BANKRUPTCY PROCESS OF AN ENTERPRISE IN
REPUBLIC OF NORTH MACEDONIA

Mr.Dardane Ismaili Imeri
Universiti of Tetova
dardane.i@hotmail.com

Dipl.ecc Agron Arifi
agron.arifi@hotmail.com

Abstrakti

In our society, bankruptcy is perceived as a very sensitive job, as a catastrophe which can hit any firm / association, its associates, creditors and employees in that association. From an extended bankruptcy procedure the consequences can be various, where after the closing of the debtor, the filing of a legal lawsuit of his property, brings that many families are left without work, firms are locked, while creditors may not be able to repay their claims for years, even if an agreement is reached with the creditors from the bankrupt debtor this would be in a very small percentage and the claims are almost never paid or repaid in full.

A tradition has been created for the debtor's property or assets to be alienated, ie sold at a very low price, so that this directly affects the percentage of payment and all this created negative consequences for the participants in the procedure, the creditors to behave in distrust of the procedure. of bankruptcy that often occurs in the Republic of Macedonia, which has recently become a tradition of businessmen Based on this, in this master thesis I will present a clearer picture of what really represents the debtor / debtor reorganization and what results will be achieved with

the debtor reorganization and what is the bankruptcy, what are the reasons and consequences and we will explain in detail the notion of bankruptcy and bankruptcy estate, the purpose of bankruptcy proceedings, the bodies in bankruptcy proceedings and the definition of bankrupt creditors

Prezentimi

In everyday life we constantly encounter the use of the term bankruptcy, bankruptcy proceedings, bankrupt debtor, bankrupt director, bankrupt creditor and many other terms which in themselves carry the word bankruptcy or bankrupt.
The word bankruptcy is of Latin origin, derived from the word concursus and that prefix con - indicates something in common, while the verb curere - means to run, which in translation means; to run together for any purpose, became the basis of predetermined standards, rules and conditions.

In the legal sense, bankruptcy as an institute of association law is defined as an undesirable way of terminating the legal entity of a trade association. However, bankruptcy is also a market instrument, through which the selection of successful associations is carried out by associations that have not managed to survive in the market, looking at bankruptcy from an economic point of view

Usually, bankruptcy is almost always reflected with the possibility that the debtor through the bankruptcy procedure to be deleted from the Central Commercial Register, to escape from the fulfillment of unfulfilled obligations creates a synonym of something negative, while that statement is created by the negative consequences, which there is bankruptcy against employees, their partners in firms against which bankruptcy proceedings are open.

Whenever it comes to bankruptcy as a notion, we must keep in mind that bankruptcy law is an important part of any legal system, including our legal system and its implementation, it is necessary for the economic market and that for these reasons : provides a procedure for forcible liquidation of non-liquidating associations, maximum payment of creditor claims and at the same time encourages creditors to invest in securing their rights to payment

Usually, bankruptcy is almost always reflected with the possibility that the debtor through the bankruptcy procedure to be deleted from the Central Commercial Register, to escape from the fulfillment of unfulfilled obligations

creates a synonym of something negative, while that statement is created by the negative consequences , which there is bankruptcy against employees, their partners in firms against which bankruptcy proceedings are open.

Whenever it comes to bankruptcy as a notion, we must keep in mind that bankruptcy law is an important part of any legal system, including our legal system and its implementation, it is necessary for the economic market and that for these reasons: provides a procedure for forcible liquidation of non-liquidating associations, maximum payment of creditor claims and at the same time encourages creditors to invest in securing their rights to payment

Study review

The main purpose of bankruptcy proceedings is to pay off or settle debts or claims of creditors in general. Another feature that makes this procedure different from all other enforcement procedures is its collective character in the payment of claims, where the creditor is paid individually by his debtors.

The bankruptcy procedure also represents the last chance of the creditors to repay / settle their claims from the debtor.
The first way of collective settlement of creditor claims is by applying the procedure for filing a lawsuit against the debtor / debtor's property and the distribution of the creditor's realized assets.

The second way of collective settlement of creditor claims is through the conclusion of a separate contract for settlement / settlement with creditors. The settlement agreement should be included with the proposed reorganization plan. The purpose of the reorganization plan is for the association to continue with further work to settle all obligations to creditors.

