The development of a company in crisis from the point of view of joint-stock companies

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Abstract: *The implementation of business activities in the Slovak Republic is affected by legal regulations as well as the overall state of the business environment, which is influenced by the situation at home and in the world. Since 2016, a legal regulation was introduced in order to regulate the business environment due to the institution of companies in crisis, where legal impacts on companies were established, which increased the company's obligations due to obligations to the shareholders and therefore caused companies to have problems in connection with the payment of obligations to real creditors. Subsequently, in 2020, various restrictive measures were introduced due to the Covid-19 pandemic, which had an impact on the functioning of commercial companies, which resulted in an increase in liabilities due to various loans. We examine the impact of the measures taken in this article on the development of companies in crisis from the perspective of joint-stock companies.*

Keywords: *crisis, impending bankruptcy, equity, liabilities*

JEL codes: M41, M48

1 Introduction

Legal regulation in the Slovak Republic, specifically Act No. 513/1991 Coll. The Commercial Code, as amended (hereinafter referred to as the "Commercial Code"), establishes an obligation for certain capital companies to determine whether their company is in crisis or not. These are business companies, which are either a limited liability company, a joint-stock company, a simple joint-stock company and a limited partnership, the general partner of which is no natural person.

The introduction of the company in crisis institute was established as a reaction to the tunneling of business companies by partners, shareholders and at the same time the inability of companies to pay their obligations to their creditors,as a result the non-payment of obligations caused existential problems and forced them to end their business activities and go into liquidation or. bankruptcy. Small and medium-sized enterprises had the biggest problems (Hilmersson, 2014), on which the impacts were strongest in the case of non-payment of obligations by creditors.

Subsequently, in 2020, business companies had to focus not only on the ability to repay their obligations, but also had to change their process and course of business activities in connection with the COVID-19 pandemic. The implementation of a business activity had to change due to the influence of many restrictive measures,that had an impact primarily on the movement of people within the country as well as throughout the whole world and thus affected also the quality of life of people as well as the activities of business entities and the decision-making of managers when carrying out business activities (D´ zwigoł et al., 2019). In the Slovak Republic, the pandemic began to affect business activity from March 2020, when establishments and borders were closed, as a result economic and social life was restricted. It was due to these measures that many business entities lost the opportunity to carry out business activities to the extent that they were used to, or they had to come up with new possibilities and modifications in the implementation of business activities in order to ensure their continued existence, sustainability and competitiveness in the market.

The introduction of many restrictive measures in connection with the pandemic also had an impact on the decision-making of managers, owners and investors of business companies, who had to take into account various consequences during the decision-making process, which will have an impact on the very existence of the company in the future (Mevorach, 2013).

In connection with these measures, we should not forget the requirements that already exist for business entities due to the implementation of business activities and the impact on the institution of the company in crisis. Before the introduction of the company in crisis institute in most commercial companies, partners and shareholders provided the company with various loans, credits and other similar services, thus solving the problem of a lack of funds in the company and preferring this option to obtaining loans from banking entities, respectively. before increasing the share capital or other equity components (Gao, J.; Alas, R., 2010). It is precisely in connection with the pandemic that it is necessary to keep in mind such solutions of partners, shareholders, so that, for the purpose of helping the company in which they have a share in the share capital due to restrictive measures by the state in dealing with the pandemic, they do not allow the business company to have problems due to an increase in liabilities. which can lead to a crisis for the company. At the same time, it is necessary to solve problems with a lack of financial resources, taking into account the requirements of business ethics, which assesses the economic activities of the company on the basis of moral values, where the primary goal is not profit maximization, but with a focus on long-term development and prosperity (Meluchová, Mateášová, 2015).

The aim of this contribution is to analyse joint-stock companies and their development in connection with the institution of a company in crisis, both before the Covid-19 pandemic and during the pandemic.

A company in crisis is defined in the Commercial Code. According to Section 67a of the Commercial Code, a company in crisis is a company that is in bankruptcy or is at risk of bankruptcy. A company in crisis is also considered to be a company at the time from its dissolution to its entry into liquidation.

Bankruptcy is regulated in Act No. 7/2005 Coll. on bankruptcy and restructuring and on the amendment of certain laws as amended and represents the insolvency of the debtor or its extension. A commercial company is insolvent if it is unable to meet at least two monetary obligations to more than one creditor 30 days after the due date. A business is considered overextended if it has more than one creditor and the value of its liabilities exceeds the value of its assets and at the same time reaches negative equity. The value of liabilities as well as the value of assets is determined from the accounting record of the business company, or according to expert opinion, which takes precedence over accounting.

