Features and modern approaches to the analysis of the financial condition of the debtor as a necessary element of the bankruptcy procedure of agricultural enterprises

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Abstract. The article presents the results of a study of the features of the bankruptcy procedure for agricultural enterprises, discusses the specifics of the analysis of the financial condition of agricultural debtors, and also provides statistical data on the number of reports on declaring a debtor bankrupt and opening bankruptcy proceedings against legal entities depending on the industry of the debtor, which allows determining the position of this indicator of enterprises of agriculture, forestry, enterprises, enterprises hunting, fishing and fish farming. In addition, the study considers relevant data on the bankruptcy of agricultural enterprises in the territory of such a large region as the Krasnoyarsk Territory. In our study, we determine that the fate of an agricultural enterprise is directly dependent on data on the financial condition provided by the arbitration manager. All the main performance indicators of the debtor are reflected precisely in the report on financial and economic activities, which allows us to assess the possibilities of financial recovery of the agricultural enterprise.

The relevance of the research topic is determined by the state of the economic sphere of life of modern Russian society [1], an integral part of which is the agricultural economic field of activity, represented by agricultural enterprises.

The significant growth and intensification of activities in the agricultural sector, taking into account the policies of the state, including in the subsidizing agricultural producers, is quite natural.

Agriculture, crop production, animal husbandry and other agricultural areas continue to play a significant role in the livelihoods of society. At the same time, the Russian state seeks to actively develop these sectors by granting land resources on preferential terms to citizens for agricultural, and other activities.

However, it should be noted that the growth of agricultural production is increasingly formed by export economic operations. Moreover, this growth is constrained by constantly falling domestic consumer demand. Thus, the consumption of milk and dairy products in 2018 fell by 20 kg compared with 2013. The proportion of citizens who consume less than rational standards for fish is 50%. The same situation is with meat: according to statistics from July 2018 to June 2019, Russians purchased 4.3% less meat products than in the previous similar period. Analysts recorded a decrease in sales in all categories of meat products, from poultry and pork to sausages.

In addition, agricultural production remains one of the specifics in terms of return on investment and profit. The seasonal nature of the harvest, which ultimately determines the profitability of an agricultural enterprise, does not always allow to comply with the requirement of systematic remuneration and
material incentives for workers. In agriculture, production, financial, and economic results to an immeasurably greater degree than in other sectors depend on the weather and climate conditions.

Thus, cases of financial insolvency of agricultural enterprises, which then determine the start of their bankruptcy procedure, are not uncommon.

Given the foregoing, it becomes obvious that it is necessary to study the issues of regulating the particularities of bankruptcy of agricultural organizations, to determine the main factors, critical for the fate of agricultural producers at the bankruptcy stage [2].

So, Y.V. Zinchenko proposed two main reasons for bankruptcy of producers which should certainly be accepted:

- internal, which depend on the investment, operating and financial activities of the enterprise, low level of staff qualifications;
- external, more characteristic of agricultural organizations that are not dependent on the activities of the enterprise and include, among other things, natural factors.

This specificity is primarily associated with the use of agricultural land as the main means of production. In addition, the activities of agricultural organizations depend to a large extent on the natural and climatic conditions, are seasonal in nature, which is somehow reflected by the legislator in its regulation [3].

Due to the specifics of the activity, the bankruptcy procedure of an agricultural organization has a number of features and nuances. According to O.A. Rushitskaya this is due to the fact that “as a rule, in the procedures for financial recovery and external management of agricultural organizations provided for in the Federal Law, the solvency of organizations is not restored, and as a result they go under the hammer. In the best case, the owner changes. At worst, nobody needs the property of agricultural bankrupts. And more and more often there are empty buildings that look with reproach through the broken windows” [4].

These circumstances led to the allocation in the legislation of the Russian state of systematic norms of legal regulation of the process of declaring an agricultural organization insolvent, which is concentrated in paragraph 3 of Chapter IX of the Federal Law of October 26, 2002 No. 127-ФЗ On Insolvency (Bankruptcy) (hereinafter - the Bankruptcy Law).

Article 177 of the Bankruptcy Law provides a legal definition of an agricultural organization, which assumes that these are legal entities whose main activities are:

- production and processing of agricultural products, the revenue from the sale of which is not less than fifty percent of the total revenue.

Thus, in order to recognize a legal entity as an agricultural organization, the court needs to evaluate the nature of the activity and analyze the financial part of the organization.

In this regard, it becomes necessary to correctly and efficiently research and determine the financial condition of an agricultural enterprise.

At the same time, evaluating the financial condition of the agricultural producer, it is imperative to take into account the specific features of the agricultural production sector, which determine this process:

So, an important characteristic feature of agricultural production is cyclicity (periodicity). Moreover, the duration of the cycle (period) under normal conditions, depending on the specifics of the agricultural industry (animal husbandry, crop production, their specific species) can vary from 3 to 18 months and can hardly be reduced.