In the Bankruptcy Law, more precisely in article 3 is defined the purpose of the bankruptcy procedure, therefore in the article is:

The bankruptcy procedure aims at the collective settlement of the creditors of the bankrupt debtor (hereinafter: the debtor / debtor), by the transfer of the debtor's property and the distribution of the realized means (income) of the creditors or by means of a special agreement. to regulate the requirements set out in the reorganization plan, which is driven by the further preservation of the work of the debtor enterprise.

With the reorganization, the settlement of the requests before the opening of the bankruptcy procedure with conditions determined by this law can be performed.

Bankruptcy law also provides another opportunity to resolve the non-liquidity situation, organization or voluntary settlement of non-liquidity outside the bankruptcy proceedings. Another purpose in the bankruptcy procedure is to eliminate through this procedure the associations which failed to stay and exist in the economic market, all the companies which do not manage to pay the obligations to the debtors in a certain time.

This goal is also important in the so-called domino effect, which due to the inability of any creditor to collect the debt, causes the creditor to suffer from liquidity.

Bankruptcy law is precise regarding the persons against whom bankruptcy proceedings can be opened and against whom bankruptcy proceedings can not be initiated, therefore the law also states in detail to which property bankruptcy proceedings cannot be initiated, and It is the property of the Republic of Macedonia, to the funds financed from the Budget of the Republic of Macedonia, to the pension and disability insurance funds, to the Health Insurance Fund, to the local self-government units, to the state administration bodies, as well as to other legal entities. public authorization, but provided that by law they are excluded from bankruptcy proceedings.

A key and general condition for the realization of the bankruptcy procedure of a firm is the inability to pay obligations to its associates.
Insolvency is defined as a situation when the debtor / debtor is unable to repay the creditors' claims. Respectively, if in a period of 45 days, from which account, in which he was the bearer of the payment turnover, the obligation has not been settled or the amount which should have been paid according to the basis of payment / transaction that is in force, payment becomes insolvent / incapable.

In the legal regulations, even the conditions for opening / initiating bankruptcy proceedings are regulated in Article 5 of the Bankruptcy Law, and in paragraph 1 of this law it is stated that "bankruptcy or reorganization of the bankrupt debtor is realized when the bankrupt debtor is insolvent and awaits the next inability to repay the obligations ".

Then, in line 2 it is stated that the debtor / debtor is insolvent, if in a period of 45 days based on the transaction which is in force, the amount to be paid by any person who is the bearer of payment, but, these provisions can not be applied in these cases, and that, if it comes to taking the debt or if the debtor during the preliminary / previous procedure does not settle all claims that he had based on the transaction which is in force.

The Central Registry of the Republic of Macedonia issues a certificate proving that the debtor is insolvent.

The provisions from line 5 regulate the future insolvency, and it exists if "the debtor is proven that he will not be able to fulfill his existing obligations after their achievement.

In order to be able to more easily understand insolvency, the following notions need to be distinguished:

1. Outstanding liabilities, which have not yet reached payment,

2. Outstanding liabilities, which have reached payment, and which will be repaid late,

3. Outstanding liabilities, which have reached payment, but can never be paid.

From the first two notions we mean only the insolvency of the debtor, while in the third notion it is about insolvency / inability to pay.

Associations which can be considered liquid when they successfully carry out their activity, which means that they are able to pay all obligations on time, ie on time and in full, and meet them. all the possibilities for that successful situation in the realization of the obligations to continue in the future.

On the other hand, the first signs that an association begins to become illiquid are when the association first starts with the delay in the payment of liabilities to the associations with which it cooperates, then is delayed in the payment of liabilities to the banks, is delayed in the repayment of obligations to the state and the last stage, when it begins with the non-fulfillment of obligations to employees.

When these indicators are presented to an association, an overview is obtained which indicates that the association is beginning to become illiquid. But, this picture is only a warning indicator, which if taken seriously can be overcome, but if this does not happen and does not start with taking serious steps to overcome this stage, it is very clear and certain that insolvency / inability to payment very soon will become a reality.

A practical example of the bankruptcy process of a company in the Republic of Northern Macedonia

Analysis of the financial situation of "Shik Jelak" - Tetovo

The analysis of the financial situation of this company is made based on the Balance Sheet and the Income Statement. Structural and dynamic analysis with financial indicators from the last 7 years of the company's work (2003 - 2009)

Balance sheet analysis

The analysis of the balance sheet has been carried out using the main indicators, which provide a clearer picture of the financial condition of the company. In the following I will present the dynamic (horizontal) analysis of the balance sheet from 2003 to 2009.

