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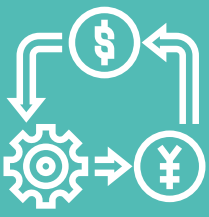


WARNING INDICATORS OF FINANCIAL DISTRESS IN A COMPANY

GUIDE FOR COMPANY ACCOUNTANTS

POOR CASH FLOW

The first sign.



Poor cash flow usually results in threats of legal action from creditors when bills remain unpaid. Cash flow problems are caused by a number of factors, including ineffective debt collection, credit management procedures, and holding too much stock unnecessarily which reduces the amounts of working capital available.

INEFFECTIVE COLLECTION OF DEBT

Debtors taking too long to pay?



An accountant should check aged debtors report. This shows the value of debts owed over various time periods, and can confirm whether directors need to take action to collect money in more efficiently. Failing to collect debts quickly results in a lack of cash to pay the bills, which can easily lead on to threats of legal action from dissatisfied suppliers and other trade creditors.

CREDITOR ACTION AGAINST THE COMPANY

Legal action taken by creditors?



When creditors start to threaten legal action against a company, it is a clear indicator that its financial status is declining and that action needs to be taken. This is especially the case if arrears of tax and National Insurance exist. The company should contact HMRC as soon as possible, as otherwise they are likely to take action themselves to quickly recoup the debt.

AN INCREASED LEVEL OF BAD DEBTS

Have your customers become insolvent?



The accountant will compare the figure for bad debts with the previous financial year, because increasing bad debt levels indicates the current system of collecting debts is not working efficiently. An increase could indicate that customers have become insolvent themselves, or are experiencing similar cash flow difficulties. The problem is that these debtor balances probably represent a significant part of the working capital available to the company.

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APPLICATIONS FOR ADDITIONAL CREDIT

Are directors taking extra credit from suppliers?



If directors are making applications for extra credit from suppliers – often relatively small extensions to their credit limit, but to a number of different suppliers – it indicates an adverse cash flow situation which could eventually lead the company into insolvency. It can be a temporary ‘fix’ but is not a sustainable way to run the business. Additionally, directors need to be careful if the company is close to insolvency, as they may be at risk of wrongful trading.

BANK OVERDRAFT AT ITS LIMIT

Are you receiving return checks from your bank?



The bank may return cheques as unpaid once the overdraft limit has been reached. This should alert the accountant to potential problems, especially if the company has used the overdraft limit to its maximum for a significant length of time.

LACK OF MANAGEMENT INFORMATION

Do you have a system in place for preventing wrongful trading?



Directors are obliged to be aware of their company’s financial position at all times, and if they do not have access to current figures, may face accusations of wrongful trading should the company become insolvent. This is why it is vital to set up efficient management information systems whereby directors can find out on a daily basis where their company stands with regard to solvency.

OVERTRADING

Is the company involved in overtrading?



Overtrading occurs when a company takes on new orders without having the resources to fulfil them, for example if staff numbers are short, or there has been insufficient investment in equipment to complete an order. Cash flow is often stretched beyond breaking point at these times, and the company begins a decline before they are paid by their customer.

STAFF ISSUES

Sudden change in staff numbers?



An accountant will notice if there is a sudden increase in staff turnover, which could potentially run alongside a freeze on director salaries/remuneration. Staff dissatisfaction or an awareness that the company is not performing as it should, can lead to employees leaving, and further compromising a poor financial situation.

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HOW WE ASSES A COMPANY'S FINANCIAL HEALTH?

In order for us to make a quick evaluation we would require the following information about your company.

Our experts can then make a call to set out the various options and ensure that your client gets the best advice tailored for them to ensure a positive future.

Company name & Number

Level of Debt in the company

Gross Asset position

Cash level

[Click here to submit information](#)



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