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Accounting for Corporate Reorganizations

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Bankruptcy law in the United States is codified in federal law under Title 11 of the United States Code (Bankruptcy Code), which provides a uniform federal law governing all bankruptcy cases. There are two types of bankruptcy filings under the Bankruptcy Code available to business entities: Chapter 7 and Chapter 11.

In some cases, an entity may have financial issues so significant that it does not have any value beyond its identifiable net assets. In this case, a petition may be filed under Chapter 7. Upon filing, the Bankruptcy Court (Court) assigns an independent trustee to manage the business and the process of liquidation. The trustee usually will discontinue the entity's operations and sell its assets to the highest bidder using the proceeds of sale for the benefit of the creditors. Upon completion of the process, the debtor receives a discharge from its prepetition debts. Bankruptcy proceedings under Chapter 7 are within the scope of FASB *Accounting Standards Codification* (FASB ASC) 205-30, *Presentation of Financial Statements: Liquidation Basis of Accounting*. In a previous [report](#), we covered the liquidation basis of accounting, which would be applicable when an entity files under Chapter 7.

However, Chapter 11 is the most common type of filing for businesses. A case filed under Chapter 11 is often referred to as a reorganization proceeding. In other words, a business that files for Chapter 11 protection is attempting to continue its business by restructuring the debt that existed prior to the proceeding. For accounting purposes, bankruptcy proceedings under Chapter 11 are within the scope of FASB ASC 852-10, *Reorganizations—Overall*.

Practice Note: The benefits of Chapter 11 reorganization have been elusive to many small business debtors given their size and limited financial resources and the expense and requirements of a typical Chapter 11 bankruptcy. However, in 2019, Congress passed the Small Business Reorganization Act (the Act) creating a new Subchapter V of Chapter 11 of the Bankruptcy Code. The purpose of Subchapter V was to make small

business bankruptcies faster and less expensive. Generally, the Act only applies to business debtors with secured and unsecured debts of less than \$2,725,625. The Act took effect in February 2020. For more information about the Act, see the summary at the end of this report.

Reorganization Guidance

FASB ASC 852-10 addresses the accounting and financial reporting requirements for entities that have:

- Filed a petition with the Court
- Developed a plan to reorganize under the going concern rules of Chapter 11 of the Bankruptcy Code

The guidance in FASB ASC 852-10 covers entities that are either:

- Undergoing a Chapter 11 proceeding
- Emerging from a Chapter 11 proceeding with a confirmed reorganization plan

Importantly, the guidance in FASB ASC 852-10 does not apply to the following events:

- Debt restructuring outside of Chapter 11
- Liquidations and plans of liquidation under the Bankruptcy Code

CPEA Observation: Even as an entity proceeds through a reorganization under Chapter 11 of the Bankruptcy Code, the entity continues to apply generally accepted accounting principles (U.S. GAAP) to recognize and measure transactions. However, a Chapter 11 proceeding modifies the information needed by an entity's stakeholders. Accordingly, an entity that is undergoing a reorganization, or has recently emerged from it, must comply with additional presentation and disclosure guidelines, as discussed below.

The filing of the petition begins the reorganization proceeding. The primary objectives of the proceeding are to:

- Preserve the maximum amount of money to pay back creditors
- Restructure the entity in a way that it has a reorganization value and is able to reenter the marketplace

The entity prepares a plan of reorganization to accomplish these objectives. The plan is key to the reorganization because it specifies how the claims of creditors and equity holders will be handled and how the entity will be structured after the reorganization. The plan is confirmed by the Court if the Court determines that all of the conditions below are met:

- a. The plan and the plan proponent have complied with various technical requirements of the Bankruptcy Code
- b. Disclosures made in soliciting acceptance of the plan have been adequate
- c. Dissenting members of consenting classes of impaired claims would receive under the plan at least the amount they would have received under a Chapter 7 proceeding
- d. Claims entitled to priority under the Bankruptcy Code will be paid in cash
- e. Confirmation of the plan is not likely to be followed by liquidation or further reorganization
- f. At least one class of impaired claims, apart from insiders, has accepted the plan
- g. The plan proponent has obtained the consent of all impaired classes of claims or equity securities, or the plan proponent can comply with the cram-down provisions of the Bankruptcy Code (under the cram-down provisions, the court may confirm a plan even if one or more classes of holders of impaired claims or equity securities do not accept it, as long as the court finds the plan does not discriminate unfairly and is fair and equitable to each nonconsenting class impaired by the plan)

