

# ACCOUNTING in the headlines

## What is the impact of Toshiba's credit line on its financial statements?

In 2015, Toshiba Corp. ([TOSBF](#)) announced that it had overstated profits by nearly \$2 billion over a six-year period. It has since announced that it could lay off up to 10,000 workers. In addition, Toshiba is selling its television manufacturing plant in Indonesia to raise cash. These events have all been part of the fallout from the accounting scandal and have greatly reduced Toshiba's available cash. Toshiba's stock price has fallen from \$512.40 at the end of 2014 to \$216.60 at the end of 2015.

In January 2016, Toshiba announced that it is seeking a credit line in the amount of \$2.5 billion from a bank. This credit line will be in addition to Toshiba's first credit line from September 2015 of \$3.2 billion. The credit line will go towards restructuring Toshiba. The president of Toshiba, Masashi Muromachi, has stated that Toshiba will not raise any money from stock issuance for two years.

### Questions

1. What is a credit line? Assume that Toshiba is granted a credit line for \$2.5 billion. What entry, if any, will Toshiba make on the day that the credit line papers are signed (assume that no cash is disbursed on the date of loan signing.)
2. Assume that Toshiba draws down the entire credit line on March 2, 2016, and puts the cash in its corporate checking account. How will this transaction impact Toshiba's assets, liabilities, and equity?
3. Why might Toshiba not want to issue any common stock over the next two years?