Horizontal analysis of the balance sheet

In mil. denars.

	2003	2004	2005	2006	2007	2008	24.09. 2009
Basic tools	122.952	97.355	93.301	75.556	71.633	65.870	63.030
Circulating tools	164.611	184.268	167.654	201.821	193.145	196.876	196.629
AVR	2.102	773	710	710	/	/	/
Total Active	**289.665**	**282.396**	**261.665**	**278.087**	**264.778**	**262.746**	**259.659**
Capital and reserves	229.088	216.104	193.001	186.155	162.914	136.465	120.248
Long-term and short-term liabilities	60.520	66.235	68.664	91.932	101.864	125.669	138.799

PVR	57	57	/	/	/	612	612
Total source of funds	**289.665**	**282.396**	**261.665**	**278.087**	**264.778**	**262.746**	**259.659**

Bilanci i gjendjes
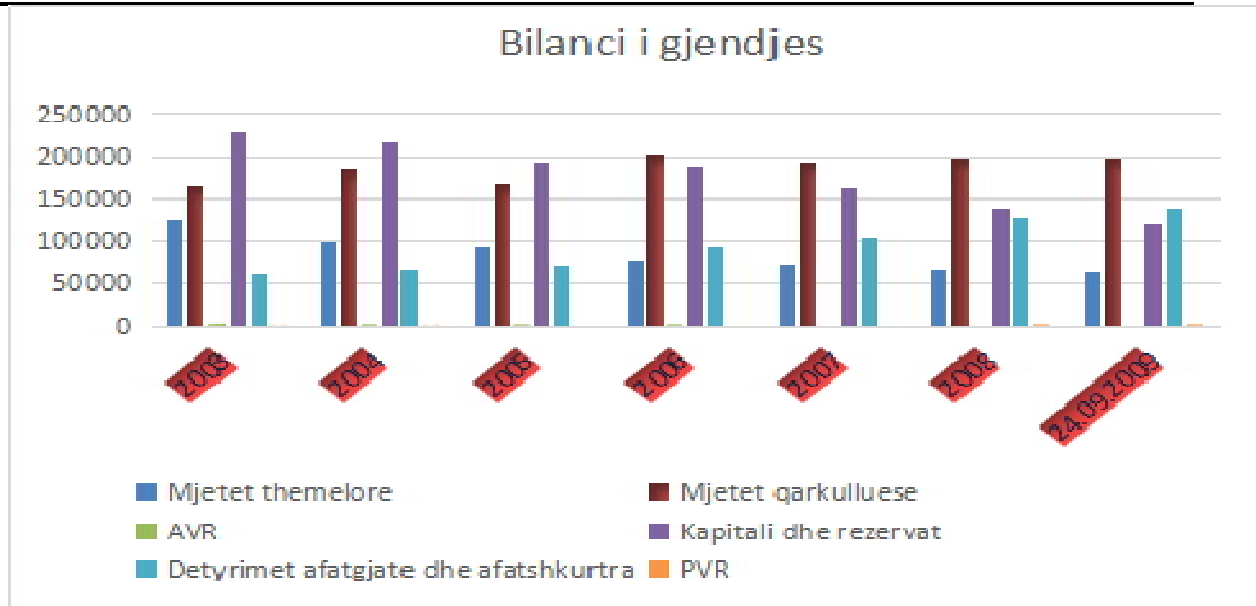
Source: Calculation by the author himself.

Based on the tabular and graphic data from the Balance Sheet of the years 2003-2009 we can see that fixed assets have a continuous decline where from 122,952,000.00 denars in 2003 they reach 63,030,000.00 denars on 24.09.2009 . Also the capital and reserves which in 2003 reach the value of 229,088,000.00 denars, while in 2009 they have been reduced to 120,248,000.00 denars.

On the other hand, we can see a continuous increase from year to year of long-term and short-term liabilities, which in 2003 were about 60,520,000.00 denars, while in 2009 they increased to 138,799,000.00 denars, which gives a negative signal of the financial condition of the company. We can say that over time in the company there are problems with liquidity and insolvency. Another important problem is the inadequate source of funds, which is explained in the following table.

