Accounting Standards for Enterprises No. 12 - Debt Restructuring

Cai Kuai [2006] No.3

Chapter I General Provisions

Article 1These Standards are formulated in accordance with the Accounting Standards for Enterprises - Basic Standards for the purpose of regulating the recognition and measurement of debt restructuring, and disclosing of the relevant information,.

Article 2The term "debt restructuring" refers to an event in which the terms of a debt are given in as a result of a mutual agreement between a debtor and a creditor or a judgment of a court when the debtor gets into a financial problem.

Article 3The manners of debt restructuring mainly include:

(1)The liquidation of a debt by asset;

(2)The conversion of a debt into capital;

(3)The modification of other terms of a debt such as deduction of principal or interest of a debt, excluding the two manners aforesaid ;

(4)A combination of the three aforesaid manners .

Chapter II Accounting Treatment of Debtors

Article 4When a debt is liquidated by cash, the debtor shall include the difference between the book value of the debt to be restructured and the actual cash payment into the current profits and losses.

Article 5When a debt is liquidated by a non-cash asset, the debtor shall include the difference between the book value of the debt to be restructured and the fair value of the non-cash asset transferred into the current profits and losses.

The difference between fair value of the non-cash asset transferred and its book value shall be included in the current profits and losses.

Article 6When a debt is converted into capital, the debtor shall recognize the total par value of shares, to which the creditor becomes entitled for waiver of the credit, as stock of capital (or paid-in capital) and shall recognize the difference between the total amount of the fair value of the shares and the stock of capital (or paid-in capital) as capital reserve.

The difference between the book value of the debt to be restructured and total amount of the fair value of the shares shall be included in the current profits and losses.

Article 7Where other terms of a debt are modified, the debtor shall regard the post-modification fair value of the debt as the entry value of the restructured debt, and shall include the difference between the book value of the debt to be restructured and the entry value of the restructured debt in the current profits and losses.

If the post-modification terms of a debt concern any contingent payment and if the contingent payment meets the conditions for the recognition of expected liabilities as prescribed in the Accounting Standards for Enterprises No. 13 - Contingencies, the debtor shall recognize the contingent sum payable as expected liability, and shall include the difference between the book value of the debt to be restructured and the aggregate amount of the entry value of the restructured debt and the expected amount of liability in the current profits and losses.

The term "contingent sum payable" refers to the payable sum in the light of the occurrence of a future event that is uncertain.

Article 8Where a debt restructuring is made by a combination of the liquidation of a debt by assets, the liquidation of a debt by non-cash asset, the conversion of a debt into capital, and the modification of other terms of a debt, the debtor shall offset, one by one, the cash paid, the fair value of the non-cash asset transferred, and the fair value of the shares to which the creditor becomes entitled, against the book value of the debt to be restructured, then handle it in accordance with Article 7 of these Standards.

Article 9When a debt is liquidated by cash, the creditor shall include the difference between the book balance of the debt to be restructured and the cash received in the current profits and losses.

If the creditor has made provision for the impairment of the credit, he shall first offset the aforesaid difference against the impairment provision, then include the shortfall in the current profits and losses.

Article 10When a debt is liquidated by non-cash asset, the creditor shall recognize the fair value of the non-cash asset received as the entry value and shall handle the difference between the book balance of the debt to be restructured and the fair value of the non-cash asset received in accordance with Article 9 of these Standards.

Article 11When a debt is converted into capital, the creditor shall recognize the fair value of the shares to which it becomes entitled as investment to the debtor and shall handle the difference between the book balance of the debt to be restructured and the fair value of the shares in accordance with Article 9 of these Standards.

Article 12When other terms of a debt are modified, the creditor shall recognize the fair value of the credit after the modification of other terms of the debt as the book value of the restructured debt and shall handle the book balance of the debt to be restructured and the book value of the restructured debt in accordance with Article 9 of these Standards.

If the post-modification terms of the debt concern any contingent sum receivable, the creditor shall not recognize the contingent sum receivable, nor he include it in the book value of the restructured debt.

The term "contingent sum receivable" refers to the receivable sum in the light of the occurrence of a future event that is uncertain.

Article 13Where a debt restructuring is made by a combination of the liquidation of a debt by assets, the liquidation of a debt by non-cash asset, the conversion of a debt into capital and the modification of other terms of a debt, the creditor shall offset, one by one, the cash received, the fair value of the non-cash asset received, and the fair value of the shares to which the creditor becomes entitled, against the book balance of the debt to be restructured, then handle it in accordance with Article 12 of these Standards.

Chapter IV Disclosure

Article 14The debtor shall, in its notes, disclose the information concerning debt restructuring as follows:

(1)The manners of debt restructuring;
(2)The total amount of the gains of debt restructuring, which is confirmed;
(3)The increment amount of stock capital (or pain-in capital) due to debt-to-capital conversion;
(4)The contingent sum payable; and
(5)The methods and basis for the ascertainment of the fair value of the non-cash asset transferred in a debt restructuring, the fair value of the shares converted by the debt, and the fair value of the debt after the modification of other terms of the debt.

Article 15A creditor shall, in its notes, disclose the information concerning debt restructuring as follows:

(1)The manners of debt restructuring;
(2)The total amount of the loss of debt restructuring, which is recognized;
(3)The increment amount of investment and the proportion to the total shares of the debtor due to credit-to-share conversion;
(4)The contingent sum receivable; and
(5)The methods and basis for the confirmation of the fair value of the non-cash asset received in a debt restructuring, the fair value of the shares converted by the credit, and the fair value of the credit after the modification of other terms of the debt.

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