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Main Stages of Corporate Reorganisation in Russia

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Abstract: The study is focused on the actual theme of the reorganization related to the Russian companies. Authors examine definition of the process reorganization, underline the differences among the substitution of parties in an obligation, dissolution of the companies, business combinations. The study explains the practical comments about procedure of the reorganization companies in different types of stages: preliminary stage, preparation stage, incorporation stage, final stage. Researchers suggest the main procedures that can be occurred during the each stages of the reorganization.

Key words: Reorganization, accounting, stage of the reorganization, law, entity

INTRODUCTION

Russian legislation distinguishes five key types of corporate reorganisation: mergers, consolidations, spin-offs, split-ups and transformations. One of corporate reorganisation's key features is the complete transfer of rights and obligations, without any exceptions determined by a deed of transfer or a division balance sheet (Bezvidnaya and Lopukhova, 2015; Singhal and Zhu, 2013).

Reorganisation is an economic process that results either in a corporate entity ceasing to exist, with all its rights and obligations being transferred to a new entity/entities or in a new corporate entity emerging alongside the existing one and claiming some of its rights and obligations.

It is important to draw a line between reorganisation and a change of liable parties, liquidation and acquisition (Lee *et al*., 2014).

Reorganisation mainly differs from a change of liable parties in that the corporate entity's rights and obligations are assigned to its successor without the creditor's approval.

We also believe that reorganisation differs from liquidation, as reorganisation is aimed at continuing the company's business while liquidation, in turn, results in the business shutting down, without any transfer of rights and obligations.

Nor is reorganisation the same process as the acquisition of a company that was put up for sale, since in this case, there is nothing to sell or to purchase and the rights and obligations are reassigned during a universal succession procedure (Aalbers *et al*., 2014; Tang, 2010; Routledge and Gadenne, 2000).

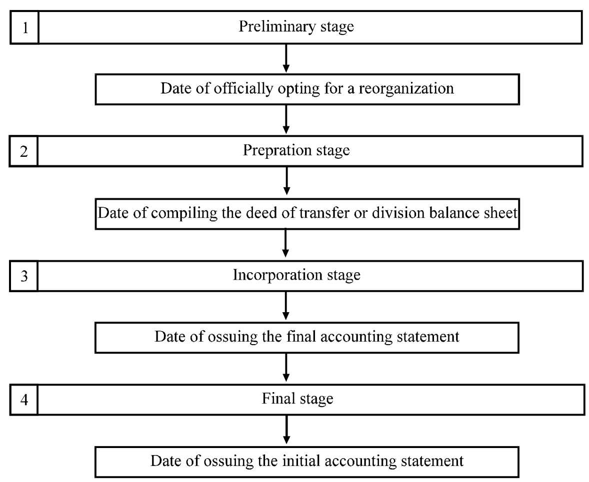

Fig. 1: Stages of the corporate reorganisation

Corporate reorganisation starts with a meeting where all of the company's owners discuss the most preferable reorganisation type, as defined by Russian law, as well as whether reorganisation as such is necessary, what steps should be taken, what procedure should be followed, etc. (Karkinen and Laitinen, 2015; Romanowska, 2009).

MATERIALS AND METHODS

Theory: As the corporate entity's governing body decides to go through with reorganisation and defines the key terms and main steps, it also has to approve a number of relevant documents (Dede and Sfakianakis, 2014; Kulikova *et al*., 2015). We should note that the set of documents needed for corporate reorganisation may vary slightly depending on the reorganisation type; however,

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regardless of which reorganisation option is selected, the process rests on a proper and accurate deed of transfer and division balance sheet (Lopez *et al*., 2015; Cummings, 2009).

That said, we believe that, in order to describe corporate reorganisation in a most coherent way, we should split it into a series of sequential stages, all of which involve separate measures and actions (Fig. 1).

RESULTS AND DISCUSSION

Table 1 lists the key actions taken during each specific stage of a spin-off reorganisation.

