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WHY BUSINESSES FAIL

Research into reasons for business failures suggest the following:

- Inadequate planning (or complete lack of it);
- Inadequate amount of invested capital/overgearing;
- Lack of management expertise;
- Lack of or poor management succession planning;
- Lack or poor information systems;
- Inadequate record-keeping;
- Inadequate cost control;
- Incorrect pricing structure;
- Overtrading or growing too fast;
- Cash flow problems;
- Price/margin competition and lack of market knowledge;
- Over reliance on a single (or a small number) of customers or products.

In their National Insolvent Trading Program the Australian Securities & Investments Commission (ASIC) outline some factors which tend to indicate insolvency. A company or business is said to be insolvent if it can't pay its debts as and when they fall due.

Key Indicators of Insolvency

- poor cash flow, or no cash flow forecasts
- disorganised internal accounting procedures
- incomplete financial records
- absence of budgets and corporate plans

- continued loss-making activity
- accumulating debts and excess liabilities over assets
- default on loan or interest payment
- increased monitoring and/or involvement of financier
- outstanding creditors of more than 90 days
- instalment arrangements entered into to repay trade creditors
- judgement debts
- significant unpaid tax and superannuation liabilities
- difficulties in obtaining finance
- difficulties in realising current assets (eg stock, debtors)
- loss of key management personnel.

To get more detail on ASIC's National Insolvent Trading Program go to the following:

http://www.asic.gov.au/asic/asic_infoco.nsf/byheadline/ASIC's+National+Insolvent+Trading+Program?openDocument#indicators

The good news in all of this is that many of these problems or indicators can be solved. Planning, proper record-keeping and management training can be the difference between success and failure. In particular, developing a sound business plan can help your business achieve success or perhaps even lead to the realisation that you shouldn't be (or shouldn't be going) in business (or that particular business). This in itself can be considered success by preventing you from placing your financial future on the line for a potentially unsuccessful enterprise.

We can assist you with these matters. Just call.

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