

## Analysis of the possible impact of the COVID - 19 on the deepening of companies in crisis in the hotel sector

Renáta Stanley<sup>1</sup>

<sup>1</sup> University of Economics in Bratislava  
Faculty of Economic Informatics, Department of Accountancy and Auditing,  
Dolnozemska cesta 1, 852 35 Bratislava 5, Slovak Republic  
E-mail: renata.stanley@euba.sk

**Abstract:** *Businesses entities have to constantly adapt to an agile market environment, which has been significantly deepened by the COVID - 19 pandemic. The most affected sector is considered to be the tourism and hotel industry. The aim of this paper is to analyze the companies that have found themselves in crisis and the possible impact of the pandemic on the financial situation of these companies in the hotel industry in the Banská Bystrica region.*

**Keywords:** *companies in crises, financial analysis, financial indicators, COVID-19*

*JEL codes: G01, M41*

### 1 Introduction

The impact on the company that got into the crisis has not only on the company itself, but also all involved entities with it. No investor or business entity wants his investment to fail or his claim against the failed company uncollectible. For this reason, it is necessary to regularly monitor companies as business entities to see if they have gone into crisis.

The aim of this paper is to analyze the financial situation of companies operating in the hotel industry, which got into the crisis and evaluate whether the crisis could have caused or deepened the consequences of the COVID - 19 pandemic, as this sector is one of the sectors most affected by the pandemic.

Ondrušová, L. (2017) from the University of Economics in Bratislava also addresses this issue, which published an article in the proceedings of the international scientific conference: Zuberec - University center UNIZA entitled Company in crisis from the point of view of the shareholder. The article points to the view of investors in companies that have entered the crisis. Another contribution to this topic is devoted by the author Ondrušová, L. (2016) entitled Company in crisis from the point of view of accounting in the Journal of East European Science and Research: scientific peer-reviewed journal, in which it deals with companies in crisis from an accounting perspective.

Various other calculating financial ratios in insolvency and liquidity are dedicated to authors like Lukac, J. (2017) in the Proceedings of the international conference: Zuberec - University Center UNIZA article entitled Application of the IFRS accounting system and its impact on the change of selected financial indicators of the company and Kubaščíková, Z., Pakšiová, R. (2015) in their Impact of accounting standards on the results of financial analysis. Manová, E. (2016) presents in his paper The Influence of Accounting Information in the Financial Statements in Accordance with IFRS on Selected Financial Indicators. The view of solvency is provided by Katričková, D. (2016) in her paper Preparation and progress of the draft Solvency II. The mentioned contributions were also an inspiration when writing this contribution.

The term "company in crisis" was introduced with effect from 2016 by an amendment to Act no. 513/1991 Coll. the Commercial Code, as amended (hereinafter referred to as the "Commercial Code"). The purpose of establishing this legal institute is to prevent companies with an unfavorable financial situation from paying certain liabilities to their shareholders, primarily at the expense of the liabilities of their creditors. In this way, the company could spend funds and creditors could remain dissatisfied and dependent on bankruptcy proceedings. This restriction only applies if the company is in crisis. Ondrusova, L. (2016)

The company is in crisis in case of:

1. **negative equity** - negative equity is a major problem for a company, as such a company should file for bankruptcy if it has at least one creditor;
2. **insolvency** - an insolvency is considered to be a business company that is unable to repay at least 2 monetary obligations to more than 1 creditor 30 days after the due date. However, this information is difficult for an external assessor to obtain, as the number of liabilities to individual creditors does not have to be reported in the company's accounts;
3. if it has a **low ratio of equity to liabilities**. In 2016, a company in crisis was considered to be a company with a ratio of equity to liabilities of less than 4 to 100 (value of equity / value of liabilities). In 2017, the company was in crisis due to the low ratio of equity and liabilities when the ratio of its equity to liabilities was less than 6 to 100. Since 2018, the decisive ratio of equity to liabilities has become 8 to 100.

