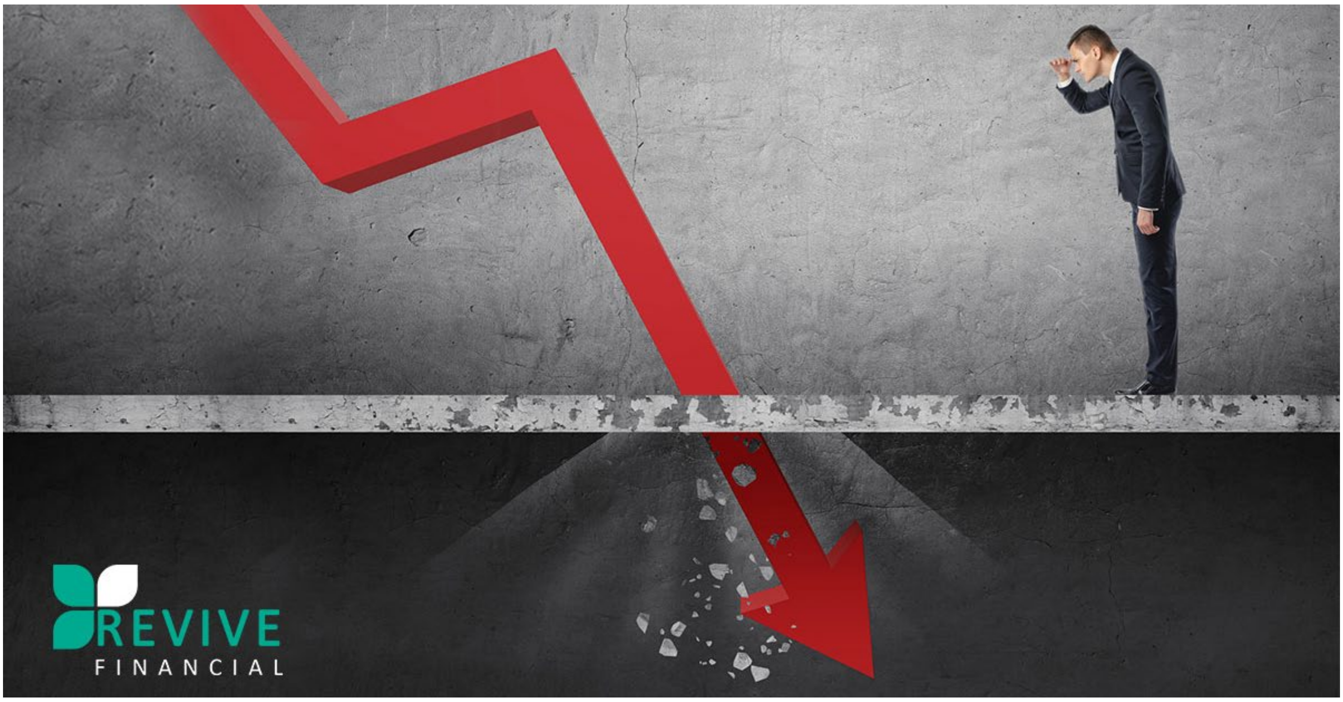
12 Insolvency Warning Signs You Need to Know



As a business owner, you know when you're having financial difficulty. You're falling behind on payments, suppliers are knocking at your door, your stress levels are soaring. However, while you may be aware things need to change, you might not realise just how bad the situation is.

To ensure things don't get worse, and to help prevent your business going under, here are some of the early, as well as the more serious, warning signs of insolvency you need to look out for and deal with pronto. The faster you act, the better your chances of turning things around.

Early Warning Signs Of Insolvency

1. Missed BAS Lodgment Or Payments

If you're struggling to pay your business taxes, such as your GST and pay as you go withholding (PAYG), there's a problem.

While it might be tempting to hold back on submitting your BAS, non-compliance with lodgements is a red flag for the Australian Taxation Office (ATO). In addition, if it's not lodged within three months of the due date you, as director, could be held personally liable for the outstanding debt.

If you're in this situation, the best advice is to come clean. If you submit your BAS on time but make the ATO aware you're struggling to pay, they will work with you to arrange a payment plan that allows you to pay the debts over a longer period. If you don't, your debts will only grow.

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2. Unpaid Superannuation

Not being able to pay your employees their super entitlement is one of the earliest and most common signs of insolvency. Up until now, not paying has been easy to hide, but this will change when the new Single Touch Payroll reporting is fully rolled out from 1 July 2019.