CPEA Observation: As indicated in FASB ASC 852-10-05-9, in general, a secured claim is deemed to be treated fairly and equitably if it remains adequately collateralized and will receive a stream of payments where the discounted value equals the amount of the secured claim on the effective date of the plan. In general, an unsecured claim is deemed to be treated fairly and equitably if it receives assets where the discounted value equals the allowed amount of the claim, or if the holder of any claim or equity security interest that is junior to the dissenting class will not receive or retain any assets under the plan. Similarly, an equity security interest is deemed fairly and equitably treated if that interest receives assets where the discounted value equals the greatest of any fixed liquidation preference, any fixed redemption price, or the value of such interest, or if no junior equity security interest will receive any assets under the plan.

As part of its reorganization plan, an entity will need to evaluate its reorganization value. The reorganization value is the amount of resources available to repay the claims and liabilities considered valid in the plan. Generally, reorganization value approximates the fair 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. Reorganization value and the terms of the plan are determined only after extensive arm's-length negotiations or litigation between the interested parties. Several methods are used to determine the reorganization value; however, it is generally determined by discounting future cash flows for the reconstituted business that will emerge from Chapter 11 and from expected proceeds or collections from assets not required in the reconstituted business, at rates reflecting the business and financial risks involved.

A disclosure statement also is filed with the Court. The disclosure statement must include sufficient information to allow a hypothetical investor to make an informed judgment about the plan. The disclosure statement often contains a summary of the reorganization plan, historical financial data for the entity, projections regarding the entity's future financial results, and a pro forma balance sheet that shows the value and structure of the entity that will emerge from the reorganization. The disclosure statement must be approved by the Court and provided to all parties that will vote on the entity's reorganization plan.

Financial Statement Presentation During Reorganization

The financial statements of an entity undergoing a Chapter 11 process will need to distinguish between transactions that relate to the reorganization and those that relate to the entity's ongoing operations.

Balance Sheet (adapted from FASB ASC 852-10-45)

An entity undergoing reorganization should segregate the following in the balance sheet:

- The liabilities that arose before the filing of the Chapter 11 petition that are subject to compromise by the reorganization
- The liabilities that arose before the filing of the Chapter 11 petition that are not subject to compromise by the proceeding
- The liabilities that have arisen since the filing of the Chapter 11 petition

An entity undergoing a Chapter 11 proceeding is required to report liabilities at the amount expected to be allowed by the Court, even if the entity expects that the liability will settle for less than the amount allowed. If there are secured liabilities that may have to be classified as subject to compromise because uncertainties exist as to the amount or the quality of the security, the claim cannot be reclassified until the uncertainty concerning that claim is resolved.

All prepetition liabilities (including those that became evident only after the filing) will need to be evaluated pursuant to the guidelines in FASB ASC 450-20, *Contingencies—Loss Contingencies*. If a liability must be accrued, then the liability should be measured at the amount expected to be allowed. If the amount of the expected allowed claim cannot be estimated, this fact must be disclosed.

If an allowed claim is different from the book value of the prepetition liability, including debt issue costs, premium, or discount, the amount of the liability is adjusted to the amount of the allowed claim and the gain or loss should be presented as a reorganization item in the income statement, separate from those relating to ongoing operations. However, an adjustment is not required, if the debt is not a claim subject to compromise by the Chapter 11 proceeding (e.g., in the case of a fully secured liability).

Practice Note: As a reorganization progresses, the entity may reclassify claims subject to compromise and those not subject to compromise from one category to the other, as called for by changing circumstances.

CPEA Observation: FASB ASC 470-10-45, *Debt—Overall—Other Presentation Matters*, requires an entity to reclassify certain noncurrent liabilities as current, in particular when a debt becomes callable because of a violation of a provision of the debt agreement. However, the automatic stay provisions in Chapter 11 of the Bankruptcy Code make such reclassifications unnecessary because creditors cannot take action to collect receivables once a petition is filed.

