

## BANKRUPTCY: CAUSES AND RISKS

Saban L., *gr. F-42*

More and more these days, people at first sign of financial trouble consider bankruptcy as an end-all solution for their credit problems. But bankruptcy is not only a solution - it is long and difficult process.

And what is bankruptcy? Bankruptcy is one of the most complex areas of law, incorporating elements of contract law, corporate law, tax law and real estate law. **Bankruptcy** is a legally declared inability or impairment of ability of an individual or organizations to pay their creditors.

The primary purpose of bankruptcy is:

(1) to give an honest, but unfortunate, debtor a "fresh start" in life by relieving the debtor of most debts, and

(2) to repay creditors in an orderly manner to the extent that the debtor has the means available for payment. Bankruptcy allows debtors to be discharged from the legal obligation to pay most debts by submitting their non-exempt assets, if any, to the jurisdiction of the bankruptcy court for eventual distribution among their creditors.

What circumstances lead a company to file for bankruptcy? Sometimes debt grows over time until the business owners realize they have no hope of paying it off.

Companies sometimes face a sudden loss of revenue that prevents them from paying their suppliers. For example, a printing company might draw 30 percent of its revenue from a single publisher. If that publisher moved its contract to a different company, the printer would lose almost a third of its revenue. However, it would still have to pay employee wages, health care plans, taxes, suppliers and all of its other bills.

A sudden, massive financial loss can result in instant debt without the revenue to pay for it. This is often the result of some wrongdoing on the company's part. A lawsuit or government fines can cost a company millions or billions of dollars. Scandals can also cause stock prices to drop.

Dyadechko A.M., *ELA*