

# Indicators of potential insolvency



The below indicators represent various factors to take into account when considering whether a company is insolvent. Due to the current COVID-19 pandemic and the progressive withdrawal of government support, CPA Australia members are very likely to see an increase in indicators of insolvency amongst their clients. If you believe your client is insolvent refer them to an insolvency expert as soon as possible.



## Indicators of potential insolvency for a company:

History of continuing trading losses

Experiencing cash flow difficulties

Experiencing difficulties selling its stock, or collecting debts owed to it

Creditors are not being paid on agreed trading terms and/or are either placing the company on cash-on-delivery terms or requiring special payments on existing debts before they will supply further goods and services

Non-payment of Commonwealth and state taxes when due (e.g. outstanding PAYG, GST is payable, or superannuation guarantee contributions are payable)

Cheques are being returned dishonoured

Legal action is being threatened or has commenced against the company

Limits of funding facilities have been reached or you are unable to obtain appropriate further finance to fund operations—e.g. through negotiating a new limit with a current financier; or refinancing from another party.

Unable to produce accurate financial information on a timely basis that shows the company's trading performance and financial position or that can be used to prepare reliable financial forecasts

Company directors have resigned, citing concerns about the financial position or ability to produce accurate financial information

Company auditor has qualified that the company continuations is a growing concern

Defaulted, or is likely to default, on its agreements with its financier

Internal staff (including accountants/ financial controller) have raised concerns about the company's ability to meet, and continue to meet, its financial obligations

Uncertainty that assets could be sold in a relatively short period to provide funds to help meet debts owed, without affecting the company's ongoing ability to continue to trade profitably

Holding back cheques for payment or issuing post-dated cheques

Source – [ASIC Regulatory Guide 217](#)

For more information about recognising if your business is in distress or recovery resources for you business or cliental visit the [CPA Australia website](#).