Illustration 1

The following is an example from FASB ASC 852-10-55-3 that illustrates how an entity would present its balance sheet after filing a Chapter 11 petition:

XYZ Company
(Debtor in Possession)
Balance Sheet
December 31, 19X1

Assets	(000s)
Current assets	
Cash	\$ 110
Accounts receivable, net	300
Inventory	250
Other current assets	30
Total current assets	690
Property, plant and equipment, net	430
Goodwill	210
Total Assets	\$ 1,330
Liabilities and Shareholders' Deficit	
	(000s)
Liabilities Not Subject to Compromise Current Liabilities:	
Short-term borrowings	\$ 25
Accounts payable—trade	200
Other liabilities	50
Total current liabilities	275
Liabilities Subject to Compromise	1,100 ^(a)
Total liabilities	1,375
Shareholders' (deficit)	
Preferred stock	325
Common stock	75
Retained earnings (deficit)	(445)
Total Liabilities & Shareholders' (Deficit)	\$ 1,330
(a) Liabilities subject to compromise consist of the following:	
Secured debt, 14%, secured by first mortgage on building	\$ 300,000 ^(b)
Priority tax claims	50,000
Senior subordinated secured notes, 15%	275,000
Trade and other miscellaneous claims	225,000
Subordinated debentures, 17%	250,000
	\$ 1,100,000

(b) The secured debt in this case should be considered, due to various factors, subject to compromise.

The accompanying notes are an integral part of the financial statements.

Income Statement (adapted from FASB ASC 852-10-45)

While undergoing Chapter 11, an entity continues to present an income statement that reflects the operations of the period in accordance with U.S. GAAP, but it should present reorganization items, such as gains or losses arising from the Chapter 11 proceeding or administrative costs, separately from operational items. The only exception is for discontinued operations that must be reported in accordance with FASB ASC 205-20, *Presentation of Financial Statements—Discontinued Operations*, even if they arise directly from the reorganization.

According to FASB ASC 852-10-45-10, an entity may not defer administrative costs and similar professional fees relating to the reorganization; those fees should be charged to expense as incurred. Further, those costs cannot be deferred to be later offset against a gain that results from the discharge of liabilities.

An entity undergoing Chapter 11 may report accrued interest only if it is probable that the Court will allow the creditor's claim for interest. Interest expense should not be classified as a reorganization item. However, interest earned that results directly from undergoing a reorganization (generally all interest earned post-petition) should be classified as a reorganization item.

Illustration 2

The following is an example from FASB ASC 852-10-55-3 that illustrates how an entity would present its income statement after filing a Chapter 11 petition:

XYZ Company
(Debtor-in-Possession)
Statement of Operations
For the Year Ended December 31, 19X1
(000s)

	19X1
Revenues:	
Sales	\$ 2,400
Cost and expenses:	
Cost of goods sold	1,800
Selling, operating and administrative	550
Interest (contractual interest \$5)	3
	2,353
Earnings before reorganization items and income tax benefit	47
Reorganization items:	
Loss on disposal of facility	(60)
Professional fees	(50)
Provision for rejected executory contracts	(10)
Interest earned on accumulated cash resulting from Chapter 11 proceeding	1
	(119)
Loss before income tax benefit and discontinued operations	(72)
Income tax benefit	10
Loss before discontinued operations	(62)
Discontinued operations:	
Loss from operations of discontinued products segment	(56)
Net loss	\$ (118)
Loss per common share:	
Loss before discontinued operations	\$ (0.62)
Discontinued operations	\$ (0.56)
Net loss	\$ (1.18)

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows (adapted from FASB ASC 852-10-45)

An entity should present reorganization items separately within the operating, investing, and financing categories in the statement of cash flows. As noted in FASB ASC 852-10-45-13, the direct method permits a better presentation of reorganization items in each category of cash flows. If an entity in reorganization chooses to present its statement of cash flows using the indirect method, it must supplement the statement with a schedule or a description in the notes that details operating cash flows pertaining to the reorganization.

Illustration 3

The following is an example from FASB ASC 852-10-55-3 that illustrates how an entity would present its statement of cash flows after filing a Chapter 11 petition:

XYZ Company
(Debtor-in-Possession)
Statement of Cash Flows
For the Year Ended December 31, 19X1
Increase in Cash and Cash Equivalents
(000s)

	19X1
Cash flows from operating activities:	
Cash received from customers	\$ 2,220
Cash paid to suppliers and employees	(2,070)
Interest paid	(3)
Net cash provided by operating activities before reorganization items	147
Operating cash flows from reorganization items:	
Interest received on cash accumulated because of the Chapter 11 proceeding	1
Professional fees paid for services rendered in connection with the Chapter 11 proceeding	(50)
Net cash used by reorganization items	(49)
Net cash provided by operating activities	98
Cash flows from investing activities:	
Capital expenditures	(5)
Proceeds from sale of facility due to Chapter 11 proceeding	40
Net cash provided by investing activities	35
Cash flow used by financing activities:	
Net borrowings under short-term credit facility (post petition)	25
Repayment of cash overdraft	(45)
Principal payments on prepetition debt authorized by court	(3)
Net cash provided by financing activities	(23)
Net increase in cash and cash equivalents	110
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	\$ 110
Reconciliation of net loss to net cash provided by operating activities	
Net loss	\$ (118)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	20
Loss on disposal of facility	60
Provision for rejected executory contracts	10
Loss on discontinued operations	56
Increase in postpetition payables and other liabilities	250
Increase in accounts receivable	(180)
Net cash provided by operating activities	\$ 98

The accompanying notes are an integral part of the financial statements.

