



## **REORGANIZATION DURING BANKRUPTCY PROCESSES AS A RENAISSANCE OF THE LEGAL ENTITY IN THE REPUBLIC OF NORTHERN MACEDONIA**

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### **Abstract**

In everyday life, especially in modern times we often come across the word bankruptcy, how a firm can go bankrupt or how we can avoid bankruptcy proceedings. There are differences of opinion about the bankruptcy procedure and the avoidance of bankruptcy through the Reorganization Plan.

A good plan to reorganize the bankrupt debtor, before the opening of the bankruptcy procedure or during the opening can positively affect the bankrupt debtor can continue to exist, ie not be expelled from the business environment. However, reorganization versus liquidation is also a very good opportunity for creditors, because through reorganization creditors achieve maximum payment, versus liquidation and thus the bankrupt debtor continues to exist.

The case study will be the bankruptcy procedure with a genuine reorganization plan, where during the bankruptcy procedure the legal entity is given a second opportunity to exist based on the Law and standards for the bankruptcy procedure in Macedonia.

***Key words: Reorganize, bankruptcy proceedings, reorganization plan***

## INTRODUCTIONS

Given the need to define the notion of reorganization, we conclude that reorganization is closely related to the notion of salvation, salvation which should be guided by the preservation of the debtor's business. Therefore, reorganization is a complete process in which the financial condition of the debtor must be restored to enable the debtor / debtor to continue with his entrepreneurial work. In order to achieve that goal, the law provides for more instruments related to the repayment of the company's debt.

But reorganization is not just salvation of the debtor, in the broadest sense. The reorganization also aims to equalize the creditor's claims in a larger amount. Reorganization is also defined as the conclusion of a special agreement for reconciliation of claims, with the sole purpose that the debtor continues to work successfully.

While the procedure for reorganization of the debtor includes all activities undertaken by the bankruptcy judge, the debtor and the creditor in connection with the reorganization of the debtor, guided by the reorganization plan.

Bankruptcy law defines both notions, the notion of reorganization and the notion of reorganization procedure. Therefore reorganization is defined as the process by which the debtor's financial condition can be restored while the debtor continues to work, and all this is achieved by means such as debt repayment, debt deferral / delay, debt transformation into portions in the association and the sale of the enterprise as a whole or part of it.

The Bankruptcy Law also defines the reorganization procedure as a procedure which includes the debtor's proposal to initiate the reorganization procedure, the debtor's declaration after the proposal, the preparation of the reorganization plan, the creditors' declaration after the reorganization plan and all activities undertaken by the bankruptcy judge, the debtor and the creditor in connection with the reorganization.

## Literature review

The reorganization plan is a written agreement, on one side is the bankrupt debtor, and on the other side is the bankruptcy creditor, which defines the way in which the financial condition and stability of the debtor / debtor enterprise will be restored, and the manner in which the claims of bankrupt creditors will be paid / settled in a special court procedure is defined.

There are several ways to carry out the reorganization, depending on whether with the reorganization it returns the legal subjectivity to the debtor and its governing bodies or not, a distinction is made between reorganization which continues the legal subjectivity of the debtor enterprise and reorganization by division of part of the enterprise income from the debtor's property structure.

The first way of reorganization is realized so that the debtor is allowed to continue to manage and dispose of all his property or only part of it. Thus, the reorganization plan proposes that the debtor and his governing bodies continue with the entrepreneurial work and with it return the creditor's requests, ie the governing bodies are given a second chance to improve the debtor's financial situation. With this proposed plan, in addition to the fact that neither the status nor the form of the firm changes, the way of equalization / repayment of bankrupt creditors is also proposed. However, by changing the property structure of the debtor, a plan for reorganization can be realized, but in this case the result from this reorganization remains the same and the debtor continues to exist

With the reorganization plan it is possible to achieve a complete change / change of the debtor's property structure and the arrival of creditors or third parties in their country, and this will be achieved in such a way that only part or all of the liabilities will be paid / equalized. of the debtor to the creditors with shares or with shares which are owned by the co-owners, respectively the shareholders.

All this can be achieved even when a reorganization plan is proposed which increases the main base of the association through shares and shares of creditors or investors. But, not only with the involvement of investors in the property structure, they can also be involved with depositing and obtaining a guarantee or other insurance to meet the debtor's obligations. Another possibility to carry out the reorganization is by changing the agreement of the association, the status of the association or by another founding act or other act of the bankrupt debtor, which determines the special rights of the submitter of the reorganization plan. Another possibility, the reorganization can be carried out by giving special consent to the debtor for personal guidance

The second type of reorganization is realized with different status of the debtor, ie with its union with one or more persons and elimination of the debtor from the payment circulation.

