Research paper on debt restructuring essay sample

1. 0 INTRODUCTION

1. 1 BACKGROUND OF ISSUE PROBLEM

There has been a great problem among organizations in deciding on how to account for debt restructuring. This is because their has never been one general recognition criteria or provisions for debt restructuring. For the sake of consistency in accounting, many accountants in organizations need one accounting criteria to be enforced in order for them to know how to treat debt restructuring.

1. 2 STATEMENT OF RESEARCH PROBLEM

Some of the research problems which most accountants seek to answer, pertaining debt restructuring are:-

- What events fall under the definition of debt restructuring?
- Is there a way, one general recognition criteria and provisions may be developed and applied?
- When is the appropriate time to say that an event falls under debt restructuring?
- What period will it take to complete restructuring?

1. 3 PROBLEM STATEMENT SUMMARY

To eliminate the above problems, a clear definition of debt restructuring should be set out. A provision for restructuring debts should also be put in place and its conditions should clearly be stated. In addition, Companies should also be required to provide evidence that an entity has started to implement a restructuring plan.

2. 0 LITERATURE REVIEW

Debt Restructuring may be defined as:-

1. a) Sale or termination of a line business
2. b) The closure of business locations in a country or region or the relocation of business activities from one country or region to another.
3. c) Changes in management structure, for example eliminating a layer of management and
4. d) Fundamental reorganizations that have a material effect on the nature and focus of the entity’s operations.

A constructive obligation to restructure arises only when an entity:

1. I) Has a detailed formal plan for the restructuring, identifying at least:

- the business or part of a business concerned;
- the principal locations affected
- the location, functions and approximate number of employees who will be compensated for terminating their services
- the expenditures that will be undertaken and
- when the plan will be implemented and

1. II) Has caused a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail and that, it gives valid expectations in other parties such as customers, suppliers and employees.

A management decision to restructure, taken before the balance sheet date does not give rise to a constructive obligation at the balance sheet date unless the entity has, before the balance sheet date:

- Started to implement the restructuring plan, or
- Announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

4. 0 METHODOLOGY

To solve the problem of debt restructuring accounting, different, independent bodies came together and decided that accounting policies and procedures needed to be clearly set in place. They discovered that, an entity, usually, starts to implement, a restructuring plan, or announces its main features to those affected, only after the balance sheet date, Disclosure is required under IAS 10 Events After the Balance Sheet Date, if the restructuring is material and if non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. In addition, they also discovered that a constructive obligation is usually created by management decision. Moreover, an obligation may result from other events.

5. 0 DATA ANALYSIS

It was discovered that, a constructive obligation is usually not created solely by management decision. An obligation may result from other earlier events together with such a decision. For example, negotiations with employees' representatives for termination of payments or with purchasers for the sale of an operation may have been concluded, subject to board approval. Once that approval has been obtained and communicated to the other parties, the entity has a constructive obligation to restructure.

According toIAS 36 Impairment of Assets, when a sale is only part of a restructuring, a constructive obligation can arise for the other parts of the restructuring before a binding sale agreement exists.

A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring and
- Not associated with the ongoing activities of the entity.

A restructuring provision does not include such costs as:

- retraining or relocating continuing staff
- marketing: or
- investments in new systems and distribution networks

These expenditures relate to the future conduct of the business and are not liabilities for restructuring at the balance sheet date. Such expenditures are recognized on the same basis as if they arose independently from a restructuring.

6. 0 DATA ANALYSIS

This approach however, has some shortcomings. As required, gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

7. 0 DISCUSSION

7. 1PROPOSED ACCOUNTING TREATMENT

For each class of provision, an entity shall disclose:

1. i) The carrying amount at the beginning and end of the period
2. ii) Additional provisions made in the period, including increases to existing provisions.

iii) Amounts used during the period

1. iv) Unused amounts reversed during the period
2. v) The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

An entity shall disclose the following for each class of provisions:

1. i) A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits.
2. ii) An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events.

iii) The amount of any expected reimbursements, stating the amount of any asset that has been recognized for that expected reimbursements.

Unless the possibility of any outflow in settlement is remote, an entity is required to disclose for each class of contingent liability at the balance sheet date, a brief description of the nature of the contingent liability and, where practicable:

- An estimate of its financial effect,
- An indication of the uncertainties relating to the amount of timing of any outflow; and
- The possibility of any reimbursement.

In extremely rare cases, disclosure of some or all of the information required can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability, or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

8. 0 CONCLUSION

For a plan to be sufficient to give rise to a constructive obligation, it should be communicated to those affected by it, its implementation needs to be planned, and it needs to be completed in a period that makes it significant. If it is expected that there will be a long delay before the restructuring begins or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others.

REFERENCES

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