## 2 Methodology and Data

For the purposes of the research, I relied on the legal institute of the company in crisis as defined in The Commercial Code, according to which a company is in crisis, which is in danger of bankruptcy or is in bankruptcy. The definition of a company in bankruptcy is defined in § 3 par. 1 of Act no. 7/2005 Coll. on Bankruptcy and Restructuring, as amended (hereinafter referred to as the "Bankruptcy and Restructuring Act") as a company that is over-indebted or insolvent.

The company is over-indebted if the it has **negative equity** value, so the value of liabilities exceeds the value of the assets.

Here's how to view this relationship:

$$\text{Equity} = \text{Assets} - \text{Liabilities} \quad (1)$$

In assessing **insolvency**, I will use the total liquidity for the purposes of the calculation, calculated according to the following relationship:

$$\text{L} = \text{current assets} / \text{current liabilities} \quad (2)$$

where it is valid if  $L < 1$  the company is insolvent.

In addition to the above two options for determining whether a company is in crisis, there is another alternative - determining the **ratio of equity and liabilities**, shown by the formula:

$$\text{Equity} / \text{Liabilities} \quad (3)$$

Since 2018, if the equity to liabilities ratio is less than 8 to 100 (0.08), the company is in crisis.

The subject of the research was made on a selected sample of 21 companies is whether the company is in crisis and whether this crisis was caused by the COVID - 19 pandemic. The surveyed companies were from the Banská Bystrica region, which operate in the hotel sector and have the legal form of business as a limited liability company. Due to the complexity of doing business in this industry and the frequent demise of companies, I chose the option of only existing companies. For a sufficient informative value in time, I chose the years 2018 - 2020 for the researched period.

I obtained data for the analysis of reported facts from freely available published sources on the Internet - <http://www.registeruz.sk/> (Register UZ [online], 2021), <http://www.finstat.sk/> (Finstat [online] , 2021) and from some existing homepages of filtered businesses as of 28.7.2021.

The methods that are used in this article for research purposes are methods of comparing liquidity indicators, a ratio indicator in companies engaged in hotel services in the period 2018 -2020.

### 3 Results and Discussion

The first condition that companies must meet in order for the "Company in crisis" institute to be applied is a condition of legal form. A company in crisis can be a joint stock company, a simple joint stock company, a limited liability company and a limited partnership whose shareholder is not a natural person.

Section 67i of the Commercial Code also lists exceptions within the mentioned companies, but these will not be the subject of examination in this article. The selected sample has the legal form of a limited liability company, for this reason I consider this condition to be met.

**Table 1** Sample of the limited liability companies in Banská bystrica region

No.	Name of company	Town	Size category/Notes
1	BAD, s.r.o.	Vlkanová	small
2	BP HOTEL s.r.o.	Banská Bystrica	micro
3	CAL, s.r.o.	Banská Bystrica	micro
4	DONLY, s.r.o.	Donovaly	the financial statements have not been prepared correctly, it is not meaningful
5	Euroconsult, s. r. o.	Banská Bystrica	micro
6	Hotel Národný dom, s.r.o.	Banská Bystrica	small
7	KRÁLIKY, spol. s r.o.	Králiky	micro
8	KUPRUM s.r.o.	Hronsek	micro
9	LARAH s.r.o.	Banská Bystrica	small
10	MOUNTAIN GATE Suites & Spa, s.r.o.	Donovaly	small
11	MTG Services s.r.o.	Donovaly	missing statements for the reference period
12	Madres spol. s r.o.	Banská Bystrica	missing statements for the reference period
13	PROJEKT HORIZONT SLOVAKIA spol. s r.o.	Ľubietová	missing statements for the reference period
14	Pod horou, spol.s r.o.	Selce	micro
15	Remeda s.r.o. „v konkurze“	Banská Bystrica	missing statements for the reference period
16	SB, s.r.o.	Slovenská Ľupča	micro
17	SKI HOTEL, s.r.o.	Banská Bystrica	micro
18	Spiežovec, spol. s r.o.	Banská Bystrica	small
19	Tatry Hills s.r.o. v likvidácii	Donovaly	missing statements for the reference period
20	Vega plus s.r.o.	Donovaly	small
21	Zerrenpach s.r.o.	Banská Bystrica	micro

Source: Register UZ [online], 2021

From the register of financial statements website I could find out, that already from the sample of the companies were 5 of them with no financial statements from period before 2014, which means they are already in liquidation process or bankruptcy and DONLY has the financial statement prepared incorrectly and data doesn't give the informative value.

