

A Financial Health Check for Your Business - A Good Or Bad Thing?

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The Sydney Morning Herald dated 30 April 2012 reported that statistics from the Australian Securities and Investments Commission ("ASIC") indicated that insolvencies across Australia's small business sector are rising, with the number of companies put into external administration in February 2012, namely 1123, reaching the highest level since 1999, being the year when insolvency statistics were introduced.

The sad facts are that since this article was first published, ASIC statistics showed that this trend continued during March and April 2012. ASIC's statistics for May 2012 confirmed this increase in external administration, when a further 884 companies were placed in external administrations during the month. ASIC's statistics overall reveal that **9,958** companies were placed into external administration between 1 July 2011 and 31 May 2012. No monthly figures for June 2012 have been released by ASIC as yet. By way of comparison, for the full financial year ended 30 June 2011, ASIC's statistics disclosed that **9,829** companies were put into external administration.

Significantly for many months, nearly half of these external administrations resulted from direct legal action pursued through the Courts by creditors such as the Australian Tax Office ("ATO"), seeking to recoup unpaid debts, including GST and PAYG withholding. So why this sudden surge in insolvencies?

When we have a tooth ache, or a stomach pain, we do not hesitate to visit our dentist or local GP for a check-up and to get the appropriate medicine to relieve the pain or cure the symptoms of illness.

In business, the "pain" does not become evident until it is too late. It usually surfaces around the time businesses have to complete and lodge BAS statements, tax returns and other periodic statutory returns. Small business operators are usually so engrossed in the day-to-day running of their business they do not have the luxury of stepping back to observe what is really happening until they have to comply with these statutory requirements.

At the appropriate BAS Statement timeline, small business proprietors are indirectly forced to undertake a financial health check of their business in order to complete their BAS statements, that is, measure sales performance, profitability and cash flows. All of these are indicators of how a business is travelling, and the consequences of **not** having sufficient liquidity (read cash) to meet the businesses' debts, including their obligations to the ATO for GST and PAYG could prove disastrous.

So, what is the answer? Is there a "magic wand" or a "genie in a bottle" that is going to grant you three wishes to fix all your financial woes? Alas no!

It is acknowledged that we conservative accountants can only provide you with some tell-tale warning signs that will enable you to recognise the storm clouds that can be gathering indicating an impending financial disaster so that you can act before it is too late. If you do not react thus leaving the only option for you to approach an insolvency practitioner- the dreaded "corporate doctor", or in extreme cases, the "corporate undertaker" destroying value that could have been preserved.

A successful businessman was reported to have said "the future belongs to those who plan for it".

Be pro-active. Seek advice from the professionals and undertake a self-assessment of the financial health of your business now, before it is too late!

Review your internal and external business risks. Consider your existing corporate structure and how you may best “future proof” your business. What are the traps to avoid in conducting your business and how do you set priorities in and for your business.

Condon Associates have identified some key questions that you should consider when undertaking a self-assessment of the financial health of your business. Please feel free to call us and discuss your obligation-free financial health check needs.