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# BIR Liquidity & Solvency Solutions Self Assessment Quiz

*Turning insolvency into solvency – analysis, action, resolution, empathy*

## Your Solvency Assessment – 38 Quick to Answer Questions

	Correct	Incorrect	Maybe	Don't Know
<b>Total Score</b>				
<b>Part I Financial Performance</b>				
<b>Profitability – Last 3 years</b>				
<b># 1</b> The business has not incurred an EBITDA loss (i.e. before interest, tax, depreciation and amortisation) during the past 3 years.				
<b># 2</b> The business has not incurred a net loss (i.e. after deducting all of those items excluded above) during the past 3 years.				
<b># 3</b> Over the past 3 years, the total losses incurred (if any) are less than the total profits generated in this 3 year period.				
<b># 4</b> The business has not incurred a large once-off loss which is proving difficult to overcome.				
<b># 5</b> The business is profitable or at least break even in more than 10 months of the year.				
<b># 6</b> The sales of the business have not declined by more than 10% over the past 3 years.				
<b># 7</b> My gross margin percent (of sales) has not declined by more than 10% over the past 3 years.				
<b># 8</b> My Overheads have not increased as a percentage of sales over the past 3 years.				
<b>Assets</b>				

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		Correct	Incorrect	Maybe	Don't Know
# 9	The net amounts (after provisions) shown as owing by my customers (including Work in Progress) are collectable.				
# 10	The net value of inventory (after provisions) is saleable at current prices.				
# 11	All loans to related parties (if any) are collectable in the time frame shown in the accounts.				
# 12	All fixed assets can be identified and they are generating a return for the business.				
<b>Liabilities</b>					
# 13	No creditor is attempting to wind up the business or enforce legal action for recovery of their debt.				
# 14	The directors and shareholders have not received any demands for payment relating to guarantees they have given to third parties.				
# 15	No creditor is putting the business on 'stop credit' for non payment of the balance owed.				
# 16	Any overdue balance not owed relates to either a commercial stretching of the credit terms or there is a genuine dispute as to the whole of the unpaid debt.				
# 17	The bankers for the business are fully informed as to the financial position of the business and they are not seeking any action be taken in regard to my account or in regard to refinancing my account.				
# 18	The business is operating within its banking limits and it does not regularly have cheques bounced for exceeding these limits.				

		Correct	Incorrect	Maybe	Don't Know
# 19	All BAS statements have been lodged and the associated amounts owing to the Australian Tax Office (ATO) are up to date.				
# 20	The directors have not received any Notices from the ATO pursuant to Section 222 of the Income Tax Assessment Act.				
# 21	The superannuation payments to employees are up to date.				
<b>Cashflow</b>					
# 22	The cash flow projections for the next 8 to 12 weeks do not show any signs of insufficient funding to meet liabilities as and when they fall due.				
# 23	The forecast profit and loss and balance sheets do not show any incapacity of the business to pay liabilities as and when they fall due.				
# 24	Any projected cashflow shortfall is temporary and it can be covered by an injection of funds when needed from either the shareholders or an external financier.				
# 25	The Current Ratio (current assets divided by current liabilities) has been greater than 1.0 for the past 3 years.				
# 26	The Quick Ratio (current assets less inventory, work in progress & prepayments divided by current liabilities) is greater than 1.0 for the past 3 years.				

	Correct	Incorrect	Maybe	Don't Know
<b># 27</b> From the management records and my understanding of likely future cashflows, I am of the view the business can pay all its debts it has incurred and which it may incur as and when they fall due.				
<b>Part II Management Records<sup>1</sup></b>				
<b># 1</b> The business has financial records which allow the directors to review the historical profitability and cashflow of the business on a regular and timely basis.				
<b># 2</b> The business prepares regular (eg monthly) financial statements (i.e. profit and loss and balance sheets).				
<b># 3</b> The business prepares financial statements on a timely basis.				
<b># 4</b> As part of the monthly financial reporting, my financial team prepares reconciliations supporting and providing details for each amount on the balance sheet.				
<b># 5</b> I have signed Terms of Trade or Contracts with all my customers and (for product sales) my Terms/Contracts contain a legally enforceable Retention of Title Clause.				
<b># 6</b> The registered office of the business as per the records at ASIC is the current business address or the address of our current accountant.				

<sup>1</sup> Apart from showing whether management has access to the right information to make informed decisions about the business and its viability going forward, the status of books and records is critical in a situation of potential insolvency. Section 588E of the Corporations Act states that if a company has failed to keep financial records in accordance with Section 286 of the Act in relation to a period of time, then the company is presumed to have been insolvent throughout the period. Section 286 of the Act says that a company must keep written financial records that correctly record and explain its transactions and financial position and performance; and would enable true and fair financial statements to be prepared and audited.

		Correct	Incorrect	Maybe	Don't Know
# 7	The external accountants for the business review my management records on a regular basis and they have not raised any issues with the completeness, accuracy or correctness of these records.				
# 8	Management prepares and updates short term (8 to 12 weeks) cashflow forecasts on a regular (eg weekly) basis.				
# 9	Management prepares annual projections of profit and loss, balance sheet and funds flow.				
# 10	Management reviews actual performance against projected forecast regularly (eg monthly).				
# 11	The business has a strategic plan and progress against this plan is monitored on a regular basis.				

Scoring: "Correct" answers = 1; Not Applicable = 1; All other answers = 0.

**Part I Financial Performance**

**27** – a perfect score! – you look to be solvent and there are no immediate dark clouds on the horizon. The important thing is to remain vigil and aware of the potential threats when economic and competitive conditions are tough.

**26 to 22** – a good result – you may not have a solvency concern but you should have a quick look at those areas you did not score correctly. There is always a risk these areas could indicate pending problems, particularly if they are in the area of profitability and liabilities.

**21 to 16** – an 'orange light' result – depending on the answers you were not able to answer as 'Correct', there is increased risk that you may have solvency concerns which need to be address with some urgency. It is important to address those areas you did not get correct and start taking action before it potentially becomes too late.

**15 and below** – there is a fair bit of work to do – and you know it! Don't delay. Now is the time for action.

**Part II Management Information**

**11** – a perfect score! Subject to your financial performance (refer to your score above) you have no need to fear of insolvency from the status of your books and records and your processes for identifying potential situations of insolvency. In fact, you are running a very tight ship from a record keeping point of view.

**10 to 8** – a good result – you keep good records and your processes are reasonably sound. Perhaps there are a few areas you may wish to work on.

**7 to 6** – a fair result – you should be looking to work on some areas of your business processes and record keeping so you can manage your business past potential solvency issues.

**5 and below** – there is a fair bit of work to do – and now you know it! Don't delay. Now is the time for action.

Call Michael Royal now on 1300 783 309 if you would like an informal, no obligation free chat about your strategy processes, or email Michael at [michael.royal@bir.net.au](mailto:michael.royal@bir.net.au).

Our services provide you with the three core drivers of business success, enabling you to make better and smarter business decisions:

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- **Business Finance Solutions** – Sourcing and securing the best finance (debt and equity) to match the needs of your business.

We also work with **Solvency, Restructuring & Liquidation Solutions** to consistently deliver the best outcomes in those difficult times when solvency and ongoing viability may be an issue.

At BIR Solutions, we are here to help you achieve the most out of your business by providing support, structure and clarity so the decisions you make for the future of your company have a positive impact.  
*Better solvency solutions saving businesses & saving stakeholders*