Questions to answer

Finance

Questions to Answer Questions to Answer Question 1. The difference achieved because of the first way is considered a change of thecash expense of borrowing that emerges from getting another agreement for the unexpired period of the old one (FASB, 1972). As a result, the expense of money over the outstanding period of the initial issue is influenced by the difference that comes up when the initial agreement is terminated.

2. Auditors who recommend amortizing over the life of a new debt issue caution that reimbursing has to take place due to lower existing interest rates or expected higher rates of interest (Carmichael and Graham, 2010). This method fosters the chief motivation for reimbursing as setting up a more promising rate of interest over the period of the new issue.

3. Recognizing the difference on reimbursing is the same as the difference on other prompt terminations (Carmichael and Graham, 2010). Auditors argue that organizations should recognize this difference in income in the term of the termination.

The third method makes practical sense since it is the only argument where an accountant records the whole difference when the particular agreement is extinguished. This process affects previous terms when the agreement was valid. However, the third method is the generally accepted one (FASB, 1972). This is because many accountants contend that the recognition of this difference might compel an organization to record returns by borrowing funds at high rates of interest to settle discounted, low-rate debts.

Question 2

I favor the first option because it takes into account equity categorization for a part of or the entire outstanding convertible debt issue. As a result, the first option is suitable for fiscal auditing and reporting from a tax point of view (Grant Thorton, 2013). Instruments with the features of both equity and liability categorizations are compound. The first option also qualifies as a requirement for the categorization of fiscal tools (Schneider et al., n. d.).

References

Carmichael, D. R. and Graham, L. (2010). Accountants Handbook. New York, NY: John Wiley & Sons.

FASB. (1972). APB 26: Early Extinguishment of Debt. FASB. Retrieved from http://www. fasb. org/cs/BlobServer? blobkey= id&blobnocache= true&blobwhere= 1175820898212&blobheader= application/pdf&blobcol= urldata&blobtable= MungoBlobs

Grant Thorton. (2013). Liability or equity? Grant Thornton International Ltd. Retrieved from http://www. grantthornton. com. au/files/liability_or_equity_guide_march_2013. pdf

Schneider, D. K., Schisler, D., Mccarthy, M. G., and Hagler, J. L. (n. d.). Equity Classification of Convertible Debt? Tax and Cash Flows Considerations. Journal of Applied Business Research, 11(4), pp. 64-72.