The remaining 15 companies were examined in all three areas for the designation company in crisis, namely negative equity, insolvency and a ratio of equity to liability of less than 0.08.

**Table 2** Overview of indicators of companies in crisis applied in the Banská Bystrica region in the hotel sector

No.	Year	Company	Equity (1)	Equity/ Liabilites (3)	Insolvency (2)
1	2018	BAD	5 651 445	1,28	0,13
	2019		5 724 494	1,39	0,25
	2020		5 903 689	1,65	0,37
2	2018	BP HOTEL	-11 712	-0,01	3,74
	2019		-11 168	-0,01	1,19
	2020		-9 847	-0,01	1,36
3	2018	CAL	121 023	0,15	0,22
	2019		131 822	0,18	0,15
	2020		158 651	0,22	0,26
4	2018	Euroconsult	109 496	1,59	4,49
	2019		115 889	0,21	0,04
	2020		116 076	0,15	7,21
5	2018	Hotel Národný dom	20 000	0,01	1,06
	2019		8 343	0,01	0,96
	2020		2 786	0,00	0,68
6	2018	KRÁLIKY	-79 032	-0,63	0,21
	2019		-97 369	-0,70	0,14
	2020		-114 862	-0,70	0,23
7	2018	KUPRUM	183 088	3,95	5,62
	2019		187 929	4,24	6,13
	2020		130 740	5,82	7,08
8	2018	LARAH	-1 069	-0,04	0,96
	2019		29 022	53,74	41,54
	2020		26 934	26,64	14,10
9	2018	MOUNTAIN GATE Suites & Spa	-372 499	-0,04	1,90
	2019		-197 465	-0,02	1,90
	2020		-261 973	-0,03	2,04
10	2018	SKI Hotel	-379 903	-0,52	0,44
	2019		-397 955	-0,47	0,42
	2020		-462 739	-0,50	0,37
11	2018	Pod horou	12 187	5,41	6,41
	2019		16 491	8,92	9,92
	2020		23 354	9,72	10,73
12	2018	SB	52 689	0,19	0,11
	2019		37 450	0,14	0,08
	2020		10 307	0,04	0,07
13	2018	Spiežovec	143 666	0,08	0,12
	2019		157 336	0,09	0,17
	2020		87 034	0,05	0,15
14	2018	Vega plus	-235 006	-0,21	0,29
	2019		-216 212	-0,18	0,32
	2020		-199 142	-0,18	0,32
15	2018	Zerrenpach	889 216	2,48	0,73
	2019		1 008 079	0,78	0,28
	2020		3 723 704	5,85	0,81

Source: own processing based on Register UZ [online], 2021

It can be seen from the above table that, with the exception of two companies, each of them has a problem in a certain area, which can lead to a company in crisis. These difficulties are highlighted in red as a warning signal to company heading towards a crisis.

The companies Králiky, SKI Hotel and Vega plus have problems in all three areas during the entire monitored period of 2018 - 2020.

LARAH reported positive equity in 2019 compared to 2018, which was due to the transfer of liabilities to the owner as its capital fund.

On the contrary, if we are to observe the decline in 2020 caused by a pandemic, we will find from the monitored sample only two companies that recorded a drop to unfavorable numbers, namely SB and Spiezovec.

## Conclusions

Based on a survey of indicators of whether a company is in crisis, conducted on a sample of 21 companies operating in the hotel sector in the Banská Bystrica region, I came to the conclusion that doing business in this sector is obviously challenging due to high initial investment and slow return. embedded resources. In the research, I was interested in how the COVID - 19 pandemic influenced these companies, which are considered to be the most affected. From the results, I come to the conclusion that, thanks to state support, there has been no significant decline in the financial situation of these companies, or that these companies have expanded or changed the scope of services provided to keep them functioning. Although this pandemic has hit us in a negative way, it has also opened up new opportunities for us to improve our business.

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