	2003	2004	2005	2006	2007	2008	24.09 .2009	23.11. 2009*
Capital and reserves	79 %	77%	74%	67%	62%	52%	46,6%	23,9%
Long-term and short-term liabilities	21%	23%	26%	33%	38%	48%	53,4%	76,1%
Total source of funds	100%	100%	100%	100%	100%	100%	100%	100%

Based on the structure of asset resources, the problems faced by the company can be identified, where first of all lies the fact that most of its activity is financed by long-term and short-term liabilities.

Structure of asset resources as of 23.11.2009.

23.11.2009

Burimet e veta   Kreditë
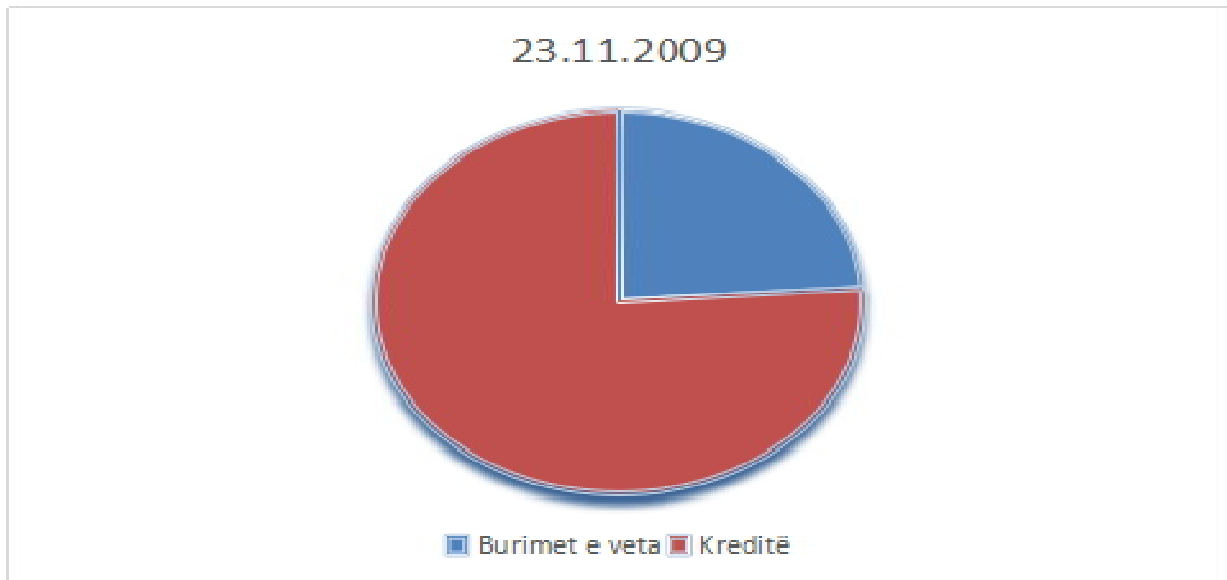
To have a true picture of the situation before the opening of bankruptcy proceedings in which the company was, I analyzed the balance sheet on 23.11.2009 and with the help of financial indicators.

Balance Sheet

	23.11.2009
Basic tools	263.559
Circulating tools	81.187
AVR	/
Total assets	317.746
Capital and reserves	76.176
Short-term and long-term liabilities	240.758
PVR	812
Total liabilities	317.746

Based on the balance sheet dated 23.11.2009, we can ascertain the alarming financial situation in which the company was, where the net working capital reaches the value - 159.971 (81,187 - 240,758), which is a signal of the impossibility of the company, which responds to obligations with its own means. The liquidity ratio on 23.11.2009 reaches 0.34 (81,187 / 240,758) and if we take into account the fact that this indicator in liquid companies should be 1 or greater than 1, it can be concluded that this company is illiquid, ie it is not capable to cover its obligations with its means.

Analysis of the success balance of "Shik Jelak" - Tetovo

The following is the table of the income statement from 2003 to ml 24.09.2009 y.