Financial Statement Presentation Upon Emerging from Chapter 11 Proceedings

As indicated in FASB ASC 852-10-45-18, the effects of a plan should be included in the entity's financial statements as of the date the plan is confirmed. However, inclusion should be delayed to a date not later than the effective date if there is a material unsatisfied condition precedent to the plan's becoming binding on all the parties in interest or if there is a stay pending appeal. For example, this might occur if obtaining financing for the plan or for the transfer of material assets to the debtor by a third party is a condition to the plan's becoming effective. Financial statements prepared, as of the date after the parties in interest have approved a plan through the voting process and issued after the plan has been confirmed by the court, should report the effects of the plan if there are no material unsatisfied conditions.

Fresh-Start Accounting (adapted from FASB ASC 852-10-45-19 through 28)

An entity emerging from Chapter 11 is required to apply fresh-start accounting if all of the following conditions are satisfied immediately before plan confirmation:

- Reorganization value is less than post-petition liabilities plus allowed claims
- The former holders of voting shares, under the plan of reorganization, will own less than 50 percent of the voting shares of the emerging entity from Chapter 11
- The former voting shareholders' loss of control is not temporary and the ownership will not revert to the shareholders of the predecessor entity

An entity that applies fresh-start accounting assigns a new carrying value to each asset and liability of the successor, post-Chapter 11 entity by following the guidance in FASB ASC 805-20, *Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest*. Excess amounts are recognized as goodwill. In other words, the assets and liabilities of the successor entity are measured at fair value on the day the reorganization plan is confirmed.

From the time that an entity files a petition for reorganization under Chapter 11 to the point just before emerging from the process, an entity must apply the guidelines discussed earlier. Any adjustment required from applying fresh-start accounting or from forgiving a debt applies to the financial statements of the predecessor entity, not the new entity that emerges from the reorganization. The successor entity emerges from the reorganization process with no balance in retained earnings or retained deficit.

Importantly, an entity may not present post-reorganization financial statements on a comparative basis with financial statements of the predecessor entity. Post-confirmation financial statements are those of a new entity.

Practice Note: The entity should avoid attempts to describe post-reorganization financial statements in a comparative manner or to contrast their differences with financial statements of the predecessor entity as this could be misleading.

Reporting when Fresh-Start Accounting Does Not Apply (adapted from FASB ASC 852-10-45-29)

The reorganization process of some entities will not satisfy the criteria for fresh-start accounting described above. If an entity's reorganization does not qualify it for the use of fresh-start accounting, the entity instead should follow these guidelines:

- Liabilities compromised by the confirmed plan of reorganization should be adjusted and reported at present value of the amounts to be paid, using current interest rates
- Gains from the relief of indebtedness should be reported in accordance with the guidance in FASB ASC 220-20, *Income Statement—Reporting Comprehensive Income—Unusual or Infrequently Occurring Items*

Disclosure Requirements

An entity that is undergoing or emerging from a reorganization proceeding under Chapter 11 must comply not only with general disclosure guidance but also with the requirements of FASB ASC 852-10-50, *Reorganization—Overall—Disclosure*.

Disclosures During the Reorganization Proceedings

An entity undergoing a reorganization proceeding should provide certain disclosures in accordance with the following guidelines:

- The entity should disclose contingent claims that the entity cannot estimate reasonably as provided in FASB ASC 450-20, *Contingencies—Loss Contingencies*
- The entity should report claims, by principal categories, that are subject to compromise through the reorganization process
- The entity should report interest expense at the amount paid or expected to be an allowed claim to the extent that the amount differs from the amount of interest accrued under prepetition contractual terms
- An entity should disclose any probable issuance of additional common stock (or equivalent) pursuant to the reorganization plan

CPEA Observation: In addition to the disclosures discussed above, when the indirect method is used to prepare the statement of cash flows, the entity must disclose details of

operating payments and receipts occurring as a result of a reorganization in a supplementary schedule, or in the notes to the financial statements.

