

# CLARKE BELL

CHARTERED ACCOUNTANTS & LICENSED INSOLVENCY PRACTITIONERS



We have a stand at the ICAEW Sole Practitioners Conference on 8 November at Haydock Park Racecourse.

This is a one day conference planned by, and designed specifically for, Sole Practitioners and the issues that they face.

If you would like any further details about this, please let me know (or look at the ICAEW website).

Hopefully see you there.

Give us a call on 0800 195 6768 if you would like to discuss anything contained in the above.

## CLARKE BELL

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Clarke Bell

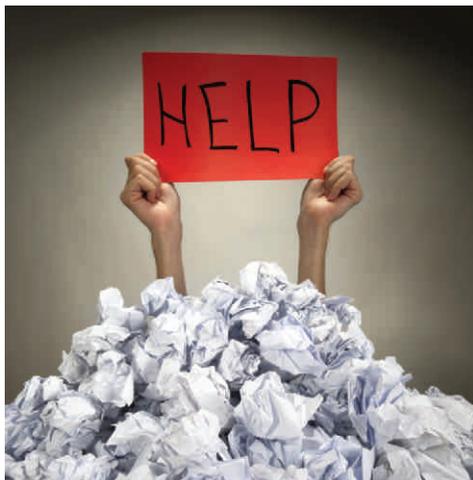
are licensed insolvency practitioners with particular expertise in:

- Reorganising and restructuring businesses
- Organising finance for companies
- Administrations
- Liquidations
- Individual Voluntary Arrangements & Bankruptcies



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## Cashflow problems caused by debtors' problems



A healthy order book and good reputation are not always enough to prevent a business from having severe cashflow problems. These can easily occur due to the knock-on effects of problems experienced by the debtors of the business...

### The background

Chadderton Ceiling & Linings Limited traded as a small firm of Building Contractors in Oldham, with Ray Simpkin as its director.

Trade was good, even though the country was in the throes of the global Credit Crunch and Recession.

### Debtors going bust

Problems started, however, when the company's biggest debtor was placed into Creditors Voluntary Liquidation (CVL) - owing them almost £40,000. This put an enormous strain on the company's cash flow position.

Nevertheless, the director was optimistic that the company could continue to trade.

Some months later, however, another debtor went into CVL. The effect of this second bad debt proved to be too much for the business.

### The solution

The director decided to cease trading and get some professional advice. His Accountant advised him to speak to Clarke Bell.

So Mr Simpkin, his Accountant and John Bell met to discuss the situation. It was clear the company could not continue due to its liabilities. As a result, it was agreed that it should be wound up voluntarily, with John being the Liquidator.

As far as the director was concerned, the benefits of going into liquidation voluntarily include:

- he has control of the closure process - to the extent that he can appoint the Liquidator. (Whilst a Liquidator could be changed by the creditors, this rarely happens.)
- he can then focus his efforts on other activities rather than trying to "flog a dead horse"
- any potential, albeit unintentional, wrongful trading is prevented by his prompt action
- the slate is left clean, so he can start afresh.

### The future

John Bell, of Clarke Bell, said:

*"A lot of businesses in the building sector are struggling, with little reason for optimism any time soon.*

*Ray did the right thing by addressing his company's situation straight away. A CVL was the best available option and we were delighted to be able to help him."*

Ray, the director, said:

*"Things were going pretty well for us until two debtors went bust. The amounts they owed may not seem huge but, for a small business like ours with tight margins, they were very significant.*

*I am very grateful for all the help and support we got from Clarke Bell. They were very friendly and professional, and helped us to make sure that all the necessary matters were dealt with properly."*

## IVA resolves debt problems

### How the problems arose

Our clients, Mr & Mrs Doherty, were a married couple who had been paying all their bills satisfactorily, including the monthly minimum payments on their credit cards. They were able to manage due to their salaries and, in particular, to Mr Doherty's regular bonuses and overtime payments.

However, following a take-over at his company, bonuses and overtime payments were stopped. This is where their financial difficulties began...

### Attempts to resolve the problems

They tried to resolve their problems with a consolidation loan. However, after a while, they found it too difficult to maintain the payments on this loan.

Then they sought advice from a debt advisor and decided to enter into a Debt Management Plan. However, this did not work out for them either. They found it difficult to keep up with the payments for the Plan and it also lacked the formality and protection they were now seeking.

It was at this point they came to Clarke Bell for our specialist Insolvency advice - to see if we could find them a more satisfactory option.

### A joint IVA is the answer

After discussing their situation, it was agreed that a joint IVA would be the best option. This was because:

- a joint IVA would give them the formality and protection they were looking for
- the realisations anticipated were greater than with Bankruptcy - meaning there would be greater returns to their creditors
- a joint IVA would be a final settlement of all the claims made by their creditors
- the personal consequences of Bankruptcy would be avoided. They were both concerned that if a Bankruptcy Order was obtained, this would contravene terms of employment. As such, they would have no source of income, or a substantially reduced one.

### Assets excluded from the IVA

The couple did have some assets, but within the terms of the joint IVA, they were to be excluded.

- A jointly-owned property. This was excluded because the small amount of equity in it would have diminished to nothing after deducting the anticipated costs of selling it.
- A car. This was excluded as it was deemed essential for domestic purposes and it couldn't realistically be 'down-sized'.
- Life assurance policies. Since these were only payable upon death, they had no surrender values, so were excluded.

### Contributions into the IVA

The voluntary contributions were to come from their income.

It was agreed they would make monthly contributions of a set amount for the first 35 months. Then, once their secured loan was paid off, their contributions would be increased for the remainder of the five year period of the IVA.

### The future

The joint IVA was accepted by the required proportion of the couple's creditors. This was because at the end of the IVA, creditors will have received 49 pence in the pound - whereas in a **bankruptcy they would not have received a dividend at all.**

John Bell said:

*"Mr & Mrs Doherty's monthly payments have been calculated so that they can realistically afford to pay them. Also, they now know that by the end of the five-year period of the IVA, their debts will all have been paid off.*

Mrs Doherty said:

*"Finally, we are in a position which will get us out of this horrible debt-trap we found ourselves in.*

*We are so grateful to Clarke Bell for their advice, kindness and help which they gave us throughout this process."*