In mil. Denar

	2003	2004	2005	2006	2007	2008	24.09. 2009
Revenues	47.288	39.209	4.118	29.405	12.712	4.721	2.286
outlay	55.996	50.733	27.222	35.901	35.613	29.196	18.504
Loss	8.708	11.524	23.104	6.496	22.901	24.475	16.218

From the table we can conclude that revenues since 2003 have been continuously declining, even from 47,288,000.00 denars. They have decreased to 39,209,000.00 denars. In

2004. The largest decrease is observed in 2005 in the amount of MKD 4,118,000.00, then there was an increase in revenues as a result of the sale of some construction parts and land which it owned, this is noted in the Balance Sheet of 2006 submitted to the Central Register, where since 2005 Long-term assets are in the amount of 93,300,811.00 denars, while after the sale, in 2006 Long-term assets are recorded in the amount of 75,555,991.00 denars. And after that in the following years, respectively, in the years 2007, 2008 and 2009 there have always been reductions, which in 2009 reach the value of MKD 2,286,000.00.

Bilani i suksesit
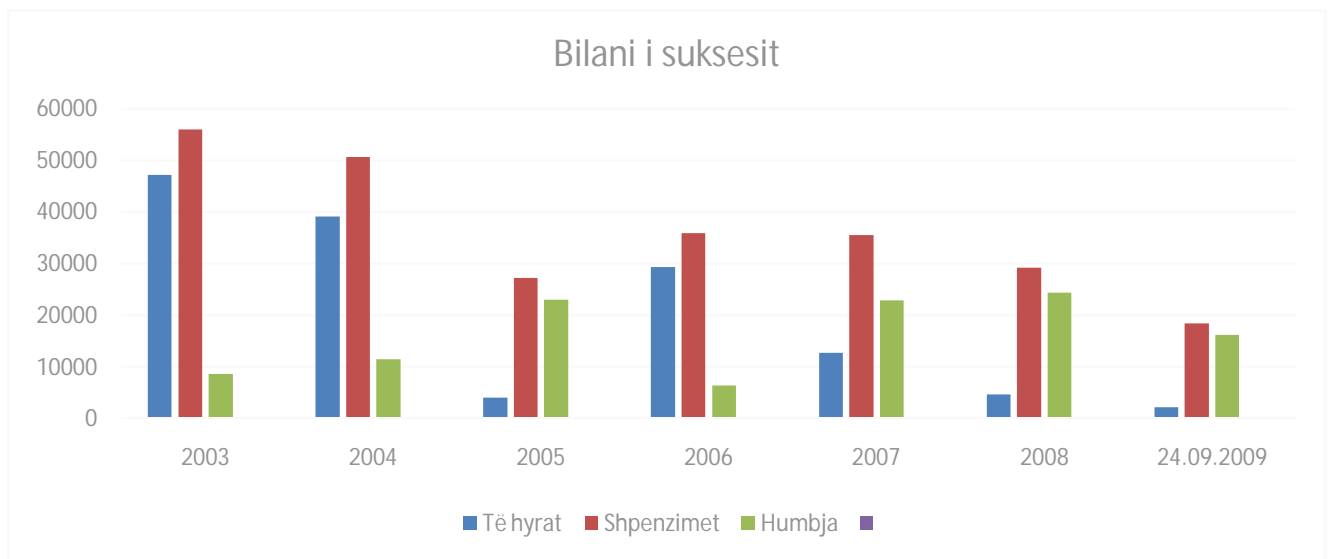
While if we look at the costs we will notice a decrease, as a result of the decrease in the activity of the enterprise, while the faster reduction of revenues does not offer the possibility of accumulation of positive results. We mean that the company since 2003 has continuously accumulated losses, which in 2003 reach the value of 8,708,000.00 denars. and in 2009 the loss becomes greater up to 16,128,000.00 denars. The lowest loss was in 2006, in the amount of 6,496,000.00 denars. As a result of the increase of revenues accumulated from the sale of fixed assets, while on the other hand the largest loss is observed in 2008 in the amount of 24,475,000.00 denars
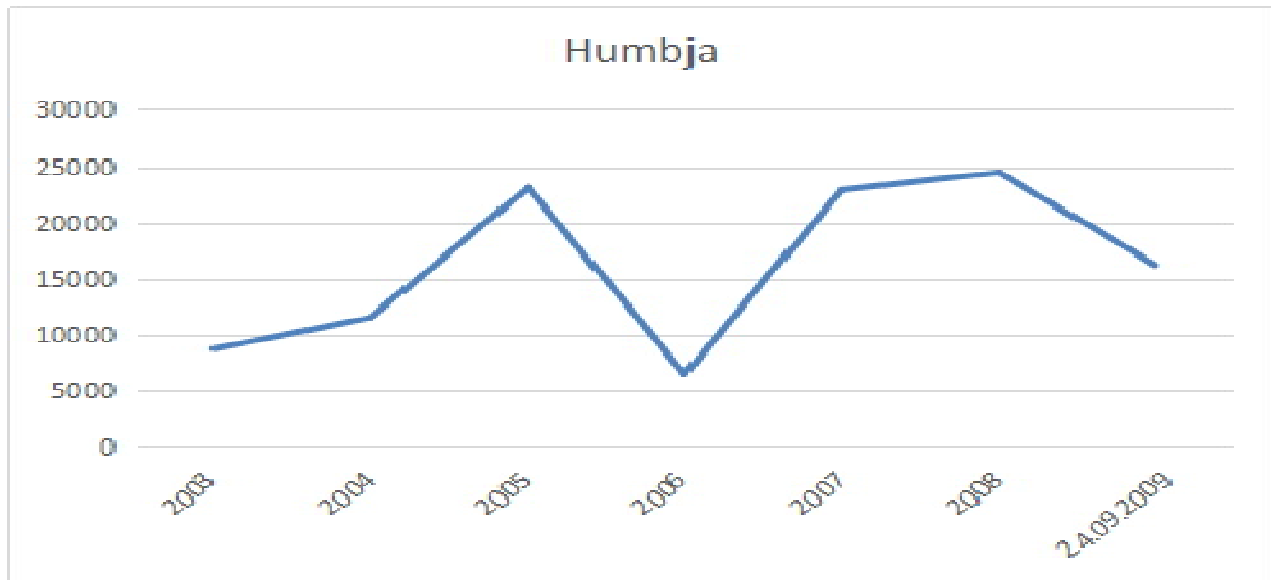
In order to define and specify the bankruptcy procedure in addition to the Horizontal and vertical methods in this study, we will specify the study of the bankruptcy processes of the enterprise in question even more by researching the financial result through **Altman Z-result**, which is one of the models very precise to ascertain the financial or bankruptcy situation.

