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ISSUES & ANSWERS

INSOLVENCY

Business dealings sometimes go sour basically due to the failure of a debit not being paid. Cashflow is essential to keep a business alive. Insolvency occurs where debts cannot be paid as and when they fall due for payment.

Watch for Signs

- Decline in sales turnover and gross profit margin
- Decline in bank balance , or increase in overdraft
- Unpaid bills
- Increase in customer complaints
- High staff turnover
- Rise in staff sick days

Corrective Action

- Cash injection by way of capital, overdraft, loan
- Negotiation with suppliers for extended credit
- Target Marketing
- Mediate with staff and enhance lines of communication
- Be careful not to incur debts that cannot be made when they fall due for payment

Alternatives for Companies if Solvency cannot be restored

1. Voluntary Administration

Creditors met to consider a deed of arrangement that deeds with:

- (a) a moratorium
- (b) a compromise
- (c) a petition to wind – up

2. Provisional Liquidation

Liquidation protects the assets prior to winding – up or other auctions.

3. Schemes of Arrangement

This is a Court approved arrangement to suit the financial ability of the company.

4. Informal Arrangements

Agreements by creditors to rearrange liabilities without formal arrangement

5. Receivership

The Court at the request of an interested party a secured creditor appoints receiver

6. Creditors Voluntary – Winding – Up

The creditors nominate a liquidator to sell assets and distribute proceeds and reports to the Australian Securities and Investments Commission (ASIC)