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Below is an article recently published by the National Institute of Accountant in Australia.

Bankruptcy statistics show need for businesses to review finances

With new figures showing that rates of insolvent trading and bankruptcy are increasing, the National Institute of Accountants (NIA) is urging businesses to review their finances to avoid slipping into insolvent trading.

The Insolvency and Trustee Service Australia (ITSA) said statistics for the December quarter 2008 showed total personal insolvency activity (8,702) increased by 11.69 per cent against the same period in 2007-08 (7,791): a decrease of 3.39 per cent on the September 2008 quarter (9,007).

There were 6,649 new bankruptcies in the December 2008 quarter, an increase of 6.03 per cent against the December 2007 quarter (6,271) and a decrease of 0.66 per cent on the September 2008 quarter (6,693).

There were 1,991 new debt agreements in the December 2008 quarter, an increase of 37.12 per cent against the December 2007 quarter (1,452) and a decrease of 9.58 per cent on the September 2008 quarter (2,202).

NIA chief executive officer Roger Cotton said the figures showed that this was, and would continue to be, a tough time for businesses. "This is an important time to seek advice from your accountant to ensure that your business systems and reports quickly identify any problems," he said.

"Businesses can determine whether they are solvent by applying two simple tests; one is the cash flow or commercial test, and the second is the balance sheet or absolute insolvency test. "Often small businesses are so busy running the business that they do not realise that they are trading insolvent and will quickly find themselves in a very difficult financial position. This is particularly important as financial institutions tighten their access to finance leaving some businesses with few options."

Avegna provide inhouse financial and accounting advice. For further information on how we can assist you in your business, please do not hesitate to contact us.

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