MFR GUIDING STATEMENT 1

KEY CONTRIBUTORS THAT CAN LEAD TO FINANCIAL DIFFICULTY

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The building industry, like any other industry, can face financial difficulty due to various factors. Some key contributors can lead to financial difficulties or insolvency. It is important to review your financial situation on a regular basis, and understand your income, expenses and debts.

Some warning signs of financial distress for a business can include:

- Lack of control of the business
  - » Disorganisation
  - » Poor record keeping
  - » Unreliable internal financial records
- Blurring between business and personal spending
- Overdue taxes or superannuation liabilities
- Continuing losses
- Poor cash flow
- Absence of a business plan/lack of cash flow forecasts or other budgets
- Problems collecting debts or money owed to the business
- Unrecoverable loans to associated parties
- Inability to borrow further funds and/or no access to alternative finance
- Inability to raise funds from shareholders
- Overdraft limit reached or defaults on loan or interest payments
- Suppliers stopping accounts, changing to cash on delivery, or demanding payment arrangements before resuming supply
- Creditors remaining unpaid outside normal or industry trading terms
- Payments to creditors of rounded sums that are not reconcilable to specific invoices
- Dishonoured cheques or using post-dated cheques to continue trading
- Highly leveraged assets
- Banks requesting additional security
- Legal letters of demand, judgements etc being received to recover outstanding debts
- Inability to produce accurate financial information/ incomplete financial records
- Reliance on the “next big job” to save the business
- Inadequate planning which can lead to delays, cost overruns, and quality issues on site

It is vital to seek professional advice as soon as possible if a business is experiencing financial difficulty.

Reviewing your financial situation regularly is important as it helps you understand your financial health, identify areas for improvement, make informed decisions, and prepare for the future.

Some avenues that a business can undertake to remain viable (in conjunction with seeking professional accounting and/or business advice):

- Review changes in existing market share, pricing and demand for services or products
- Review major projects in regards to timing and funding
- Review business costs such as labour, suppliers, overheads.
- Determine which debts have the highest interest rates or monthly payments. Identify ways to reduce or eliminate these debts.
- Assess balance sheet viability and allocation of working capital
- Keeping financial records accurate and up to date
- Consistent and regular review of financial position (making time to sit down regularly and review business records, financial position, upcoming jobs, cashflow etc)
- Increasing or improving knowledge of industry trends and risks
- Increasing or improving understanding of healthy business management practices
- Building up emergency funds and/or plans
- Maintaining separation between business and personal spending

The information provided is not exhaustive and all or some may not be relevant to your business circumstances, therefore it is important to consult with an accountant or business specialist for specific advice.

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