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ANALYTICAL SUPPORT FOR FINANCIAL RESTRUCTURING OF DEBT OF BUSINESS ENTITIES IN UKRAINE

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Abstract: The article investigates the presence of random diagnostics of the threat of insolvency of business entities and their functioning. One of the effective means of improving a critical situation is financial restructuring. Expanding the expert's analytical tools for reviewing financial and economic activities in the process of debt restructuring based on international auditing standards, international financial reporting standards, and others in the process of debt restructuring significantly affects the validity of his conclusions on the ability to continue operations. To achieve the set goal, general scientific, statistical methods and approaches, analytical tools were used: financial ratios, horizontal, vertical, trend analysis, factor analysis.

Keywords: financial restructuring; independent expert; financial statement analysis; financial model; cash flows, debtor; creditor; analytical tools.

JEL Classification: G32, M21, M40

Introduction

Under the influence of external and internal factors, an enterprise may be in a critical financial condition and, as a consequence, may become insolvent, which is a direct threat to its continued existence. For Ukraine, especially in the face of a full-scale Russian invasion, it is extremely important to continue business operations to maximize the country's defense capabilities. Financial debt restructuring with the help of arbitrators and independent experts is an effective method of pre-trial resolution of issues of restoring the debtor's solvency, gradual repayment of debts, including loans, and most importantly, resolving the issue of his further life and the stability of the financial system as a whole.

It is important for an expert in current financial restructuring practice to use analytical tools and indicators in accordance with ISA and IFRS when analyzing financial and non-financial information in order to substantiate conclusions about the debtor's ability to continue as a going concern. Increasing the role of the "working capital" indicator, establishing criterion values and its interpretation in the context of the distribution of financing sources and the risk of financial difficulties.

Basic Content of the Paper

The vital activity of a business entity is a necessary condition for its continued operation, implementation of the strategy in the short and long term, which is based on the assumption of continuity of activity in the accounting system. This is of particular importance in the conditions of a full-scale Russian invasion, the post-war reconstruction of Ukraine, and for strengthening the economic potential of the state. One of the effective tools for restoring one's financial and economic activities and solvency is financial restructuring based on an out-of-court agreement with creditors using various tools: debt reduction, deferral of repayment terms, restructuring of interest rates, and others.

According to the Law of Ukraine [1], in the financial restructuring procedure in a structured form, five main stages can be distinguished: preparatory, beginning of the procedure, independent examination, development and approval of the restructuring plan, implementation of the restructuring plan. The time horizon of the moratorium is limited to a period of no more than 90 days, but with the consent of the involved creditors, no more than 180 days.

In the implementation of the financial restructuring program in Ukraine, three main components are simultaneously involved: legal, economic and administrative to solve a complex solution - preserving the business, its resources, restoring solvency. The key role in this mechanism is played by an independent expert who must meet the established requirements: work experience (not less than 5 years) in the field of accounting, auditing, finance, economics, law, management; independence and objectivity; impeccable business reputation; not being a related person and not having a conflict of interest with the debtor/creditors.

The functional purpose of an independent expert is to conduct a review of the debtor's financial and economic activities (IBR - International Business Review) and the final conclusion is confirmation (not confirmation) of the prospects of the debtor's work (Fig. 1).