Illustration 4

The following is an example from FASB ASC 852-10-55-3 that illustrates the required disclosures after filing a Chapter 11 petition:

Note X—Petition for Relief Under Chapter 11

On January 10, 2022, XYZ Company (the Debtor) filed petitions for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court for the Western District of Tennessee. Under Chapter 11, certain claims against the Debtor in existence before the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Debtor continues business operations as Debtor-in-possession. These claims are reflected in the December 31, 2022, balance sheet as liabilities subject to compromise. Additional claims (liabilities subject to compromise) may arise after the filing date resulting from rejection of executory contracts, including leases, and from the determination by the court (or agreed to by parties in interest) of allowed claims for contingencies and other disputed amounts. Claims secured against the Debtor's assets (secured claims) also are stayed, although the holders of such claims have the right to move the court for relief from the stay. Secured claims are secured primarily by liens on the Debtor's property, plant, and equipment.

The Debtor received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including employee wages and product warranties. The Debtor has determined that there is insufficient collateral to cover the interest portion of scheduled payments on its prepetition debt obligations. Contractual interest on those obligations amounts to \$5,000, which is \$2,000 in excess of reported interest expense; therefore, the debtor has discontinued accruing interest on these obligations.

Disclosures After the Reorganization Proceedings

If an entity emerges from Chapter 11 proceedings and applies fresh-start accounting in its initial post-confirmation financial statements, the following must be disclosed:

- The amount and nature of any adjustment to the historical value of assets or liabilities
- The amount of any debt forgiveness
- Information related to the determination of reorganization value, including valuation method, assumptions, and tax rates

Illustration 5

The following is an example from FASB ASC 852-10-55-11 that illustrates the required disclosures following a confirmed plan of reorganization. In this illustration a tabular presentation entitled, *Plan of Reorganization Recovery Analysis*, is incorporated in the note disclosure. The plan of reorganization recovery analysis may alternatively be presented as supplementary information to the financial statements.

Note X - Plan of Reorganization

On June 30, 2023, the Bankruptcy Court confirmed the Company's plan of reorganization. The Company accounted for the reorganization using fresh-start reporting. Accordingly, all assets and liabilities are adjusted to fair value in accordance with accounting requirements for business combinations under FASB ASC 805. The excess of reorganization value over the fair value of tangible and intangible assets was recorded as "reorganization value in excess of amounts allocable to identifiable assets." The confirmed plan provided for the following:

- **Secured Debt**—The Company's \$300,000 of secured debt (secured by a first mortgage lien on a building located in Nashville, Tennessee) was exchanged for \$150,000 in cash and a \$150,000 secured note, payable in annual installments of \$27,300 commencing on June 1, 2024, through June 1, 2027, with interest at 12% per annum, with the balance due on June 1, 2028.
- **Priority Tax Claims**—Payroll and withholding taxes of \$50,000 are payable in equal annual installments commencing on July 1, 2024, through July 1, 2029, with interest at 11% per annum.
- **Senior Debt**—The holders of approximately \$275,000 of senior subordinated secured notes received the following instruments in exchange for their notes: \$87,000 in new senior secured debt, payable in annual installments of \$15,800 commencing March 1, 2024, through March 1, 2027, with interest at 12% per annum, secured by first liens on certain property, plants, and equipment, with the balance due on March 1, 2028; \$123,000 of subordinated debt with interest at 14% per annum due in equal annual installments commencing on October 1, 2024, through October 1, 2030, secured by second liens on certain property, plant, and equipment; and 11.4% of the new issue of outstanding voting common stock of the Company.
- **Trade and Other Miscellaneous Claims**—The holders of approximately \$225,000 of trade and other miscellaneous claims received the following for their claims: \$38,000 in senior secured debt, payable in annual installments of \$6,900 commencing March 1, 2024, through March 1, 2027, with interest at 12% per annum, secured by first liens on certain property, plants, and equipment, with the balance due on March 1, 2028; \$52,000 of subordinated debt, payable in equal

annual installments commencing October 1, 2024, through October 1, 2029, with interest at 14% per annum; and 25.7% of the new issue of outstanding voting common stock of the Company.

- Subordinated Debentures—The holders of approximately \$250,000 of subordinated unsecured debt received, in exchange for the debentures, 48.9% of the new issue outstanding voting common stock of the Company.
- Preferred Stock—The holders of 3,250 shares of preferred stock received 12% of the outstanding voting common stock of the new issue of the Company in exchange for their preferred stock.
- Common Stock—The holders of approximately 75,000 outstanding shares of the Company’s existing common stock received, in exchange for their shares, 2% of the new outstanding voting common stock of the Company.