Table 1: Outline of corporate reorganisation stages during a spin-off or split-up

Stage outline	Comment
Preliminary stage	
Preparation for an official reorganisation announcement and partner (shareholder) meeting	The company reviews the issue, determining whether reorganisation is necessary or viable and analysing the current and expected financial status; it later selects the reorganisation type, conducts meetings and consultations on various governance levels to discuss reorganisation-related issues and prepares the documents for a general meeting
The general partner (shareholder) meeting dedicated to reorganisation	This meeting results in a final decision to initiate a reorganisation (spin-off); the reorganisation agreement and terms are also approved
Date of officially opting for a corporate reorganisation	
Preparation stage	
Buying out shares owned by partners (shareholders) who have stopped being the company's co-owners	
Notifying a tax authority	The notification of a pending reorganisation shall be sent to a tax authority in writing, within no more than three days of the official decision
Notifying the creditors	The notification of a pending reorganisation follows a standard procedure, common for both limited liability companies and joint stock companies
Receiving the creditors' request to service all debts (including advance debt settlements)	The company's creditors are entitled to submit a written request that the company service all its debts, make advance debt settlements and cover all their losses within 30 days of the notification date or within 30 days of the official notice of the company's decision to reorganise its business. This applies both to joint stock companies and limited liability companies. Advance debt settlements and the fulfilment of ensuing obligations are considered to be 'continuing obligations' which are provided for by the loan, rent and lease agreements
Compiling a register of the creditors' demands	Based on the requests it has received, the company compiles a register which should contain: the creditor's name and location; proof that the debt service request is valid (e.g., contract, shipping documents, certificates of work completion or invoices); the sum to be paid and any penalties for violating the contract provisions
Verifying debt settlement calculations, the size of the debt and the terms of debt servicing	This verification may be carried out as part of the company's inventory check and liability review which is an essential part of corporate reorganisation. During the process, the company may negotiate with its creditors, discussing the size of the debt and the types of debt service, since settling all debts at once may result in a shortage of the company's working assets and even make the business go bankrupt (Aalbers *et al.*, 2014)
Settling the debts before preparing the division balance sheet	The company's debts may be settled all at once or gradually, after the division balance sheet has been drawn up; in the latter case, the company shall name the successor of all its liabilities
Checking the company's inventory and reviewing its liabilities	The deadline of this process shall be as close as possible to the date of compiling the division balance sheet and consequently, to the date of applying for incorporation (Singhal and Zhu, 2013)
Preparing the division balance sheet	The division balance sheet shall reflect the distribution of property and liabilities among the company's successors. All data therein shall be broken down for further accounting and tax book-keeping
The initial stage of giving shareholders new shares in the successors' equity capital	Spin-offs and split-ups often result in the company being indebted to its shareholders as they join other companies
The date of completing the division balance sheet (deed of transfer)	
Incorporation stage	
Applying for incorporation	The list of documents needed for incorporating a new entity is determined by the relevant legislation
Continuing the company's business before it is reorganised	During this period, the company is still in business, so it is essential to account for all the resulting changes in its successors' assets and liabilities
Final stages of incorporation	The date of incorporating the last of the new legal entities
Incorporation date	
Final stage	
Issuing the final accounting statement	The final accounting statement shall be compiled before the date of incorporating the company's successors. The final accounting statement is based on the division balance sheet and on the data on property and liability changes, regarding both the company that is being reorganised and its successors. All of this data will help draw up a revised version of the balance sheet
Compiling the property and liability acceptance report	The property and liability acceptance report serves as a basis for entering new data into the successor's accounting system. This report uses the data from the final accounting statement
Entering the accounting data into the successors' systems	At this point, synthetic and analytic accounting data is transferred from the original entity's accounting system to its successors' accounting system

Table 1: Outline of corporate reorganisation stages during a spin-off or split-up

Stage outline	Comment
Issuing the initial accounting statement	The entity's successors use its final accounting statement and a revised version of the division balance sheet (as of the incorporation date) to issue their own initial accounting statements
The final stage of giving shareholders new shares in the successors' equity capital	The second half of this procedure involves the successor settling all debts to the shareholders who have received new shares in the equity capital
Date of approving the initial accounting statement	

CONCLUSION

Each of the stages we have listed has its own unique features which define the accounting and reporting processes. In all, corporate reorganisation is a multi-faceted, complex phenomenon which combines elements of civil, tax, labour and administrative law as such, it gives rise to a great number of questions, concerning asset and liability evaluation and revaluation, taxation and tax returns and other factors that are reflected in corporate accounting and influence the compilation of balance sheets (Bezvidnaya and Lopukhova, 2015).

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