

INDUSTRY INSIGHTS

By Robyn Karam

Financial information management – the key to business survival



Since at least the 2005 financial year, the Australian Securities and Investments Commission (ASIC) has tracked the most common causes of business failure.

The statistics reveal the circumstances commonly shared by companies that collapse:

- ▲ inadequate cash flow or high cash use
- ▲ trading losses
- ▲ poor strategic management
- ▲ poor financial control
- ▲ under-capitalisation
- ▲ poor management of accounts receivable
- ▲ other contributing factors.

The common link

It's worth noting how these causes play out in real business situations. In each case, almost every factor that contributes to business failure is associated with inadequate information management and record keeping.

Too many businesses face financial distress with owners not comprehending the core reasons. Often, had accurate financial data been collected and reported to the business owner, they may have been better placed to evaluate the options available to the business and the potential for turning around business performance.

In one example, a review of detailed financial records (had they been available) may have shown a business owner that one of their product lines was generating excessive trading losses and draining the business's cash. The owner may then have been able to simply remove the product line from the business's offering.

The value of financial record-keeping

Comprehensive, accurate financial information management is vital to businesses for three core reasons:

1. Regulatory compliance
2. Support for business decision-making
3. Marketing the business to financiers.

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Regulatory compliance

The most fundamental reason that businesses should generate and maintain accurate financial information is the need to comply with relevant regulations and legislation.

The Corporations Act includes a statutory requirement for companies to prepare, maintain and audit 'true and fair' written financial records that accurately reflect and explain the business's transactions, financial position and performance.

Taxation legislation also requires businesses to maintain accurate records.

Support for decision-making

The ready availability of comprehensive, precise information is also crucial to decision-making processes at all levels of a company.

For example, accurate records about inventory levels, 'days in inventory', 'debtor days' and 'creditor days' reveals information about business performance that can be used to improve business operations.

The business owner can find answers to key performance questions. For instance, is it time to replenish stock? Are debtors paying on time? Is the business taking advantage of trade credit available to it?

Marketing to financiers

In addition, financiers require information (including both historical financial results and forecasts) when evaluating finance applications for new loans, existing loan compliance and refinancing.

This may occur at any stage of the business life cycle and may be part of a financier's routine quarterly or six-monthly review.

Frequency and timeliness

Many companies only review their financial data once at the conclusion of each financial year. However, a month can be a long time in business.

I urge company directors and managers to consider



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the benefits of implementing more frequent reporting cycles on both a historical and forward-looking basis.

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With over 160 staff and eleven practices in Australia, New Zealand, Hong Kong and the United Kingdom, we work with clients of all types – from individuals, sole traders and small businesses to public corporations and government entities.

We also work with financiers, solicitors, accountants and creditors to address the needs of all stakeholders when businesses face financial challenges.

How BRI Ferrier can help

BRI Ferrier can assess your current situation and advise on a path forward to minimise further risk.

Early intervention is often the key for a successful restructure of your business. If you or your client is experiencing financial challenges then don't delay, contact us today.

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