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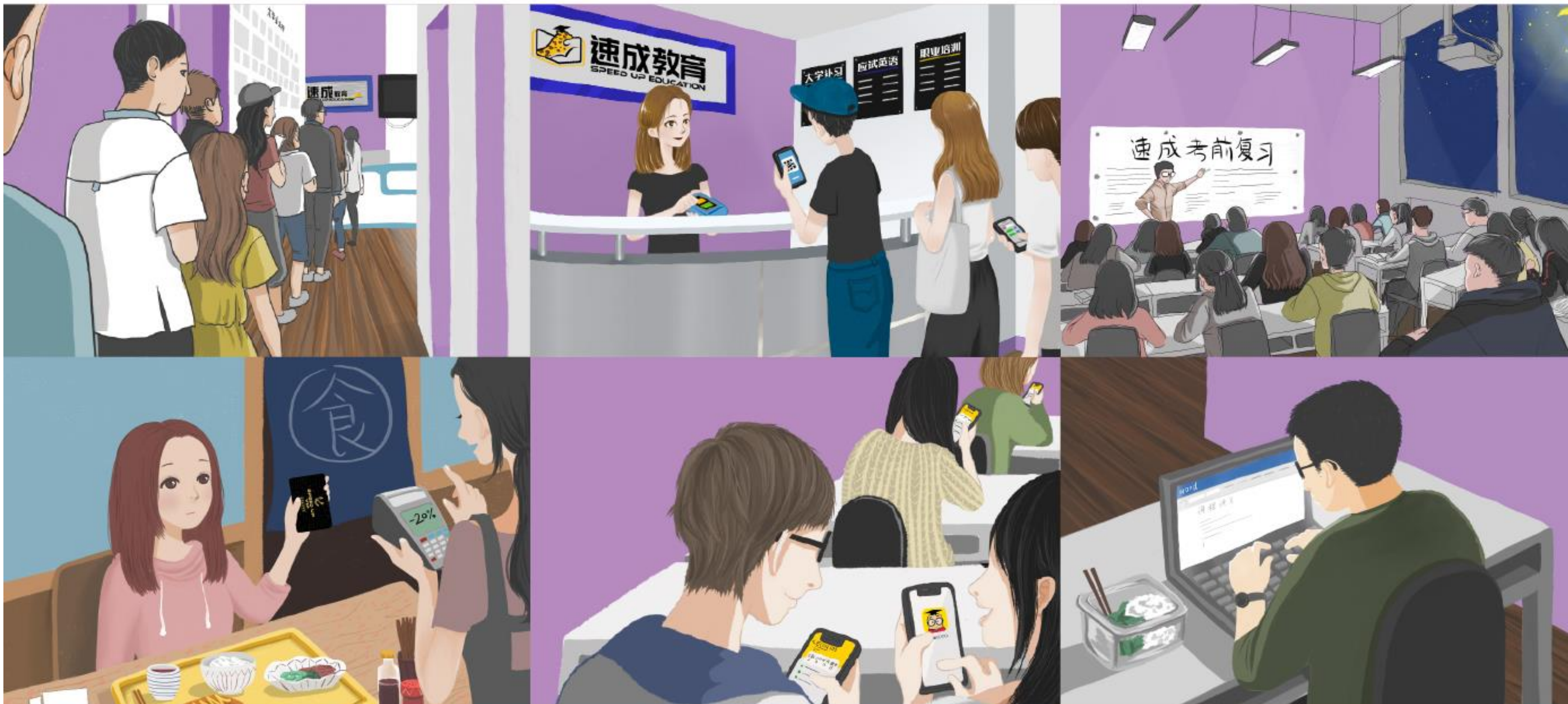

BUS 321

Intermediate Financial Accounting

导师： **ALEX**

SFU Week 3 Class | 2022/5/27

S P E E D U P E D U C A T I O N

Lecture 2 Long-term Liability

Long-term Liability

Long-term debt consists of obligations of an entity arising from past transactions or events that are not payable within the next year or operating cycle, whichever is longer.

These obligations normally require a formal agreement between the parties involved that often includes certain covenants and restrictions for the protection of both lenders and borrowers.

Bond

- Created by a bond indenture (contract)
- A sum of money at a designated maturity date
- Periodic interest at a specified rate on the maturity amount (face value)

Discount bond

Premium bond

Bond Amortization table

Settlement of Debt

- Debt resettlement: old debt and all related discount, premium and issuance costs are derecognized
- Usually results in a gain, because creditors make favourable concessions

Dr note payable 1000
  Cr common share 800
  Cr gain on settlement of debt 200

Substantial modifications

- If there are substantial modifications, the transaction is treated like a settlement
- To be consider substantial, the modifications must meet one of the following criteria
  - Discounted PV of the new terms (with original effective interest rate) is at least 10% different from the discounted PV of the remaining cash flows under the old debt
  - There is a change in the creditor and the original debt is legally discharged

Non-Substantial Modifications

:(a) no gain/loss recognized as the old debt is not derecognized
(b) a new effective interest rate must be calculated.