

Problems of Regulatory-Methodical Support of Diagnostics of Financial Conditions and the Threat of Bankruptcy of Enterprises in Conditions of European Integration¹

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Abstract – The article analyzes the national regulatory and methodical basis of diagnosing of such important parameters of enterprises such as financial conditions and the threat of bankruptcy. Based on the obtained results of analysing there are identified, generalized and justified the key contradictions of national regulations in the sphere of diagnostics of financial conditions and the threat of bankruptcy of enterprises according to the best European legal practice.

Key words – diagnostics, financial conditions, threat of bankruptcy, insolvency, enterprise, regulatory-methodical basis, contradictions, European integration.

I. Introduction

In terms of revitalization of European integration processes in Ukraine and globalization processes in the world the importance of socio-economic diagnosing of activities of domestic enterprises is increasing. In fact, successful establishment and further development of relationships between domestic and foreign partners at different levels (state authorities, financial, credit and insurance institutions, rating agencies, securities market participants, investors, intermediaries, contractors, businesses) require accurate, representative and objective information database obtained through target diagnosing. Recently stakeholders have been primarily interested in socio-economic diagnosing of such aspects of particular entities as their financial conditions and threat of bankruptcy. Target diagnosing is based on various techniques developed by the legislative authorities of Ukraine that are still being used to form special methodological guidelines for evaluating such priority operation areas of the diagnosed objects as their financial conditions and the threat of bankruptcy. Obviously, the methodological provisions reflected in the current national legal and regulatory framework should be standardized and unified for all users in both domestic and international environment to ensure exclusive regulation of key principles of diagnosing of financial conditions and the threat of bankruptcy of enterprises, as

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well as unified interpretation of the diagnostic results. Unfortunately, at present in the national legal and regulatory framework there are many problems associated with discrepancies, inconsistencies and contradictions of certain diagnostic methods. Considering all the above, there arises the necessity to study current national legislation and regulatory materials to identify existing conflicts in the area of diagnosing of financial conditions and the threat of bankruptcy of enterprises.

II. Main part of research

During the whole history of independent Ukraine there was developed and ratified quite a number of legal and regulatory documents regulating the foundations of performing socio-economic diagnosing of various operation areas of enterprises, in particular, their financial conditions and threat of bankruptcy. Thus, in modern conditions of active integration of Ukraine into the European economic environment it is required to pay special attention to those legal and regulatory documents that concern diagnosis of such priority operation areas of domestic economic entities as their financial conditions and threat of bankruptcy. The financial conditions should be evaluated not only as the key parameter determining the efficiency of the enterprise, but also as the adjuvant basis of identifying the solvency of enterprise, and, consequently, the possibility of its access to credit recourses, determining the expediency of making investments, etc. The threat of bankruptcy should be diagnosed with the aim to prevent and overcome the crisis situation at the enterprise and provide its survival and further progressive development. Thus, there is a need to systematize and analyze the key national legal and regulatory documents reflecting the special methods of diagnosing the financial conditions and the threat of bankruptcy of enterprises for identifying the essential contradictions in this sphere.

In the area of diagnosing the financial conditions and the threat of bankruptcy of economic entities the key regulatory documents are “Methodical recommendations concerning identification of the signs of the enterprise insolvency and the features of the actions signaling concealment of bankruptcy, false bankruptcy or incitement to bankruptcy” approved by the Order of the Ministry of Economy of Ukraine No.14 of January 19, 2006 (with amendments and additions), “The procedure of analyzing financial and economic conditions of economic entities of public enterprises and the enterprises in which the share of state ownership in the authorized capital exceeds fifty percent...” approved by the Ministry of Justice of Ukraine No.327/5 of February 26, 2013 (with amendments and additions), “Methods of conducting profound analysis of financial and economic conditions of insolvent enterprises and organizations” approved by the Order of the Agency on Preventing Bankruptcy of Enterprises and Organizations No.81 of June 27, 1997, “Methodical recommendations on analysis of financial and economic conditions of enterprises and organizations” (The Letter of the State Tax Administration of Ukraine No. 759/10/20-2117 of

January 27, 1998 [1–4] and others. These are substantial documents reflecting concrete indicators and formulas for their calculation with the reference to information sources for obtaining data, and the appropriate normative criteria. But the key problem of applying the provisions of these documents in practice is related to the fact that all of them are characterized by the obsolete information support of the diagnosing that will not result in appropriate accounting reporting. Besides, the developed methods of diagnosing in some of the named documents are overloaded with indicators, some of them being interrelated, interdependent and reciprocal and this demonstrates the necessity of optimizing their quantity based on including only the most representative and simple, calculations.

In particular, “Methodical recommendations concerning identification of the signs of the enterprise insolvency and the features of the actions signaling concealment of bankruptcy, false bankruptcy or incitement to bankruptcy” approved by the Order of the Ministry of Economy of Ukraine No.14 of January 19, 2006 (with amendments and additions) [1] include about 50 indicators which are economically insignificant and don’t represent and cover all functioning areas of the enterprise for diagnosing its insolvency and the threat of bankruptcy, but mainly concentrate on the evaluation of the entity’s profitability. Many of indicators are identical as to the formula of their calculation but have different names. They also don’t have the complete and grounded criteria base and information provision. All these problems lead to obtaining the ineffective and unadequate diagnostic results that can’t be used during the cooperation of domestic enterprises with foreign partners.

It is worth mentioning that in “The procedure of analyzing financial and economic conditions of economic entities of public enterprises and the enterprises in which the share of state ownership in the authorized capital exceeds fifty percent...” approved by the Ministry of Justice of Ukraine No.327/5 of February 26,2013 (with amendments and additions) [2] there is no concrete indicators-criteria base for diagnosing financial and economic conditions of public enterprises that would be absolutely applicable to such economic entities given the specifics of their legal form.

There are also some problems in qualitative diagnosing the insolvency and the bankruptcy of enterprises reflecting in The Law of Ukraine "On restoring debtor's solvency or declaring it bankrupt" No 2343-XII of May 14, 1992 (with amendments and additions) [5]. In particular, they concern the unbalanced consideration of the interests of debtor and creditors in the process of restoring its solvency or liquidation; ineffective monitoring, controlling, informative and consulting activities of state and local authorities for prevention of the bankruptcy of enterprises; ungrounded cost criteria for initiation of the bankruptcy of enterprise according to the realities of national economy and financial conditions of different domestic entities, etc.

Conclusion

On its way to European integration Ukraine unprecedentedly expands its cooperation with EU countries in different spheres, first of all, in the socio-economic sphere. The key priority in this situation is the development of unified objective and substantiated legal and regulatory framework to be used for socio-economic diagnosing by both national and international subjects to overcome various barriers and to ensure conflict-free relationships. Really, to guarantee the establishment of any cooperation it is necessary to develop single high-quality unified information base available to all its users, first of all, in the financial sphere of the diagnosed object. Such information base is a result of realization of target diagnosing at enterprises that is regulated by specific legislative and methodical documents. Unfortunately, the valid national regulatory-methodical basis of diagnostics of financial conditions and the threat of bankruptcy of enterprises is characterized by the existence of essential contradictions, ambiguities, lack of uniformity, versatility, standardization and validity of diagnostic methods, etc. All above mentioned problems must be solved on state and local levels by developing the unified and standardized regulatory-methodical basis of diagnostics of financial conditions and the threat of bankruptcy of enterprises according to international standards in conditions of European integration.

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