Results obtained from the implementation of the Altman Z-score model:

There are a wide variety of techniques for measuring financial health. However, the Altman Z-score is a proven and reliable model that predicts the possibilities of bankruptcy of manufacturing associations, monitoring and consolidating the effect of all financial reports. According to world data, this model has an accuracy of 76.9% in predicting the possibility of bankruptcy (Beglez et al.1996). Altman (1968) sets out the prediction of five factors which can test the validity of the diverse model. The model is based on financial reports. Using financial reports bankruptcy forecasting can be up to 90% accurate (Chen & Shemerda, 1981).

The Altman Z-score model was subsequently implemented, based on annual reports from 2007-2010v. presented by the Tetek Yarn association.

$$\sum_{i=1}^{n} zi = 1.2x_{1i} + 1.4x_{2i} + 3.3x_{3i} + 0.6x_{4i} + 1x_{5i}$$

where

x_{1i} -working capital in relation to total assets. Working capital represents the difference between current assets and current liabilities, while total assets represent the sum of short-term assets and long-term assets

x_{2i} - accumulated profit in relation to the total Asset. This ratio shows the amount invested, ie the degree to which the assets are paid off by the company's profits. Companies that have a higher accumulated profit than total assets, means that their assets are financed by company profits and not through debt

x_{3i} - Profit before tax in relation to total assets. This shows the power of the company's profit accumulation

x_{4i} - The ratio of capital to total liabilities. This ratio measures the solvency of the company

x_{5i} - net sales in relation to total assets. This sales report reveals the ability to generate company assets and also varies from industry to industry

Firms that have a score greater than 2.99 are treated as companies that have good financial performance and are out of the risk of bankruptcy.

While firms which have a score between 1.81-2.99, are defined as firms that are in the ignorance zone or in the perh area. It also shows poor financial performance.

Whereas if the Z-score is less than 1.8, then this indicates low financial performance, which informs that the company is in the risk zone.

