

PART ONE

Bankruptcy and Insolvency Environment

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Accountant's Role in Perspective

1.1 Parties Served by Accountants¹ and Financial Advisors

Objective. Listed here are the various parties accountants and financial advisors often represent in rendering services in the bankruptcy and insolvency area. The major topics involved in these services are described in §§ 1.5 through 1.12 of Volume 1.

Out-of-Court Workouts

- 1 Accountant for debtor
- 2 Accountant for creditors' committee
- 3 Accountant for major unsecured creditor
- 4 Accountant for bank or other financial institution
- 5 Accountant for major secured lender
- 6 Accountant for principal shareholder

Chapter 7

- 1 Trustee
- 2 Accountant for trustee
- 3 Accountant for unsecured creditors' committee, if elected
- 4 Accountant for major bank or other secured creditors
- 5 Accountant for stockholder

Chapter 11

- 1 Accountant for debtor-in-possession or trustee
- 2 Trustee
- 3 Examiner (may involve expanded role)
- 4 Accountant for examiner, if court will make such an appointment (Bankruptcy Code does not provide for such an appointment.)

¹The use of the word "accountant" includes the rendering of management advisory services or consulting services.

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Accountant's Role in Perspective

- 5 Accountant for unsecured creditors' committee or committees (e.g., bondholders)
- 6 Accountant for secured creditors' committee or individual secured creditor
- 7 Accountant for stockholders' committee or individual stockholder
- 8 Accountant as "expert witness" for any of the above parties

Chapters 12 and 13

- 1 Accountant for debtor or trustee
- 2 Accountant for standing trustee
- 3 Accountant for major unsecured or secured creditor
- 4 Accountant for shareholder or partner (chapter 12 only)
- 5 Accountant as "expert witness" for any of the above parties

1.2 Services Often Rendered by Accountants and Financial Advisors in Business Turnarounds, Bankruptcies, and Reorganizations

Objective. The services rendered by accountants and financial advisors in business turnarounds and bankruptcy and insolvency proceedings can be divided into over a dozen categories. The parties that may be served were described in this volume in § 1.1 above. Among the types of services that may be rendered are the following:

- 1 Assists the debtor in analyzing operational problems, designing a turnaround strategy, and implementing the strategy.
- 2 Performs consulting activities (management advisory services) that provide information to assist the debtor in making decisions, including the development of a business plan.
- 3 Assists the debtor in determining the type of action to take to resolve its financial problems.
- 4 Provides the debtor's counsel with the information needed to prepare the schedules, statement of affairs, and other forms necessary to file a petition.
- 5 Prepares special financial statements, including a balance sheet as of the date the petition is filed.
- 6 Provides the usual accounting services for the client.
- 7 Assists in the preparation of operating statements to be filed with the court.
- 8 Performs special investigative services, including an analysis of selected transactions, often to determine if preferences or fraudulent transfers exist.
- 9 Reconciles and evaluates creditors' proofs of claims. After establishing the book balances for the unsecured creditors, these balances should be compared with the claims filed. If a claim has not been filed, the book balance is compared with the amount admitted on the debtor's Schedules of Liabilities to determine its accuracy. Discrepancies are analyzed, and

1.2 Services Often Rendered by Accountants and Financial Advisors

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if they are not reconcilable, this information is communicated to the trustee or counsel as well as the creditors' committee.

- 10** Determines or assists in determining the value of the business.
- 11** Provides tax advice on several issues including the impact that debt discharge and the terms of the plan will have on the debtor's tax liability.
- 12** Assists the client in formulating a plan that will meet with the approval of creditors and at the same time allow the debtor to operate the business successfully.
- 13** Develops or assists in the preparation of the disclosure statement that must be issued prior to or at the time acceptance of the plan is solicited.
- 14** Renders other services including assistance in finding sources of credit.
- 15** Some accountants and financial advisors expand their practice to involve the actual management of the company, often as an officer of the company.

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