With this type of reorganization, all the property or part of the debtor's property is transferred to one or more legal entities that exist or will be established. The obligations of the debtor creditors will be taken over by the new association which was formed by joining the debtor.

These measures should be taken only in addition to other reorganization measures; with independent functioning of these measures one gets the impression that no reorganization is carried out, but goes to the claim of ownership of the debtor / debtor

#### **Case study of the reorganization processes of a legal entity in RNM-ALKONPROEKT Tetovo**

The main reason that brought this company in the opening of bankruptcy proceedings is that the debtors did not fulfill their claims on time, so they did not fulfill their obligation on time, which made it impossible to process the work and the entire enterprise. . Thus, in 2017, the revenues were not able to cover the expenses or the company could not settle all the obligations to the suppliers in a timely manner, so the suppliers started lawsuits due to the non-expiration of the lawsuits. Years that generate losses of the company for 4,118,614.00 denars. This was the main reason why this company did not have the opportunity to avoid the bankruptcy process. This loss that generated in 2017 was carried over to 2018, increasing to 12,065,287.00 denars, a loss that greatly increased the costs of the enterprise, unplanned costs that were costs of lawsuits, costs of interest, costs of bailiffs and many other expenses

#### **Financial analysis of ALKNPROEKT - Tetovo**

The analysis of the financial situation of this company is made based on the Balance Sheet and the Income Statement. Also based on financial analysis, calculating the main financial indicators as well as liquidity, debt and probability or profitability, in the period from 2014 to 2019 / 20 y.

Structural and dynamic analysis with financial indicators from the last 6 years of the company's work (2014 - 2019/20 y) has been done.

Financial statements represent the blood statements of the operation of an enterprise, therefore all anomalies of a company should be distinguished through financial analysis. Financial analysis provides information about financial position, performance, changes in capital, liquidity, debt and probability or profitability, etc.

The following analysis will include the Balance Sheet and Success Balance Analysis, ie includes the horizontal balance sheet analysis to see the movement (change of balance sheet items), the vertical balance sheet analysis (to see the inclusion of certain items, in assets and liabilities, which will enable the assessment of the placement of assets and resources of assets, respectively to verify if there are any anomalies in the structure of the balance sheet. profit / loss) to determine the strength of the company's revenue.

#### **Balance sheet analysis at ALKONPROEKT Tetovo**

Also, the analysis of the balance sheet in the company ALKONPROEKT Tetovo has been realized, it seems that the main indicators have been used, which enable a clearer and more realistic picture about the financial situation of the company. In the framework of the analysis of the balance sheet, I will make the horizontal and vertical analysis (analysis in structure), of the last 6 years of operation of the company (2014 - 2019/20 y.)

Horizontal balance sheet analysis ALKONPROEKT						
						in:000
Year	2014	2015	2016	2017	2018	2019-2020 /with reorganiz. plan
Enterprise tools	1,958,153	607,896	730,548	648,071	585,023	10,685,010
Circulating tools	82,167,412	75,743,379	29,849,310	107,134,000	112,784,454	112,819,454
<b>Total Active</b>	<b>84,125,565</b>	<b>76,351,275</b>	<b>30,579,858</b>	<b>107,782,071</b>	<b>113,369,477</b>	<b>123,504,464</b>

Capital and reserves	9,492,549	10,763,394	1,648,451	(2,470,163)	(14,535,450)	66,186,452
Long-term and short-term liabilities	74,633,019	65,587,881	28,931,407	110,252,234	127,904,927	57,318,012
<b>Total Liabilities</b>	<b>84,125,568</b>	<b>76,351,275</b>	<b>30,579,858</b>	<b>107,782,071</b>	<b>113,369,477</b>	<b>123,504,464</b>

*Source: Calculation by the author Agron Arifi-Bankruptcy Director.*

Based on the tabular data of the company Alkonproekt Tetove, analyzing the assets of the balance sheet, we can conclude that in the last 6 years there are many changes in fixed assets from 2014 to 2018 we have a decrease in fixed assets as a result of the regulation of depreciation of fixed assets, while significant increases in this position are recorded in 2019/2020 with the opening of bankruptcy proceedings, where the capital owned by the enterprise was not recorded in the accounting and after the valuation of capital in in 2019 by the appraiser authorized for evaluation, the assets of the enterprise increased to 10,685,010.00 denars, which shows a very large increase in fixed assets compared to 2018, this was a very high increase. So, after the decline from 2014-2018, again with 2019/20 marked an increase in fixed assets, as well as a very small increase in current assets. While we have liabilities also have very large changes in capital and reserves where we have a drastic increase from -