Another equally important feature, which was mentioned earlier, is the natural-seasonal nature of agricultural production. The maximum load value is determined by a unique combination of natural factors and significant production activities (in crop production, for example, weather, climate, rainfall, soil quality during sowing and harvesting).
These two features define such a feature as low capital productivity, capital turnover, and a high level of overhead costs. Indeed, during certain time periods, agricultural producers have a great need to use simultaneously a large number of mechanical equipment, which can no longer be used during the year, however, its maintenance, repair, etc. burdens the cost of production. In addition, it should be taken into account that a part of the output remains for the needs of the agricultural producer himself, i.e. meet internal needs for subsequent reproduction (seeds, feed, etc.), which reduces the marketability of production.

In addition, another significant difference is the inability to quickly return the funds invested in the turnover, since in the agricultural process it is possible to return capital only when the entire stipulated cycle of agricultural production is completed. At the same time, production risks, determined by the significant influence of natural and seasonal factors, as well as the time required to find a consumer of agricultural products, return receivables, and more, the circulation of funds may still increase further, and income, in turn, may decrease, which in case of inflation, typical for all economies of the world, can lead to a significant depreciation of profit, and as a result to financial insolvency and even bankruptcy.

The above traits create the conditions under which, the use of narrow intra-industry specialization exceeds reasonable economic risks. The combination of various agricultural sectors, in particular livestock and crop production, or the combination of products of the same agricultural orientation (raising cows, pigs, horses, small cattle, etc.) is becoming optimal and necessary for any agricultural producer. This achieves the most optimal and efficient use of resources when part of the produced product of one type of agricultural production finds its application in another. This also provides effective and efficient employment of agricultural workers.

A very important specific feature of agricultural production, which undoubtedly should be taken into account, is also formed by the main resource used in this production - land. Its considerable extent and territorial dispersion cause frequent remoteness from the markets for manufactured products and, as a result, an increase in transportation costs. It should also be noted that the specificity of agricultural products (its biological origin) determines the presence of a significant factor of randomness, not always regulated by agricultural producers, i.e. all things being equal, the volume of reproduction may be different, forecasts of commodity production are not always true.

Agricultural enterprises, in addition, are forced to strictly follow the principle of process continuity. At the same time, not all parts of the technological process can be automated; it is not always possible to track the quality of each operation constituting the process. Thus, the specific features of agricultural production that we have listed should be taken into account when determining the state of financial and economic activity in the bankruptcy procedure. This will allow to consider all the features of the business entity and correctly establish the procedure for bankruptcy and will also contribute to the successful implementation of this procedure in relation to a legal.

It should be noted that to date, the law has not established a period of financial and economic activities of the debtor, which should be a subject to analysis by the arbitration court or insolvency administrator when classifying the organization as agricultural.

In this regard, judicial practice indicates that most often the share of revenue is determined for agricultural enterprises, being guided by the data of the latest balance sheet (FAS Resolution of the Moscow District of July 29, 2008 No. KG-A40 / 6402-08 in Case No. A41-K2-5510 / 06).

In the theory of law, there is a position according to which it would be more reasonable to analyze information about the earnings taking into account the seasonal nature of the debtor's activities. According to V.N. Tkachev, the Bankruptcy Law should be supplemented with a norm on the need to take into account the financial and economic activities of the debtor not only during the last year preceding the date of the relevant procedure, but also the average indicator for the entire period of existence of the debtor. Moreover, the choice of the settlement procedure should be given to the debtor himself, which will better protect the interests of the agricultural debtor [6]. We share this point of view and believe that when initiating bankruptcy proceedings on the basis of the documents presented in the
case, including financial, accounting statements, the status of the debtor and the possibility of applying to it special provisions of the Bankruptcy Law established for agricultural organizations should be determined.

Once again, we note that with the help of given characteristics of agricultural enterprises that we have cited, the arbitration manager can correctly and more fully assess the financial condition of the agricultural enterprise, as well as draw the right conclusions about the fate of agricultural enterprises.

Considering the statistics for 2017, 2018 on the distribution of numbers depending on the industry structure of companies declared bankrupt, it should be noted that the number of reports on declaring the debtor bankrupt and opening bankruptcy proceedings against legal entities operating in agriculture, forestry, hunting and fishing amounted to 569 and 558, respectively, and identified 7 position out of 20 possible [7].

Besides, significant downward trend in this indicator is not visible, and growth is also not observed. Thus, the bankruptcy proceedings often end with the recognition of the debtor bankrupt and the opening of bankruptcy proceedings (table 1). This is also true for agricultural producers.

