securities to satisfy partially the debt and modifies the terms for the remaining debt, the debtor shall subtract from the book value of the debt the fair value of the assets or equity securities before applying Paragraphs 7 and 8.
- (10) The debtor who restructures a debt due to financial difficulty shall disclose the following information in the footnotes to the financial statements for the year or period of restructuring:
  - (a) the changes in the terms of the debt and the content of the settlement of the debt;
  - (b) the gross amount of gain from debt restructuring and the related income tax effect;
  - (c) the gross amount of gain or loss from disposal of assets arising from the transfer of assets in the restructuring; and
  - (d) matters related to contingent payments.

#### **Accounting treatment by the creditor**

- (11) The creditor who accepts assets transferred or equity securities issued from the debtor to satisfy fully or partially a receivable shall record the assets or equity securities at their fair value. If the book value of the receivable satisfied is greater than the fair value of the assets or equity securities, the excess shall be reported as a loss on receivable restructuring, and as an extraordinary loss if material in amount.
- (12) Regarding any modification of the terms of the debt, if the total of the future cash receipts is less than the book value of the receivable at the time of restructuring, the creditor shall reduce the book value of the receivable to the amount of the total future cash receipts and properly report the difference as a loss on receivable restructuring in the income statement of the period as prescribed in the previous

paragraph. Interest receipts in the future shall be treated as a recovery of the book value of the original receivable. If the total of the future cash receipts is greater than the book value of the receivable at the time of restructuring, the creditor shall recalculate the effective interest rate for reporting interest income of the future periods and shall not report any loss on receivable restructuring in the period of the restructuring.

- (13) When modification of the terms of the debt involves contingent receipts after restructuring and the total of the future cash receipts (excluding the contingent receipts) is less than the book value of the receivable at the time of restructuring, the difference shall immediately be accounted for as a loss on receivable restructuring. Interest receipts collected in the future shall be reported as recovery of the book value of the original receivable, and any contingent receipts shall be reported as interest income in the period of realization.

If the realization of contingent receipts is probable and the amount can be reasonably estimated, then the creditor may include the contingent receipts in the total future cash receipts for calculating the loss on receivable restructuring. When the contingent receipts are realized, they shall be accounted for, up to the amount reduced in the loss on receivable restructuring due to the inclusion of the contingent receipts, as recovery of the book value of the original receivable, and any remainder shall be reported as interest income.

- (14) When the creditor accepts assets transferred from or equity securities issued by the debtor to satisfy partially the receivable and modifies the terms for the remaining receivable, the creditor shall subtract from the book value of the receivable the fair value of the assets or equity securities before applying Paragraphs 12 and 13.
- (15) The creditor who restructures a receivable due to the debtor's financial difficulty shall disclose the following information in the footnotes to the financial statements for the year or period of restructuring:

- (a) the amount of the receivable before and after the restructuring;
- (b) the gross amount of interest income for the period that would have been reported without the restructuring;
- (c) the gross amount of interest income for the period that has been reported with the restructuring;
- (d) the amount and terms of commitments, if any, to lend additional funds to the debtor.

#### **IV Notes**

- (16) This Statement was issued on June 1, 1988 and shall be effective for financial statements with fiscal years ending on or after December 31, 1988.