Impending bankruptcy is understood as a low ratio of a company's own resources (equity) when compared to its external resources (liabilities). The amount of equity and liabilities is determined from the accounting record of the given business company. If the accounting was not kept correctly, it is based on the assumed state that would have been if the accounting had been kept correctly.

The Commercial Code establishes the ratio of equity and liabilities, on the basis of which it is assessed as to whether the company is at risk of bankruptcy or that it is already in a state of bankruptcy. The ratio of equity to liabilities is set at 8 to 100 from 2018. In 2017, this ratio was set at 6 to 100, and in 2016, the ratio was set at 4 to 100.

The reason why the company must determine the ratio of equity and liabilities is crucial for assessing the nature of the services provided to the company. The intention is that certain payments that are provided to companies in crisis are considered from the company's point of view as payments replacing their own resources and primarily serve to satisfy the claims of other creditors.

Since the assessment of whether a company is in crisis or not is based on the accounting record of the business company, it is important that the accounting is kept correctly and that it provides a faithful and true picture of the facts that are the subject of the accounting record. Bankruptcy due to insolvency can only be detected from detailed accounting reports such as e.g. from the book of liabilities and inventory of liabilities. Bankruptcy due to the extension of a company and imminent bankruptcy can be detected by a business company in addition to accounting records, also from the financial statements. The financial statements are according to § 17 of Act no. 431/2002 Coll. on accounting, as amended, a structured presentation of facts that are the subject of accounting, provided to persons who use this information - users. The goal of the financial statements is to provide information about the financial situation, performance and changes in the financial situation of the accounting unit (Parajka, 2015). The financial statements also inform about how the management managed the entrusted resources (Šlosárová, Blahušiaková, 2017). The financial statements provide an overview of the amount of equity and liabilities, which allows one to determine their mutual relationship and assess whether the company is at risk of bankruptcy (Horváth et al., 2017). This ratio can be determined from the financial statements, which companies must publish in the register of financial statements.

Financial statements are compiled by business companies depending on their classification into a specific size group of accounting units, which are defined in the Accounting Act from January 1, 2015 (Stanley, 2017). These are micro accounting units, small accounting units and large accounting units.

The goal of introducing different size groups was to simplify the rules of accounting and the preparation of financial statements (especially in terms of administrative and financial complexity) for small and medium-sized enterprises, which play a central role in the economy of the European Union (Blahušiaková, 2021).

The Ministry of Finance of the Slovak Republic prepares models of financial statements for individual size groups of accounting units. The financial statement template for micro accounting units and also for small and large accounting units, which have the same financial statement template, is adjusted separately. Depending on this fact, we will examine the institution of the company in crisis according to the financial statement models for micro accounting entities and small and large accounting entities for the period from 2017 to 2020, compiled by joint-stock companies.

2 Methodology and Data

When investigating the issue of the institute of a business in crisis, our results were based on the provisions of the legislation related to the investigated issue. Subsequently, we applied the provisions of the legislation to joint-stock companies included in the size group micro accounting unit, small and large accounting unit, which have the obligation to examine the provisions regarding the institute of companies in crisis for the period of 2017, 2018, 2019 and 2020. We did not examine the year 2021 due to the incompleteness of the published data in the register of financial statements, as many companies have filed a postponement of filing their tax return until the end of June 2022 or until the end of September 2022, and thus they also have a postponement for the compilation, approval and publication of the financial statements.

When calculating the ratio of equity and liabilities, we used the data published in the register of financial statements, which represents a publicly available source of information about individual companies and their financial statements that they must publish. Subsequently, we analysed the obtained data and then drew conclusions.

3 Results and Discussion

Based on the available information published in the register of financial statements for the accounting periods of 2017, 2018, 2019 and 2020, we can find out how many joint-stock companies that must monitor whether they are in a crisis, were in a crisis before the pandemic as well as during the Covid-19 pandemic.

Table 1 shows the investigated number of joint-stock companies that published financial statements in the register of financial statements in individual years and at the same time these companies were not in a state of liquidation or bankruptcy. We only list the number of examined companies, and therefore these are joint-stock companies that are not in liquidation or in bankruptcy.

