**Individual Assignment:** Restructuring Debt

Your company is in financial trouble and is in the process of reorganization. Your manager wants to know how you will report on restructuring the debt. Use the following information to help with this assignment.

**Part A**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **ASSETS** | |  |  |  |  |  |  |
| **CURRENT ASSETS** | | |  |  |  |  |  |
| Cash and cash equivalents | | | | |  |  | $ 108,340 |
| Trade accounts receivable, net of allowances | | | | | |  | 2,866,260 |
| Other receivables | | | | |  |  | 62,150 |
| Operating supplies, at lower of average | | | | |  |  |  |
| cost or market | | | | |  |  | 58,630 |
| Prepaid expenses | | | | |  |  | 446,050 |
|  |  |  |  |  |  |  |  |
| Total Current Assets | | | | |  |  | 3,541,430 |
|  |  |  |  |  |  |  |  |
| **PROPERTY, PLANT AND EQUIPMENT (at cost)** | | | | | |  |  |
| Land | | | | |  |  | 1,950,000 |
| Buildings and improvements | | | | |  |  | 2,327,410 |
| Equipment | | | |  |  |  | 5,015,660 |
| Other equipment and leasehold improvements | | | | | |  | 1,645,580 |
|  | total |  |  |  |  |  | 10,938,650 |
| Accumulated depreciation and amortization | | | | | |  | (7,644,430) |
|  | Net Property, Plant, and Equipment | | | | |  | 3,294,220 |
| **OTHER ASSETS** | | |  |  |  |  |  |
| Deposits and other assets | | | | |  |  | 1,000,080 |
|  |  |  |  |  |  |  |  |
| **TOTAL ASSETS** | | | | |  |  | **$ 7,835,730** |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)** | | | | | | |  |
|  |  |  |  |  |  |  |  |
| **CURRENT LIABILITIES** | | |  |  |  |  |  |
| Accounts payable | | | | |  |  | $ 972,160 |
| Accrued liabilities | | | | |  |  | 2,071,270 |
| Accrued claims costs | | | | |  |  | 793,620 |
| Federal and other income taxes | | | | | |  | 19,710 |
| Deferred income taxes | | | | | |  | 500 |
| Current maturities of long-term debt and | | | | |  |  |  |
| capital lease obligations | | | | | |  | 50,610 |
| Short-term borrowings | | | | | |  | 249,250 |
| Total Current Liabilities | | | | |  |  | 4,157,120 |
|  |  |  |  |  |  |  |  |
| **LONG-TERM LIABILITIES** | | | |  |  |  |  |
| Capital lease obligation | | | | | |  | 54,580 |
| Note Outstanding | | | | |  |  | 3,000,000 |
| Mortgage Outstanding | | |  |  |  |  | 608,030 |
| Other liabilities | | | | |  |  | 95,860 |
| Total Long-term Liabilities | | | |  |  |  | 3,758,470 |
|  |  |  |  |  |  |  |  |
| Total Liabilities | | | | |  |  | 7,915,590 |
|  |  |  |  |  |  |  |  |
| **SHAREHOLDERS' EQUITY (DEFICIT)** | | | | |  |  |  |
| Common stock, $.01 par value; authorized | | | | |  |  |  |
| 500,000 shares; issued 231,000 shares | | | | | | | 2,310 |
| Additional paid-in capital | | | | | |  | 731,090 |
| Accumulated other comprehensive loss | | | | | |  | (113,500) |
| Retained earnings (deficit) | | | | |  |  | (639,180) |
| Treasury stock | |  |  |  |  |  | (60,580) |
| Total Shareholders' Equity (Deficit) | | | | | |  | (79,860) |
|  |  |  |  |  |  |  |  |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | | **$ 7,835,730** |

**Part B**

As stipulated, your company is having financial difficulty and has asked the bank to restructure its $3 million note outstanding. The present note has three years remaining and pays a current interest rate of 10%. The present market rate for a loan of this nature is 12%. The note was issued at its face value. The bank agrees to accept land in exchange for relinquishing its claim on this note. The land has a book value of $1,950,000 and a fair value of $2,400,000.

The company provides the following information related to its post-employment benefits for the year 2007:

* Accumulated postretirement benefit obligation at January 1, 2007 $810,000
* Actual and expected return on plan assets $34,000
* Unrecognized prior service cost amortization $21,000
* Discount rate 10%
* Service cost $88,000

Part A

Provide your manager a comparison of the current reporting for debt, explaining the requirements for each type (bond, mortgage, capital lease, and others). Then, prepare the journal entries for the restructuring.

Part B

To satisfy various benefit issues that have arisen as a result of the restructuring, new post-employment benefits have been created. The company currently has a defined benefits plan and is considering switching to a defined contribution plan to save costs. Compute the costs associated with keeping the current plan versus the costs of a defined contribution plan where the employer pays 3% of payroll. The agreement is that the employees get to keep what is already in the defined benefit plan. This prevents the situation of having to compute how much the company would recapture in surplus assets resulting from terminating the old plan. Then, compute a new post-employment benefit expense for 2007 and report this to your manager. Illustrate with schedules and notes.

* **Submit** your assignment as an attachment.