ACUTUS' SELF-ASSESSMENT SERIES:

IS MY COMPANY INSOLVENT[1]?

There are a number of signs to indicate that a company is in danger of being insolvent.

Here at Acutus, we are pleased to share some of these early warning signs which could hopefully allow some companies to put plans in place so as to address these difficulties before it is too late.

1. *Harder to extend suppliers' credit terms:*

   A company in difficulty will usually find it harder to convince their suppliers to provide credits beyond their usual terms. In most scenarios, suppliers could demand for the past due invoices to be settled in full before new goods/services are supplied.

   In fact, a company may also experience the situation where suppliers demand cash-upon-delivery or even post-dated cheques for new supplies, save that in most of these cases, the company and the suppliers could have already reached an agreement to settle the past outstanding unpaid invoices via an instalment plan, which the company must be able to commit to.

2. *Difficult or unable to obtain financing from the banks and/or financial institutions:*

   A company in difficulty may well find that it cannot obtain credit facilities from banks and/or other financial institutions. Even if credits are offered, the lending rates could be higher or the financial institutions may attach additional conditions, such as the need for directors to provide personal guarantees, etc.

   Struggling companies may also find that they will have to approach numerous credit providers before they could find one that is willing to approve an application.

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[1] ***What does being insolvent mean?***

When an individual or organization can no longer meet its financial obligations with its lender or lenders as debts become due. Insolvency can lead to insolvency proceedings, in which legal action will be taken against the insolvent entity, and assets may be liquidated to pay off outstanding debts. (Source: Investopedia –http://www.investopedia.com)

3. *Starting to receive letters of demand:*

   An increased frequency in receiving demand letters from suppliers demanding for outstanding payments or even issuing threats of legal action is also a common sign of insolvency. If a company is trying very hard to delay payment until the last possible moment, it is unlikely to indicate that the company is in good financial health.

4. *Difficulty to meet recurring overheads:*

   Every company is committed to certain regular overheads, such as rental, payroll, utilities and hire purchase obligations, etc. When a company becomes doubtful over whether it will be able to meet these expenditures in the short term, then it is a clear warning sign of problems ahead.

5. *Balance sheet reflects higher liabilities than assets:*

   When a company's:

   - Total Assets are lower or barely meet its Total Liabilities; and/or
   - Current Assets are lower or only slightly exceed its Current Liabilities,

   Then the management should be concerned as to whether the company has the ability to meet its obligations as and when they fall due.

   Changes in balance sheet figures and other accounts should be monitored closely as it is definitely not a positive sign when liabilities rise while both turnover and profits decrease.

   It should also be noted that the timing of receipts from trade debtors will, more likely than not, usually not synchronise with those of payments to creditors.

6. *Management is "fire-fighting" everyday:*

   Ideally, companies should be thinking not just about the present but also the medium-to-long term, given due considerations to expansion issues and offering of new products and services and developing new markets. However, if the management seems to spend all of their time on short-term "fire-fighting" such as to ensure that the bills are paid, then this is indeed not an encouraging sign.

7. *Employees can "afford" to be unproductive:*

   While not all employees are responsible for direct sales, the workload of employees is indeed dependent upon the volume of sales being generated. If employees are increasingly taking longer breaks and having more time than usual, using business resources for personal reasons, etc, without affecting work performance, then this could be indicative that the company has failed to garner enough sales volume to keep the staff busy.

8. *Management fears of going to work or becomes demoralised:*

   In spite of the hard work and the long hours, people in senior position generally are able to derive job satisfaction and thus, still find their job enjoyable.

   However, when a company becomes insolvent, the daily issues that a senior manager would have to deal with would mostly be confined and restricted to the lack of working capital. When the problem persists, and with the problem getting harder and harder to overcome, senior management who used to enjoy their roles, could find it so much harder to manage the business to the extent of fearing to report for work. Further, it is demoralising to have to constantly deal with the pressure from creditors demanding for payment.

9. *Rise in complaints:*

   Receiving more complaints is an indication that the level of service or product quality have fallen in standards or quality. These could be attributed to management being distracted from giving due attention to service quality to being pre-occupied with managing short-term cash flow or simply, inability to source for better materials, etc.

   Increasing complaints translate to unsatisfied customers which in turn, could translate to slower debts recovery. In the medium to long run, if the company is unable to resolve its quality issue, it is inevitable that revenue may fall either due to loss of customers or being forced to lower selling price and a vicious cycle continues.

10. *More phone calls pressing for payments:*

    When a company is insolvent, management and staff alike can get an inkling that the company is in trouble when most of the calls received relate to creditors/suppliers chasing for payments, instead of calls from existing or potential customers placing new orders or seeking enquiries.

If your company is suffering from most of the warning signs above, it would be practical to consult an insolvency practitioner to explore various options available before it is too late.

If you wish to explore the various options to “rescue” your company from insolvency,
please feel free to approach:

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