Table 1 The number of investigated joint-stock companies

	2017	**2018**	**2019**	**2020**
Micro accounting units	1 563	1 646	1 677	1 739
Small and large accounting units	3 681	3 666	3 638	3 599
Summary	5 621	5 650	5 601	5 555

Source: Own processing based on data available in the register of financial statements

Based on the data presented in Table 1, we can conclude that the total number of joint-stock companies that have published financial statements in the register of financial statements and at the same time are not in liquidation or bankruptcy is decreasing. However, the number of joint-stock companies preparing financial statements as micro-accounting units is increasing, and conversely, the number of joint-stock companies preparing financial statements as small and large accounting units is decreasing.

By examining the available information, through which it is assessed as to whether the company is in crisis, i.e. whether it is in bankruptcy or impending bankruptcy, we can assess the imminent bankruptcy of the company based on the ratio of equity and liabilities and the bankruptcy of the company from the point of view of the extension of the company. Based on the assessment of the information obtained from the published financial statements of joint-stock companies, we can state that there are deviations in the obtained data, which arise on the basis of poorly filled out reports or on the basis of non-publication of the financial statements in the register of financial statements. These deviations amount to approximately 5% of the obtained information. Abstracting these deviations, we present the number of joint-stock companies in crisis preparing financial statements as micro accounting units (MUJ) and as small and large accounting units (POD) in Table 2 for the years 2017, 2018, 2019 and 2020 from the point of view of the imminent bankruptcy of the company as well as from view of the company's bankruptcy as a result of the extension. Our results were based on the ratio of equity and liabilities, which is smaller than the legally established ratio of 8 to 100, for 2017 were based on the ratio of equity and liabilities, which is smaller than the statutory ratio for the given period of 6 to 100. Table 2 shows they examine data separately for the number of companies that are in debt - they have negative equity, the number of companies with zero equity and subsequently the number of companies whose equity and liabilities are positive numbers and whose ratio of equity and liabilities was greater or smaller than the ratio established in the Commercial Code, and thus these companies are not in a crisis from this point of view. At the same time, during the calculation, we did not examine companies whose liabilities were negative, as in this case they were companies that incorrectly filled in the data in the balance sheet, and at the same time we did not examine companies whose liabilities were 0, as the result would be lower when calculating the ratio as a ratio established by the Commercial Code.

Table 2 Number of joint-stock companies in imminent bankruptcy or in debt - micro accounting units (MUJ), small and large accounting units (POD)

	2017 MUJ	2017 POD	2018 MUJ	2018 POD	2019 MUJ	2019 POD	2020 MUJ	2020 POD
A Joint-stock company in arrears	291	481	284	455	280	438	277	406
A joint-stock company in imminent bankruptcy	117	214	149	261	133	257	125	250
A joint-stock company that is not in crisis	1 124	2 961	1 173	2 926	1 222	2 918	1 295	2 917
% of joint-stock companies in crisis out of the total number of joint-stock companies examined	26,10 %	18,88 %	26,31 %	19,53 %	24,62 %	19,10 %	23,12 %	18,22 %

Source: Own processing based on data available in the register of financial statements

Based on the above information, we can conclude that the number of joint-stock companies that are in crisis is gradually decreasing, despite the start of the pandemic in 2020 and the restriction of business activities. The total number of joint-stock companies carrying out business activity is also decreasing.

Conclusions

In this contribution, we focused on the investigation of business companies in crisis, which are joint-stock companies, depending on their classification among micro accounting units or small and large accounting units.

For joint-stock companies of the type of micro accounting units, we can state that the level of companies in crisis is gradually decreasing. In 2017, 26% of joint-stock companies of the type of micro-accounting units were in crisis, and gradually, despite the pandemic, the number of companies in crisis is decreasing and in 2020 it reached a level of 23%, despite the increase in the number of joint-stock companies as micro-accounting units. The stated number of companies in crisis is relatively good, as it must be taken into account that many companies achieve long-term losses or they are starting their business and in order to start their business they took out loans that led them into a crisis.

In the case of joint-stock companies of the type of small and large accounting units, we can state that the number of companies in crisis remains at approximately 19%, despite the decreasing number of companies. At the same time, we can also state that this number of companies in crisis from this type of trading company is also in order, as it is necessary to take into account the situation in which they had to adapt to various restrictions that caused problems for companies to carry out business activities.

At the same time, we can state that in the first year of the Covid-19 pandemic, this pandemic did not have an impact on the number of companies implementing business activity, nor did it have an impact on the increase of companies in crisis. The total number of commercial companies implementing business activity is increasing and this increase was also in 2020, and at the same time the total number of companies in crisis is decreasing and this decrease occurred in 2020 as well.

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