CLARKE BELL

CHARTERED ACCOUNTANTS AND LICENSED INSOLVENCY PRACTITIONERS

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Cashflow problems hits business and its directors *(Cont...)*

She held a number of premium bonds which were to be cashed in and made available, in full, to the creditors in her IVA.

The other director was not working, but was actively seeking employment. In terms of assets, she had an Endowment Policy which was to be surrendered and made available, in full, to her IVA.

Both of the IVAs were accepted by the respective creditors as they were each deemed to be more beneficial than if the directors were forced into Bankruptcy.

The future

John Bell, the senior partner at Clarke Bell (pictured right) said:

"By being able to sort out the problems of their business and the resulting personal financial difficulties, both directors can now leave these issues behind them and move on with their lives."

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 hits business and its directors

Clarke Bell (pictured above) were approached by the directors of a children's play-centre which had run into financial difficulties. The problems were also having a major impact on the personal finances of the two directors.

Our Corporate and Personal Insolvency expertise meant that we were able to help the directors to deal with all the problems relating to the business, as well as to their personal financial situations.

Background

The play-centre was based in the North West and was set up to provide a good quality children's indoor play-centre.

The directors were jointly responsible for the day-to-day running of the business. As well as investing their own funds into the business, the directors had arranged a business loan with a bank. This was secured by way of a Small Firms Loan Guarantee Scheme for 50% of the loan value, and the bank held a debenture over the company's assets, as well as Personal Guarantees from the Directors, for the remaining 50%.Upon incorporation the directors commenced the design and refurbishment of the trading premises, which all took about a year to complete. During this time they also undertook business planning and market research.

The company performed well during its initial period of trade, with sales increasing thanks to positive word-of-mouth within the local area.

In the first year of trade, however, a larger play-centre opened near the company's trading premises. This had an immediate effect on the business and led to a decline in sales and cash flow problems. The result was the company recorded a loss for its first accounting period.

Nevertheless, the directors were optimistic that existing customers would continue to visit the play-centre and they forecast a profit for the subsequent year. However, in the following year, despite overheads being reduced, a loss was also recorded - although it was a smaller loss than the previous year.

Trade continued, but sales were still declining and the cash flow problems continued. Given the state of the economy, it was felt that customers would continue to reduce their spending. Eventually, cash flow limitations within the business had made it impossible to service the debts of the business and sustain the operation.

So, before things got any worse, the directors contacted Clarke Bell for advice.

They were looking for help on how to deal with the problems the business faced, as well as their own resultant personal financial problems.

The solution - for the business

As is frequently the case these days, there were limited realisable assets of the company. This is because most of the assets (in this case the children's play equipment) were subject to a number of outstanding finance agreements.

After discussing the matter with John Bell (the senior partner at Clarke Bell), the decision to wind up the company was taken to avoid the debts increasing any further than absolutely necessary.

A Creditors Voluntary Liquidation (CVL) was agreed and the company was wound up.

The solution - for the directors

The directors were both left with joint liabilities resulting from Personal Guarantees given in respect of the play equipment, as well as credit card debts.

They had both decided that their future employment prospects could be jeopardised if they were to be declared bankrupt, so they were seeking an alternative solution.

Having discussed the options available to them, it was felt that an Individual Voluntary Arrangement (IVA) for each of them would be the most favourable way to deal with their liabilities.

Whilst each IVA was similar due to the shared business debts, they did differ because the directors' personal assets were different.

Neither director had any equity in a property - they were both in rented accommodation.

One director owned a small car, but this was excluded from the IVA proposal as it was deemed an essential item. (In bankruptcy, this asset would also have been excluded in accordance with Section 283 of the Insolvency Act 1986.)

She also had an occupational pension policy, with contributions being made in the course of her employment. The policy was not due to mature for a number of years and had no surrender value before its maturity. As a result, this was also excluded from the IVA proposal. (This would not have been available in the event of bankruptcy either.)