14 million denars in 2018 to + 66 million denars in 2019, which occurred due to the opening of bankruptcy proceedings. From this table we can conclude that we have very large changes in the liabilities or liabilities of the enterprise and that from 128 million denars liabilities, with the opening of the bankruptcy procedure these liabilities were reduced from 128 million denars to 57 million denars, this was a consequence bankruptcy proceedings, where almost a large number of believers did not attend the announcement of the opening of bankruptcy proceedings and did not submit their claims on time and if the debtors do not submit their claims within the time set by the opening of the bankruptcy bankruptcy proceedings they lose the right to claim and collect it

From all that we said above we clearly see that working capital compared to enterprise assets, have an upward trend as a result of increased demand to buyers. Namely, as mentioned above, until 2014 the company had a very positive solvency, which from not collecting claims from 2017 began to lose this solvency, this led to the inevitable opening of bankruptcy proceedings in 2019, but As a consequence and result of the bankruptcy procedure where the bankruptcy director compiled the Inventory List and the initial Bankruptcy Balance Sheet, it is clear that the assets of the enterprise and current assets are much larger compared to the liabilities of the enterprise even without calculating the interest on claims. ours that are close to twice as large. From the drafting and implementation of a reorganization plan it is concluded that the company is completely liquid and able to repay all its obligations to debtors.

In addition to what we said above, the avoidance of high levels of risk in the financial structure, through the gradual increase of leverage growth, ie the creation of a financial structure, where the requirements of the enterprise have a dominant share, not counting the interest (also from 2012 or 2013 v.) where it can include almost 100% of the amount of debt, thus creating a positive picture for the company and testifying to increased liquidity and financial stability. Where from the table we can see a continuous increase in claims, which from 2014-2019 reach the value of about 112 million denars, which means 200% reach interest-free value compared to the share of liabilities

## Conclusion

- Based on the reorganization plan we came to the conclusion that the company ALKONPROEKT Tetovo has the right to collect funds - claims. And if we were to compare the ratio of the assets of the enterprise with the liabilities, we find that the assets of the enterprise are twice as high as its liabilities.
- For the reorganization of an enterprise it is very important to take into account some real and practical elements that the enterprise will face, which elements will affect until the settlement of obligations through the reorganization process:
- Is it very important to see how long the firm has been blocked?
- How long is it illiquid?
- It is very important to know if the basic tools (machinery) are working?
- Are buyers still interested (concluding contracts with buyers ahead of time so that they are safe)?
- Duration of repayment of obligations based on the reorganization plan

It is worth noting that the duration of the financial stagnation or how long the firm has been blocked has a special importance in the course of the bankruptcy process from which it can be concluded whether the firm will cease its activity or open reorganization proceedings.

Liquidity is a crucial indicator in the development of the activity of enterprises and when it is questioned then the longevity of the enterprise is violated.

Fixed assets (park machinery) are key elements of the production process and if they are in working order at the moment of opening the bankruptcy process then they will affect the course of this process.

Demands for the purchase of products by buyers have a significant impact, especially when they are interested and willing to enter into contracts and make payment advances for the production of products when the firm is in financial crisis, are the ones who can keep alive an enterprise.

ALKONPROEKT the time period of blocking the financial means has been short, approximately 6 months.

ALKONPROEKT the first signs of illiquidity are presented at the end of 2017 and 2018, while in 2019 with the opening of the bankruptcy procedure and the Initial Bankruptcy Balance it is clear that this company is very liquid and has sufficient funds with which may fulfill all obligations to debtors filed during the bankruptcy process.

ALKONPROEKT fixed assets have not been registered in the accounting and with the opening of the bankruptcy process, the inventory of all fixed assets was made and the land which was owned by the enterprise was ascertained, which helped this enterprise to open the bankruptcy process. with reorganization plans and to continue its activity.

ALKONPROEKT many buyers were willing to enter into contracts and continue the cooperation with the construction company which possessed all the Construction Licenses,

which is a second opportunity for the company to be reorganized through the bankruptcy process.

ALKONPROEKT we have a reorganization plan based on which the settlement of obligations has been done.

ALKONPROEKT we have a reorganization plan through which all the costs of the bankruptcy procedure are paid and at the same time the obligations to the debtors are paid.

According to the reorganization plan, the settlement of obligations is done in this way:

1. Bankruptcy proceedings costs
2. Settlement of claims filed in the opening of bankruptcy proceedings.
3. Payment of creditors separately - outside the bankruptcy procedure
4. Payment of creditors with secured claims.
5. Payment of all expenses that will be incurred during the reorganization plan.

Thus, the reorganization (revival) of the enterprise is a second opportunity or chance for the legal entity to continue its life or business in the market, only through the bankruptcy procedure with a reorganization plan.



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