



Recognising the early signs of financial distress

When running your own business it is easy to get caught up in the day to day running and constant demands which may cause you to lose sight of the 'bigger' picture and potential problems which may be looming.

There are many signs of potential financial distress that can be easily missed but by recognising these early on - could be the difference between survival and insolvency.

How healthy is your cashflow? It is not uncommon to have occasional dips and the odd bad month but if a negative cash flow is a continuous problem, with the business spending more than it brings in, then this needs to be addressed – and quickly.

As the saying goes 'turnover is vanity, profit is sanity, but cash is reality'. Negative cash flow can lead to suppliers, employees and utilities not being paid on time, HMRC defaults and more. It can damage your company's financial reputation, which in turn can lead to difficulties when trying to secure business borrowing.

There are numerous ways of potentially turning round a negative cashflow and here we list some examples:

- Produce a simple cash flow forecast to help you keep track of expenditure on a daily basis. It will give an insight into seasonal variances to factor in such as higher heating costs in winter and also highlight peaks and troughs in the level of business and expenditure throughout the year. By predicting where shortfalls may occur you can arrange additional funding for these times if need be, such as increasing your overdraft limit.
- Tighten up invoicing and credit control procedures should quickly introduce more working capital to your business.
- Ensure that credit checks are carried out on new and existing customers to decrease the likelihood of bad debts mounting up.
- Check if there are discrepancies with your credit terms. You will obviously struggle with cash flow if you give longer credit terms to your customers than your suppliers give to you.
- Analyse if there are any areas where you could cut costs without it being too detrimental to the business.

- Also, is there any way you can quickly increase sales to help the situation in the short term – such as special offers, increased marketing push and so on.

As well as a negative cashflow, other warning signs to look out for are; general unhappiness in the workplace, which may lead to staff leaving; political and environmental issues; general market downturn; loss of a key customer; a lucrative contract coming to an end and increased pressure from your creditors.

By being proactive if any of these situations occur; your business will stand a much better chance of survival.

If you have any concerns about the issues mentioned in this article please seek professional advice from your accountant.

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