

SEC & Accounting Advisory Services

Chapter 11 Reorganizations & Accounting Advisory Assistance for Companies

In the wake of the COVID-19 pandemic, an increasing number of public and private companies will face a reality of assessing going concern and navigating the many accounting challenges presented when adopting and entering Chapter 11 reorganization offered under the U.S. Bankruptcy Code. This process commences when an entity files its petition with the Bankruptcy Court and begins to prepare a plan of reorganization, which ultimately dictates the treatment of the assets and liabilities of the petitioning entity (the “debtor”).

Determining the **reorganization value** of the debtor entity that will emerge from bankruptcy is a critical step in developing a plan of reorganization. Reorganization value has been defined in U.S. Generally Accepted Accounting Principles (“U.S. GAAP”) as “The value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the restructuring.”¹

The Bankruptcy Court presides over Chapter 11 reorganization proceedings and is responsible for overall and final approval of the debtor’s reorganization plan. The confirmation and approval of the plan of reorganization discharges the debtor from certain (secured and unsecured) creditor claims and provides for other remedies.

U.S. GAAP Accounting Considerations

During and following the reorganization proceedings, debtors will need to consider and apply the U.S. GAAP accounting requirements stipulated in ASC 852 – *Reorganization* (“ASC 852”). These requirements can allow companies to adopt and benefit from a “fresh start” – effectively, emerging as a new reporting entity with a new balance sheet following the completion of Chapter 11 proceedings.

Reorganization Proceedings

ASC 852 emphasizes that entering the reorganization proceeding does not typically affect or change the application of U.S. GAAP being followed by the debtor in preparation of its financial statements. However, the debtor will be required to identify transactions, events, and balances as either pre- or post-filing of its Chapter 11 petition in its financial reporting. The debtor also will be required to distinguish between ongoing business operations and events that are directly associated with the reorganization.²

¹ FASB Codification – Master Glossary – *Reorganization Value*

² FASB Codification – ASC 852-10-45-1 and 2.

Fresh-Start Accounting

Companies emerging from Chapter 11 bankruptcy proceedings and whose plans of reorganization have been approved by the Bankruptcy Court generally have the option to adopt and apply the fresh-start accounting and reporting requirements prescribed under ASC 852-10-45-19 through 45-29. That is, the debtor entity emerging from Chapter 11 bankruptcy generally receives a “fresh start” – its go-forward financial reporting is that of a new reporting entity and therefore may not be directly comparable to prior period reporting.

Entities that adopt fresh-start accounting are required to determine the reorganization value for the emerging (or successor) entity’s assets and liabilities in conformity with the principles outlined in ASC 805 – *Business Combinations*. In turn, for this fresh start, assets and liabilities are adjusted to fair value in accordance with accounting requirements for business combinations, and the excess of reorganization value over fair value generally is reported as goodwill in accordance with requirements outlined in ASC 350 – *Intangibles – Goodwill and Other*.³

An entity that does not qualify for fresh-start accounting generally would continue to apply U.S. GAAP outside of ASC 852, and the carrying amounts of its assets would not be adjusted to the reorganization value. Liabilities modified through the confirmed plan of reorganization typically are stated at the present value of the amounts to be paid.



How Can FTI Help?

In light of the above, FTI can assist Chapter 11 debtors in a variety of ways, both during reorganization proceedings and in the assessment and initiation of fresh-start accounting and reporting. Select FTI capabilities of interest are as follows:

Reorganization Proceeding & Accounting Assistance

Our SEC Accounting and Advisory practice can provide interim management and support staff across the accounting and finance functions to assist with accounting for restructuring activities. Specifically, our team can assist in preparation of financial statements and disclosures, ensuring a company’s reporting is reflective of changes in a plan of reorganization, types of asset claims, and pre- and post-petition asset and liability balances.

We can also assist management in revisiting key accounting judgments and estimates as well as disclosures such as liquidity and capital resources, critical accounting policies and pro forma financial statement information. Our team is highly experienced in performing the necessary analysis and documentation of accounting judgments and estimates in these areas, and can also assist management in preparing its necessary disclosures.

Liquidity Assessment & Organization Review Pursuant to Reorganization

FTI’s Office of CFO Solutions practice possesses the cross-industry knowledge and experience to drive necessary improvements in finance and accounting processes, operations and systems. Our team can quickly assess the debtor’s liquidity forecast and capital needs, while developing enhanced corporate structures and processes to support the reorganization plan while optimizing the post-Chapter 11 business.

³ FASB Codification – ASC 852-10-45-20.

Interim Management

Our Corporate Finance and Restructuring business segment has a deep bench of prior Chief Restructuring Officers (CROs), Chief Executive Officers (CEOs), Chief Financial Officers (CFOs), Corporate Controllers, and Vice Presidents of Finance, experienced in leading, managing and navigating public and private companies through the Chapter 11 process.

Business Valuation

Our Valuation and Financial Advisory Services experts can assist with determining the debtor's reorganization value, as well as assist in preparing business valuations of certain fixed assets, trademarks, goodwill and other identified intangibles as part of the Chapter 11 process.

Fresh-Start Accounting Assistance

Our SEC & Accounting Advisory practice can assist in all phases of fresh-start accounting and reporting for debtors emerging from Chapter 11 bankruptcy proceedings, inclusive but not limited to:

1. **Interim Accounting Support** – Serving in interim management and support roles across the accounting and finance organization.
2. **Predecessor Entity Financial Statements** – Preparing the financial statements and reporting of the predecessor entity, as of and for the period immediately preceding the confirmation date.
3. **Successor Entity Financial Statements** – Drafting the financial statements and footnote disclosures of the new reporting entity to present and describe the impact and results of the above adjustments. This includes preparation of adjusting journal entries made to assets and liabilities and resulting from the adoption of fresh-start accounting and to reflect the impact of forgiveness of debt in the debtor's financial statements.
4. **Technical Accounting White Papers** – Drafting technical accounting documentation and preparing analyses to document the new reporting entity's judgments and U.S. GAAP accounting conclusions reached in applying fresh-start accounting and reporting.
5. **"Push-Down" of Fresh-Start Accounting** – Preparing and executing "push-down" accounting journal entries to apply and record reorganized asset and liability balances on subsidiary and statutory level books and records.
6. **Accounting Policies** – Drafting, updating and reviewing accounting policies and procedures for the new reporting entity.

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JAY SPINELLA

Senior Managing Director
SEC & Accounting Advisory Services
+1 202.312.9226
jay.spinella@fticonsulting.com

GINA GUTZEIT

Senior Managing Director
Office of the CFO Solutions
+1 212.499.3670
gina.gutzeit@fticonsulting.com

GEORGE SAITTA

Managing Director
SEC & Accounting Advisory Services
+1 202.589.2366
george.saitta@fticonsulting.com



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