Table 1. Industry structure of companies declared bankrupt [4].

| Number of reports on declaring the debtor bankrupt and opening bankruptcy proceedings against legal entities and peasant farms (by industry of the debtor) | 2017 | 2018 |
|---|---|---|
| Trade | 3832 | 3701 |
| Construction | 2767 | 2670 |
| Processing industries | 1488 | 1435 |
| Real estate activities | 1465 | 1405 |
| Professional, scientific, and technical activities | 673 | 732 |
| Transportation and storage | 629 | 638 |
| Agriculture, forestry, hunting, fishing | 569 | 558 |
| Finance and insurance | 319 | 352 |
| Providing electric energy, gas and steam; air conditioning | 292 | 324 |
| Administrative activities and related additional services | 282 | 243 |
| Hotels and catering facilities | 208 | 207 |
| Water supply; water disposal, organization of waste collection and disposal, anti-pollution activities | 174 | 184 |
| Information and communications | 192 | 160 |
| Extraction of minerals | 153 | 135 |
| Provision of other services | 57 | 64 |
| Culture, sports, leisure and entertainment services | 60 | 55 |
| Health and social services | 54 | 54 |
| Public administration and military security; social security | 2 | 8 |
| Education | 18 | 8 |
| No information | 204 | 184 |
| TOTAL | 13541 | 13117 |
Considering the regions of Russia, in particular the Krasnoyarsk Territory, it should be noted that the four-year trend indicates a gradual increase in the number of reports on declaring the debtor bankrupt and opening bankruptcy proceedings against legal entities and peasant farms (table 2).

**Table 2.** The number of reports on declaring a debtor bankrupt and opening bankruptcy proceedings against legal entities and peasant farms in the Krasnoyarsk Territory 2015-2018.

| Name of the region   | 2015 | 2016 | 2017 | 2018 | number of bankrupt companies in% to the number of companies in the region, 2018 | increase of bankrupts, 2018 to 2017, % |
|----------------------|------|------|------|------|--------------------------------------------------------------------------------|----------------------------------------|
| Krasnoyarsk region   | 155  | 164  | 172  | 171  | 0.24%                                                                             | -0.58%                                 |

At the same time, the number of cases of bankruptcy of agricultural enterprises in the Krasnoyarsk region is insignificant compared with the bankruptcy of legal entities related to other types of economic activity. So, depending on the legal form of debtors, 13 applications have been filed with the Arbitration Court of the Krasnoyarsk Territory over the past five years (including applications for joining a bankruptcy case).

Actual figures are presented in tables 3 and 4.

**Table 3.** Statistics of applications submitted to the arbitration court on bankruptcy of agricultural organizations.

| 2015 | 2016 | 2017 | 2018 | 2019 |
|------|------|------|------|------|
| 5    | 1    | 9    | 1    | 0    |

**Table 4.** Statistics of applications submitted to the arbitration court on bankruptcy of legal entities.

| 2015 | 2016 | 2017 | 2018 | 2019 |
|------|------|------|------|------|
| 957  | 672  | 813  | 653  | 744  |

In general, agricultural enterprises are declared bankrupt, and bankruptcy proceedings are opened against them based on the analysis of the financial condition of the debtor.

Analyzing the financial condition of the debtor, the arbitration manager must conclude:
• whether the debtor’s funds are sufficient to cover legal costs and expenses for payment of remuneration to the arbitration manager;
• whether the debtor has enough assets to repay all existing liabilities;
• whether the debtor's balance is liquid or not;
• what is the value of the indicator of the net profit rate? Whether it has a tendency to constant decrease
• whether the enterprise carries out business activities with profit or loss;
• what is included in the debtor's assets (value of fixed capital);
• whether accounts receivable are recorded. It is necessary to understand here whether or not documents confirming the debts of third parties and allowing enforcement are missing or not.

The report is approved by the meeting of creditors and sent to the arbitration court.

The arbitration courts, guided by the report of the interim manager and his analysis of the financial condition of legal entities at the bankruptcy stage, determine whether the legal entity, including agricultural producers, has signs of bankruptcy, whether it is possible to recover financially, including the resumption of solvency [8]. It should be noted that if the fulfillment of monetary obligations and payment of all obligatory payments is not carried out by the debtor for more than three months, restoration of solvency is impossible.

In the end, we believe it is possible to draw the following conclusions:
1. We see that the analysis of the financial condition of the debtor shows solvency, financial stability, its business activity. The fate of the agricultural enterprise directly depends on these indicators provided by the arbitration manager. All the main performance indicators of the debtor, reflected in the report on financial and economic activities, have a pronounced tendency either to decrease or increase, which indicates a deterioration or improvement in the financial condition of the enterprise.
2. At the same time, we believe that in determining the financial condition of the agricultural producer, it is necessary to understand and take into account the main characteristic features of agricultural production, namely:

• the period of operational production in agriculture is determined by the calendar year;
• agricultural production is associated with the high complexity of technological processes;
• often the agricultural producer is removed from the direct markets for the manufactured products;
• in agriculture, as a rule, profitability is low
• agricultural production and its success are determined by seasonal natural conditions;
• financial stability of the functioning of agricultural producers depends on state support, subsidies and grants.

3. It should be noted that the state policy in agricultural production (protectorate and support of agricultural producers) is reflected in the low numbers of agricultural enterprises declared bankrupt.

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