PLAIN TALK.
STRAIGHT ANSWERS.
FAST RESULTS.

WORRELLS
SOLVENCY + FORENSIC ACCOUNTANTS

Indicators of insolvency

Frequently, the courts assess whether a company or individual is insolvent and if so, when that insolvency started and when various stakeholders should have suspected it. It is also a critical factor for directors, when liquidators or creditors commence recovery actions for damages arising from insolvent trading or related claims.

In ASIC v Plymin (2003) 46 ACSR 126, the Judge referred to a checklist of 14 indicators of insolvency:

1. continuing losses
2. liquidity ratio below 1
3. overdue Commonwealth and State taxes
4. poor relationship with present bank including inability to borrow further funds
5. no access to alternative finance
6. inability to raise further equity capital
7. suppliers placing the debtor on cash on delivery (COD) terms, or otherwise demanding special payments before resuming supply
8. creditors unpaid outside trading terms
9. issuing of post-dated cheques [or EFTs]
10. dishonoured cheques [or EFTs/direct debits]
11. special arrangements with selected creditors
12. solicitors' letters, summonses, judgments, or warrants issued against the company
13. payments to creditors of rounded sums, which are not reconcilable to specific invoices
14. inability to produce timely and accurate financial information to display the company's trading performance and financial position and make reliable forecasts.