PRIVATE CLIENT

4 ways of minimizing the risk of insolvency

FRANCIS WILKS & JONES

People focused.
Solutions led.
Results driven.

1 Cash is king

Cash is the life-blood of any business. The fact is that many businesses that appear to be profitable become insolvent because they simply run out of cash. Indeed, a business that is successful and growing rapidly is very likely to have cash flow issues to deal with – for example, having to buy materials and/or pay staff to make products to sell and wait for a customer to pay. Any sale is worthless unless the customer pays!

Ensuring that you have the finger on the pulse of the business's cash flow is absolutely essential:

1. **Make sure that you know how much cash is in the bank account at all times and that you know when your regular financial commitments leave your account. This enables you to see how the business is doing and predict when cash might be tight;**
2. **Have a system of chasing any debtors when they exceed your payment terms;**
3. **Develop a relationship with a specialist firm of solicitors, such as Francis Wilks & Jones who are experienced in debt recovery work and know the best methods of recovering outstanding debts as quickly and cheaply as possible;**
4. **Talk to your bank manager as early as possible if you can see that cash may become tight. it may be possible to increase an overdraft limit or arrange some form of lower cost finance. Don't leave it to the last minute and panic. This will reduce your chances of getting help from the bank and even if they do help, is likely to be on more expensive terms.**

2 Understand the accounts

Most company directors do not have any formal accountancy training so keeping things simple so that you understand the numbers is crucial.

Having regular access to clear financial information means you will know how your business is performing and make sure you have a system in place to provide you with regular management accounts and information that you understand.

This could be by way of a simple weekly snapshot showing total sales for the week against the costs incurred for the week.

if you ensure that your monthly management accounts have corresponding notes which highlight any discrepancies from your planned budget you will be able to see if something needs to be addressed.

If costs are increasing and sales are decreasing for example, something needs to be done. If sales are good and costs are under control, you may need assistance with collecting your debts or possibly look at invoice finance or other types of funding to carry you through.

3 Check your business plan regularly

Have you got one?

Be clear on what it is that you want your business to achieve and write it down. If you have set realistic targets for sales and profit, what you are going to do to reach them, and applied a time frame, you can keep effective track of your progress. Then you can see if things are going to plan – or not.

There may be perfectly acceptable reasons for missing your goals, but a regular review of your business plan will flag up any warning signs of insolvency which may be solvable if addressed early.

4 Consider the business viability

Having ensured that you have clear financial information and a working business plan, you will be well placed to assess objectively whether your business has a problem.

If things aren't going well, the range of issues that could be affecting the viability of your business is vast.

The first question to ask is whether there is a real demand for your product or whether it's a fanciful idea but not realistic.

If the product or service is good, but management isn't working, perhaps a change of staff may be needed to turn fortunes around.

But if things are not working out it is better to address this as soon as you can.

A forced closure of your business through insolvency opens the directors up to investigation with the consequent risk of fines and disqualification. a planned and responsible exit is preferable not only to your creditors, but to safeguard your own personal circumstances.

If things aren't right, the team at Francis Wilks & Jones are here help you to get back on track.

Whatever your concerns, we can help to review your business and, if necessary, call on our network of other professional advisors ranging from turnaround and restructuring professionals, insolvency practitioners, asset based financiers and brokers, to help you sort things out.

Our pragmatic and commercial approach will provide you with clear, practical and helpful advice.
We want you to do better business so that your business does better.

Talk to our team

- Speak in confidence
- No obligation
- Expert advice from a friendly team

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