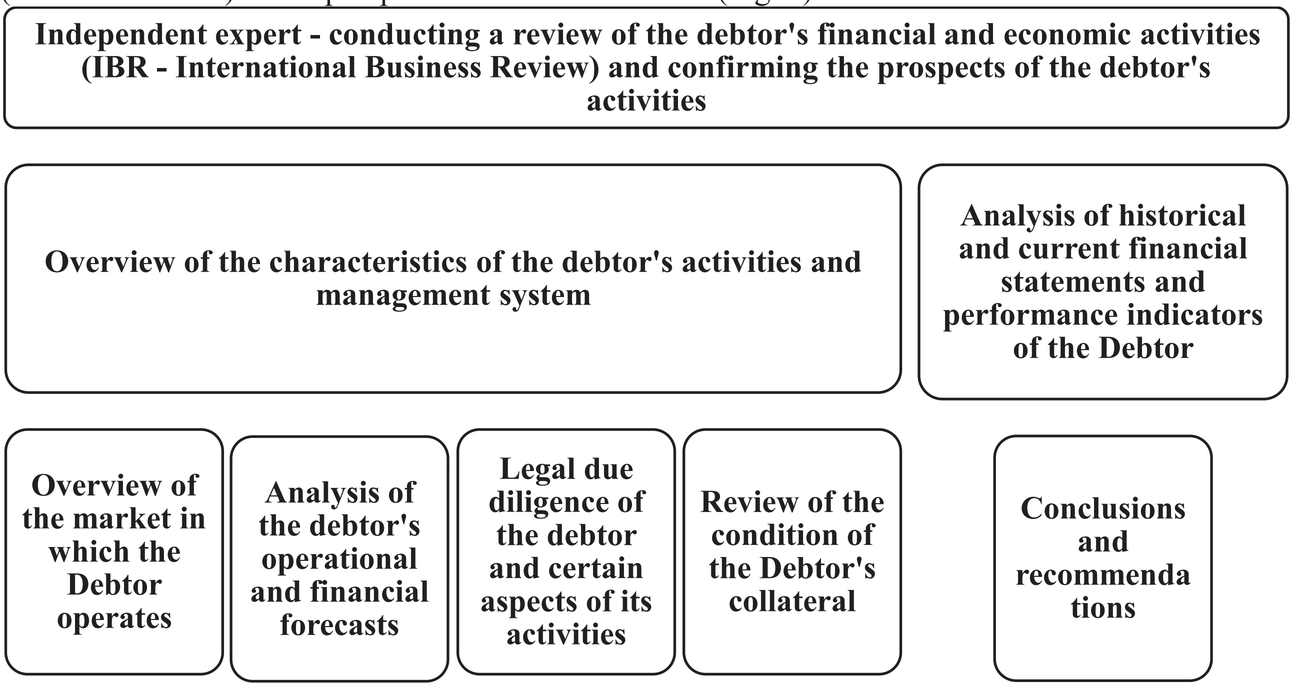

Fig. 1. Mandatory components of an independent expert report
Source: developed by the authors based on [2]

It is quite obvious that the validity of the conclusions on the ability to continue operations depends on the professionalism of the independent expert. To form a final conclusion, an independent expert must disclose the following aspects of the debtor's activities: a review of the characteristics of the activity and management system; an analysis of historical and current financial statements and performance indicators; a review of the market in which it operates; an analysis of operational and financial forecasts of its activities; a legal review of the debtor and individual aspects of its activities; a review of the condition of the collateral.

An important role in such a comprehensive analysis is played by the analysis of historical and current financial statements, where it is necessary to use the entire arsenal of analytical tools to the maximum extent: "objective and independent analysis of the debtor's financial and economic activities to identify the real causes of financial difficulties and find adequate measures to restore the debtor's effective activities" [2].

Despite the importance of retrospective analysis in diagnosing the debtor's actual financial condition, the emphasis is on the short-term and long-term prospects for the actual continuation of its activities, i.e. this is a confirmation of the principle of continuity as a basic assumption in the accounting system. This requirement is reflected in the section “Analysis of the debtor’s operational and financial forecasts.” The focus is on the financial model of cash flow in terms of types of activity: operational, investment, and financial.

The financial model of cash flow is based on the direct method of cash flow and involves balancing the components of statics and dynamics:

$$C_{in\ bank_1} + CF_{in} - CF_{out} = C_{in\ bank_2}\ ; \qquad (1)$$

$$C_{in\ bank_1} + NCF = C_{in\ bank_2} \qquad (2)$$

where, C*Fin* - receipt of cash payments;

CF*out* - cash outflow;

NCF - net cash flow;

C*in bank*$_1$ – bank account at the beginning of the period;

C*in bank*$_2$ – bank account at the end of the period.

Static indicators are cash balances at the beginning and end of the period (Cin bank1, Cin bank2), net cash flow is a dynamic indicator that can be considered as a performance indicator, which is especially important in the process of making a decision by an independent expert on the possibility of business restructuring.

This indicator is highlighted in the International Standard on Auditing 570 "Going Concern" as one of the main financial signs of a threat to the continuation of operations in the future "negative cash flows from operating activities, as evidenced by financial statements for previous periods or forecast financial statements" [3].

Thus, a comprehensive analysis makes it possible to draw objective conclusions and recommendations and confirm the realistic prospects of the debtor's activities.

The significance of such analysis involves the quality and completeness of the necessary information base, the wide use of analytical tools from various areas of professional activity: audit, valuation, business analysis, business planning, and others, most of which are regulated by relevant international standards. Expanding the analytical tools in its work based on international auditing standards, international financial reporting standards and others in the process of debt restructuring will contribute to achieving this result.

Each of these documents has its own purpose and scope of use: from requirements for the formation of financial statements as the main source of analytical information, basic assumptions and concepts to ensure further effective work, external and internal audit of this process, to the use of a specific set of analysis methods (techniques) depending on the method of grouping tasks of the corresponding direction and sub-direction of analytical work.