Failing to report and pay it on time each quarter may lead to you, as director, being held personally liable. If you can't pay or are short, you are required to complete a Superannuation guarantee charge statement, and may need to pay penalties as well as the outstanding superannuation.

3. Disorganised Business Records

If you're finding it hard to prepare accurate financial statements for your business because your files are messy and disorganised, this is another worrying sign. That's because poor organisation can mean poor financial and business management.

In fact, one of the ways a liquidator can prove insolvency in court is by demonstrating that a company failed to maintain proper books and records. It's seen as a possible indicator that a director knew their business was in trouble but were trying to hide it.

4. Negative Working Capital

One of the quickest checks to see whether your business is insolvent is to calculate your working capital balance. This is the difference between your company's current assets (cash, accounts receivable, stock inventory) and your current liabilities (trade creditors, ATO and super debts).

This figure tells you the amount of cash and cash-convertible assets you have available to cover your short and near-term debts. If this amount is a negative, it means your company may not have enough cashflow to pay its upcoming due and payable debts.

5. Personal Funds Being Used For The Business

While it may be necessary to dig into your own pocket to fund your business in its early stages, having to max out your bank account, rely on personal credit cards, and loan your company cash to keep it afloat later on is a sign you may be on the path to insolvency.

The risk is, if the money you put in doesn't turn things around, not only will you be left with high personal debt, but you'll end up in a position of even greater stress.

6. Creditors Are Chasing Payment

Cash flow problems in your business can mean you don't have the funds available to pay off your debts. As a result, this can lead to your suppliers, landlords, and other creditors issuing payment reminders or doing follow-up calls asking you to pay your debts.

If these are fairly infrequent, you don't need to worry too much. However, if these increase and your aged payables balance is rising and reaching as many as 30 or 60 days past due date, your financial issues may be more serious.

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7. Customers Aren't Paying Up

Not only is being unable to meet payments an early warning sign of insolvency, but if you're having trouble getting paid and you're the one doing the chasing, this can be another indicator.

If you have a number of customers who aren't paying on time, this can lead to serious cash flow difficulties. While you might be able to largely solve this one by simply improving your collection process, if customer dissatisfaction is the cause, it can be harder to manage.

8. Failed ATO Payment Arrangements

If you're finding it difficult to pay your tax in full, ATO payment plans are a great way to spread the debt and manage your cash flow. However, if you're struggling to pay even these smaller increments, this is another sign insolvency is pending.

A failure to comply with your payment arrangement is a red flag for the ATO, and can make it more difficult to obtain future arrangements shooting you into even greater difficulty.

9. Excessive Staff Turnover

Are your staff retention rates below average? If they are, and you're constantly finding yourself dealing with changeovers in staff and employees, insolvency could be looming.

The reason for this is that your employee satisfaction levels are a good indicator of a healthy business. If you're facing uncertain trading conditions and appear stressed or wages aren't being paid on time, your staff won't be happy and will show this by heading for the hills.

The knock-on is a drop in customer satisfaction, work capacity and potential profits.

Serious Warning Signs of Insolvency

10. Continuing Losses

If you're continuing to make losses and your asset position is looking dire with no sign of improvement, this is a sign things are bad and insolvency could be imminent.

As directors often take their wages in expectation of profits, you may be struggling to pay yourself, in addition to your creditors and suppliers. You may also be relying more on trade creditors and the ATO to stay afloat, in the form of more debt or late payments.

11. Inability To Obtain Business Finance

When obtaining loans and finance, you generally want the lowest interest rates provided by the best lenders. However, if you're being forced to look at alternative financing as you're seen as high risk, this isn't good news.

Being put in this position might see you signing up for unsecured loans through little-known lenders with interest rates upward of 20%. This can lead to bigger problems than the ones they solved as you struggle to make the repayments. In this situation, liquidation may become the only viable option.

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12. Legal Recovery Action By Creditors

If the ATO or other suppliers or creditors have threatened to, or are already in the process of, filing legal action against you to recover their debts, things are serious.

If you're at this point and are facing statutory notices to liquidate or wind things up, insolvency is a sure thing. At this stage the ATO has additional powers to issue a garnishee notice to your bank, as well as a director penalty notice to you, holding you personally liable for your company's tax debts.

Is Your Company at Risk?

Is your company displaying any or some of the warning signs? If the answer is yes, it's time to take action. What that action is will depend on the seriousness of your business's financial state – but whatever it is, seeking independent professional advice straightaway is crucial.

Getting advice as early as possible is the key to survival in the face of insolvency. For a free initial assessment of your business and its options, call us today on 1800 560 557.

For more information on director advice, check out our director advice page here.

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