

Checklist for recognising the signs of financial difficulty

Did you know?

The advisers at the Small Business Mentoring Service can deal specifically with a business which is struggling.

Check out the mentor profiles at www.sbms.org.au

Main topics:

- Check your financial health
- Get help to get back on track

Check your financial health

Check the financial health of your business by answering either Yes or No to the following questions. Each question has tips to help you answer accurately.

Checklist questions	Tips	Yes/No
Are you paying yourself a decent wage?	Paying your wages does not mean taking money from the till, your overdraft or start-up capital. Your wages should come from the sales revenue you've made after you've taken out all your expenses.	
Are you keeping up with the bills you owe other businesses and your payments to the tax office e.g. payments to suppliers and GST?	Owing other businesses and the tax office money is one of the first signs your business does not have a strong cash flow. It's bad enough not to be able to pay yourself, but if you can't pay others they will soon stop doing business with you and your business will grind to a halt.	
If you're an employer, are you keeping up with all your employer legal obligations e.g. PAYG withholding and superannuation?	GST and PAYG obligations are usually part of a quarterly tax office return. New businesses often forget that these are part of their regular payments. These payments should be recorded on a separate line in your cash flow statement, so the money is put aside and you're not caught short every quarter.	
If your customers owe you money, do you know how much is owed and how overdue the payments are?	If your customers owe you money which is outside of your credit terms, you need to act swiftly to collect this money. If they don't pay you how will you pay bills, wages and other expenses?	
Do you have a process for following up customers who owe you money?	Regularly checking late payers and following them up improves your ability to recover debt. Strategies to deal with late payers include cash on delivery and offering a discount for paying on time.	
Are you competing with other businesses using strategies other than your price?	If you have many direct competitors and your only selling point is to be one of the cheapest, your margins will always be slim and eventually someone will undercut you. Work on creating points of difference with competitors which you can advertise.	
Do you have a bookkeeping system in place?	This can be as simple as a record keeping book from the newsagents, or purpose-built software e.g. Quicken or MYOB. It should be kept up to date and show you the exact state of your finances.	
Do you have a budget and a projected cash flow for the next 12 months?	This is important in being able to determine if your business can survive. Anticipating when and how much money is coming in and going out are critical to maintaining a positive cash flow.	
Do you know what your breakeven point is, and have you priced your goods or services to cover the breakeven and profit margin?	Knowing your breakeven point (the total cost of producing a product or service) is essential in making sure you are charging enough to cover costs and making a reasonable profit.	
Do you have an understanding of what your gross profit is?	Gross profit is your net sales (sales after you take into account your returns and deductions) minus the total cost of what you've sold. You should be able to track this and it should be enough to cover all your expenses and leave enough net profit for the owners of the business.	
Does either of the two success factors for profitable businesses – increasing revenue or decreasing expenses – apply to your business?	These are the two key questions in financial turnaround. Can you increase your customer base or is there room in the market to sell at a higher price? And what non-essential expenses can be reduced without affecting your service? Prioritise these expenses by the size of potential savings e.g. vehicle fleet costs before mobile phone usage.	

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Do you speak to your accountant more than once a year?	If you don't have strong financial management skills, seeing your accountant once a year at tax time is not enough. An accountant who regularly checks your finances will help detect potential problems and provide suggestions for ways to improve your business.	
Do you have good working relationships with your suppliers?	If you're dealing with a supplier who suddenly changes their terms of trade, particularly when it comes to credit arrangements, you may need to renegotiate your agreement, or even find a new supplier.	
Are you reviewing your cost structure quarterly and considering increasing prices to cover rising costs?	Your cost structure should not be set in concrete. Profitable businesses have regular reviews and make allowance for rising costs.	

Get help to get back on track

If you answered No to some (or even most) of the questions, your business is probably experiencing some financial difficulties and you should seek professional help to reverse the trend. Below are some practical suggestions:

Get professional help

Find an Adviser

Getting expert advice can help you identify goals, anticipate change and plan for survival and growth. Find contact details for accountants, lawyers and business mentors in your local area using the Business Victoria Find an Adviser service.

www.business.vic.gov.au/findanadviser

Improve your financial awareness

Get a business mentor

The Small Business Mentoring Service (SBMS) is a useful resource and provides mentoring advice and support for small Victorian businesses.

www.sbc.org.au

Talk to an accountant

Find contact details for an accountant in your local area using Find an Adviser. Business Victoria also has a checklist of Questions to ask my accountant to ensure you get the most from your appointment.

www.business.vic.gov.au/findanadviser

Check your cash flow

By keeping on top of your finances you can detect if your business is going to experience financial difficulties and take steps to prepare for it. Business Victoria has a cash flow information sheet and a cash flow worksheet to help you do this.

www.business.vic.gov.au/finances

Attend a workshop

There are a number of workshops held all over Victoria to help in areas such as cash flow, tax and marketing. Use the Business Victoria Calendar of Events to find one near you.

<http://ems.business.vic.gov.au/ems/>

For more information:

- call Business Victoria on 13 22 15
- visit the Business Victoria website at business.vic.gov.au
- visit a Victorian Business Centre (VBC). VBC locations are at business.vic.gov.au/vbc

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