Table 1. International regulation of the basic requirements of analytical tools and target requirements for the interpretation of analysis results

N	Document (standard) name	Purpose and interpretation of analysis results
1	Conceptual Framework for Financial Reporting	General requirements for financial reporting, basic concepts, qualitative characteristics, elements of financial reporting. Basic assumption – going concern, accrual method, concept of preserving physical and financial capital.
2	International Financial Reporting Standards	The accounting system is the main source of information about a business entity. The procedure for preparing and disclosing financial information by companies.
3	International Standard on Auditing 520 «Analytical procedures»	Definition of analytical procedures, their classification, methodology of use in the process of auditing financial statements.
4	International Standard on Auditing 570 «Going Concern»	Financial, operational and other signs of business continuity threats.
5	Business Analysis Body of Knowledge. Business Analysis Standard	A body of knowledge that describes the tasks, methods, and competencies required to successfully perform business analysis. Interpretation of business analysis, standardization of basic methods (techniques) of analysis depending on the method of grouping tasks, which is relevant to the relevant direction and sub-direction of analytical work.
6	Global Internal Audit Standards	Domain IV: Managing the internal audit function: strategic planning, obtaining and allocating resources, building relationships, communicating with stakeholders, and ensuring and improving the effectiveness of the internal audit function.

Source: concluded by the authors

Framework for Financial Reporting, a necessary condition for ensuring the continuity of operations is the fulfillment of the condition of preserving physical (fixed assets) and financial (equity) capital. The indicator of the fulfillment of this condition is the increase in net assets, which is possible on the basis of profit. That is, the fulfillment of the conditions of this concept is directly related to the efficiency of activities. The main analytical indicators of the concept of capital preservation in domestic practice are a system of coefficients:

- physical capital: coefficient of wear and tear;
- financial capital: coefficients of financial independence (equity concentration), debt, equity mobility, provision (coverage) of current assets with own funds, and others.

To increase the validity of the conclusions, the independent expert on financial restructuring must use international auditing standards (ISA): 520 "Analytical Procedures in Auditing" [4] and 570 "Going Concern" [3]. ISA 520 addresses analytical procedures in the context of the relationships between financial and non-financial information, which is very important for the expert's primary task, when he must use all information that may be relevant, useful and important to form an overall conclusion. Among the generally accepted analytical procedures, attention should be paid to: comparison, horizontal, vertical, trend analysis, financial ratios, multifactor analysis, modeling, and others.

In ISA 570 "Going Concern", the expert needs to pay attention to signs of a threat of cessation of continuous activity, which may be the main reasons for the insolvency of debts that are subject to financial restructuring.

1. Excess of liabilities over assets. This situation is possible when equity has a negative value. The reason for this is the presence of systematic losses, which leads to the excess of the balance sheet item "Uncovered losses" over other balance sheet items. The Code of Ukraine on Bankruptcy Procedures allows the debtor to apply to the commercial court within a month with an application to initiate bankruptcy proceedings if the amount of monetary obligations, the due date of which has come, exceeds the value of the assets [5].

2. Excess of short-term liabilities over current assets, i.e. negative value of working capital. The main reason for this situation is also systematic losses, i.e. inefficiency of activities that do not meet the requirements of a market economy.

This poses a threat primarily in the short term. This can be demonstrated more clearly by interpreting this situation:

- from the point of view of distribution of sources: non-current assets are covered in full by long-term liabilities, all equity and part of short-term liabilities. Current assets are covered by the remaining short-term liabilities;
- from the point of view of solvency: the outflow of cash flows exceeds their inflow, i.e. there is a negative net cash flow. Conclusion: the business entity is insolvent.

Based on the importance of working capital in ensuring business continuity, it is mandatory to use this indicator when analyzing operational and financial forecasts with a view to prospective financial reporting, which is especially important for an expert when preparing short-term and long-term forecasts.

A systematic approach to analysis also involves the use of appropriate relative indicators. For working capital, the basis for calculating financial ratios can be: total assets (balance sheet currency), equity, current assets, etc. Each of these ratios has its own purpose for diagnosing the financial condition in order to eliminate possible financial difficulties.

Conclusion

Timely diagnosis and monitoring of the threat of possible insolvency plays a major role in ensuring the continuity of the business entity's activities. The effectiveness of this direction involves the increased use of analytical tools based on a system of key indicators of the potential need for financial debt restructuring. The effectiveness of the work of an independent expert in the process of financial restructuring depends on the ability to use modern analytical tools regulated by ISA and the Conceptual Framework for IFRS when analyzing financial and non-financial information. A systematic approach to using key indicators provides signaling of a possible critical financial condition associated with the inability to timely fulfill monetary obligations to creditors. This, in turn, involves establishing recommended values for these indicators at the national level in the relevant analytical methods approved by executive authorities, taking into account the technical and economic characteristics of the industry. Solving this issue is especially important in the post-war period for the restoration of Ukraine in order to activate investment activities.

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