The following table (Plan of Reorganization Recovery Analysis) summarizes the adjustments required to record the reorganization and the issuance of the various securities in connection with the implementation of the plan.

	Recovery								Total Recovery	
	Elimination of Debt and Equity	Surviving Debt	Cash	IRS Note	Senior Debt	Subordinated Debt	Common Stock ^(a)		\$	%
							%	Value		
Postpetition liabilities	\$ 300,000	\$ 300,000							\$ 300,000	100%
<i>Claim or Interest</i>										
Secured debt	300,000		\$ 150,000		\$ 150,000				300,000	100
Priority tax claim	50,000			\$ 50,000					50,000	100
Senior debt	275,000	\$ (25,000)			87,000	\$ 123,000	11.4%	\$ 40,000	250,000	91
Trade and other miscellaneous claims	225,000	(45,000)			38,000	52,000	25.7	90,000	180,000	80
Subordinated debentures	250,000	(79,000)					48.9	171,000	171,000	68
	<u>1,100,000</u>									
Preferred stockholders	325,000	(283,000)					12.0	42,000	42,000	
Common stockholders	75,000	(68,000)					2.0	7,000	7,000	
Deficit	(700,000)	700,000								
Total	<u>\$ 1,100,000</u>	<u>\$ 200,000</u>	<u>\$ 300,000</u>	<u>\$ 150,000</u>	<u>\$ 275,000</u>	<u>\$ 175,000</u>	<u>100.0%</u>	<u>\$ 350,000</u>	<u>\$ 1,300,000</u>	

(a) The aggregate par value of the common stock issued under the plan is \$100,000.

Small Business Reorganization Act

In 2019, Congress passed the Small Business Reorganization Act (the Act) creating new Subchapter V of Chapter 11 of the Bankruptcy Code. (The Act can be found at <https://www.congress.gov/bill/116th-congress/house-bill/3311/text>.) The purpose of Subchapter V was to make small business bankruptcies faster and less expensive. Generally, the Act only applies to business debtors with secured and unsecured debts of less than \$2,725,625. The Act took effect in February 2020. Below is a summary of the Act's provisions, as indicated by Bradley law firm on their website at <https://www.bradley.com/insights/publications/2020/02/the-small-business-reorganization-act> :

- Appointment of a Trustee—the Act provides for a trustee who facilitates the small business debtor's reorganization and monitors the debtor's consummation of its plan of reorganization.
- Streamlining the Reorganization Process—the act streamlines small business reorganizations and removes procedural burdens and costs associated with typical corporate reorganizations. Notably, only the debtor can propose a plan of reorganization. Small business debtors do not have to obtain approval of a separate disclosure statement or solicit votes to confirm a plan, and generally there are no unsecured creditors' committees. The Act also requires the debtor file its plan within 90 days of the bankruptcy filing.
- Elimination of the New Value Rule—the Act removes the requirement that equity holders of the small business debtor provide "new value" to retain their equity interest in the debtor without paying creditors in full. For plan confirmation, the Act instead only requires that the plan does not discriminate unfairly, is fair and equitable and, provides that all of the debtor's projected disposable income will be applied to payments under the plan or the value of property to be distributed under the plan is not less than the projected disposable income of the debtor.
- Modification of Certain Residential Mortgages—notably, the Act removes the categorical prohibition against individual small business debtor's modifying their residential mortgages. The Act now allows a small business debtor to modify a mortgage secured by a residence if the underlying loan was not used to acquire the residence and was primarily used in connection with the debtor's small business.
- Delayed Payment of Administrative Expense Claims—the Act removes the requirement that the debtor pay administrative expense claims, including those claims incurred by the debtor for post-petition goods and services, on the effective date of the plan. Unlike a typical bankruptcy, a small business debtor may now stretch payment of administrative expense claims out over the term of the plan.

- Discharge Limitations—in many cases the court will grant the debtor a discharge after completion of all payments due within the first three years of the plan, or such longer period as the court may fix (not to exceed five years). The discharge relieves the debtor of personal liability for all debts provided under the plan except any debt: (1) on which the last payment is due after the first three years of the plan, or such other time as fixed by the court (not to exceed five years); or (2) that is otherwise non-dischargeable. All exceptions to discharge under the Bankruptcy Code apply to the small business debtor. This is a departure from a typical corporate Chapter 11 which has a more limited set of exceptions to discharge.

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