The calculation of Altman Z-score for the period 2005 - 2009 of Shik Jelak, is presented in the following table:

Years	1.2	X1	1.4	X2	3.3	X3	0.6	X4	1	X5	Z-result
2005	1.2	0.3783	1.4	0.0011	3.3	0	0.6	0.9105	1	0.0157	**1.0175**
2006	1.2	0.3952	1.4	0.0010	3.3	0	0.6	0.8567	1	0.1058	**1.0954**

| **2007** | 1.2 | 0.3447 | 1.4 | 0.0010 | 3.3 | 0 | 0.6 | 0.8998 | 1 | 0.0480 | **1.0031** |
| 2008 | 1.2 | 0.2710 | 1.4 | 0.0011 | 3.3 | 0 | 0.6 | 0.9142 | 1 | 0.0179 | **0.8932** |

The results obtained from this model show that the company has had a continuous decrease in the Z score, even from 2007 and 2008 with Z-score 1.01 and 1.09 respectively, this is a result with the lowest coefficients 1.8 that shows low financial performance, which informs that the company is in the risk zone. The reduction of the Z coefficient continues in 2007 and 2008, and that in 1.0 respectively in 2007, while in 2008 the Z-score reaches the lowest value with 0.89, so this deterioration of the Z-score, from year to year and that with drastic reductions, below 1.8 ranked the firm in the ranking of firms at high risk of bankruptcy. These low financial and risky results for the continuation of the production process have accelerated the opening of the bankruptcy procedure.

If we compare the results obtained from the implementation of the Altman model, in both companies analyzed we can see that Shik Jelak's company has had lower results, this also shows the inadequate structure of positions in the Balance Sheet, which has affected that in this case no measures are taken to open the reorganization procedure.

Conclusion regarding the state of the study

Entities are constantly looking for ways and means to remain competitive in the market, however the risk of failing to meet the growing demands of contemporary economic activity is acceptable and far more threatening than in the past, or until a few years ago. The failure of any entity appears in the form of bankruptcy, but there is a possibility of reorganization during the bankruptcy process or reorganization before the opening of bankruptcy proceedings. In the last decade the bankruptcy of entities or the inability to meet obligations has preoccupied the entire academic world. Bankruptcy of an entity is a multidimensional situation with chain reactions for society and the economy in general. At a time when the liquidity problem is involved in all economic spheres or financial institutions and economic units and up to every consumer in the market, credit risk is a major threat to the economy as a whole. Through the successful use of Altman Z-score models, a clear idea of the financial position of

the company taken in this study is given, which provides a clear financial overview of the calculation of the degree of risk and insolvency faced by the company, analyzing the exact position of the entity in the market

The main purpose of the study is the efficient use of modern methods of financial statement analysis and other analysis of static and dynamic performance of the company as an important tool for successful management of the company's bankruptcy process in view of reactivation or eventual bankruptcy. .

The results of the evaluation of the financial analysis calculated through the Altman model, it is clear that the legal entity shows that 5 years ago or since 2005 there were elements of bankruptcy, from the financial analysis it is clear that the bankruptcy of Shik Jellaki was inevitable, but through the bankruptcy process we came to the total repayment of the liabilities of the enterprise, which was impossible to realize when the enterprise was active, but this happens as a result of working capital and total real assets or real estate it possessed.

From the research done in this study we came to the conclusion that the financial analysis performed based on the Horizontal and Vertical methods as well as the Altman Z-score model are very important instruments to detect the real performance of the company, whether there are real financial elements that companies researched on the basis of these methods - models will be able to recover from the production process or they will be forced to cease to exist in the market

Regardless of the field in which the enterprise operates, regardless of the value of its assets, its name, goodwill and market power, there is a very important factor that plays a role in determining the final value of the enterprise, it is risk. The lower the risk taken under the Altman Z-score model in enterprises, assuming that most other factors remain unchanged, the higher the market stability of enterprises.

The main contribution of this paper is that in this paper we have tried to identify the main economic-financial indicators, on the basis of which different models of accounting data processing give the same bias of performance and financial condition in which the surveyed enterprises are located.

Literature:

Kostovski, D (2007) Bankruptcy Law - Comments

Kostovski, D and Hadzi Vasileva, B (2007), Reorganization of companies in the process of bankruptcy

Ministry of Economy of R.M

Official Gazette of the Republic of Macedonia, no. 52/91

Rufi Osmani, Financial Analysis - Authorized Lectures, SEEU

Law on Forgiveness, Official Gazette of R.M no.34 / 06

Law on Forgiveness, Official Gazette of R.M br.55 / 97