Financial management discussion week 10

Finance

Financial Management Discussion Week 10 Bankruptcy systems can only lead to partial mitigation of the coordination problems prevailing between the creditors. Often the creditors engage in the activities called leapfrogging in which they put themselves ahead of other creditors in spite of the existence of the bankruptcy systems (Jackson, 2001). This may increase the payout of the creditors in bankruptcy. Another criticism is that the creditors and the debtors can renegotiate the loan or debt contracts through the use of voluntary debt reconstruction. These criticisms can be addressed by setting a trigger for evaluating bankruptcy levels.

Financial reorganization can help to manage the business assets more effectively and create scopes for the company to make profits through a going concern approach (Feeney, 2010). It facilitates the protection of major business activities and the management of various units of the business. A formal reorganization can help to make the business more efficiently managed and thus, there may be chances of the company being able to pay off the debts.

A financial rehabilitation plan is an agreement between the debtor and the creditor. This process does not incur any costs. Also, in this plan, the company that owes the money continues functioning which makes it possible for the business to pay back the debts over a period of time. This ensures that the creditors will get back their money. This is not possible in case of demand liquidation.

Liquidation is preferred over financial reorganization when the expenses of liquidity are low and does not consume more assets, the creditors prefer liquidation and when the liquidating value of the company is more that the going concern value for the same (Newton, 2010).

References

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