Bankruptcy

Companies go bankrupt when they run out of cash at any given time. The cash they have available is not enough to cover what they owe and their creditors are no longer willing to wait for payment. Businesses go bankrupt for different reasons. Sometimes, the only problem is cash flow. A business may be growing too fast and other times it might be producing an obsolete product or service.

Here are some warning signs that you should watch for:

Low Cash Reserves	A healthy business should have enough reserves of cash available to keep the business operating through lean times. A good rule of thumb is to have sufficient cash to cover the costs of running the business during time it would take from initiating a transaction (ordering a shipment of new products, submitting a proposal to a client, taking new orders) to the moment that the company receives revenues from it. A company that lacks sufficient reserves is vulnerable, even to short-term changes in its environment.
Rising Expenses	Many companies get into trouble not because of falling sales but because of uncontrollably rising expenditures. **In a lot of cases, spending is not monitored properly**. As a result, even small expense items proliferate and money starts pouring out of the company without the management being fully aware of what is going on.
Heavy Borrowing	Most businesses borrow money either to get started, to finance a capital acquisition, to get a project going, or to use as an occasional line of credit. A company is in trouble however, if it creates new debts just to pay off old ones. It is dangerous to take out loans that are not specifically intended to develop a new source of revenue.
Unclear Direction	A sign of trouble is confusion over the direction of the firm. This may occur in response to questions from employees about problem areas that management does not see, or it may occur as a result of increasingly panicky actions taken by management as they try to keep costs and revenues in some sort of balance.
Longer Payables	Some businesses finance their operations by delaying payments to their suppliers. The normal period for paying a business invoice is still considered to be 30 days. Companies facing financial difficulties will hold off paying invoices. The larger the proportion of past-due invoices and the longer the time they have been outstanding, the worse off the company.
Tax Arrears	Small businesses in financial difficulties may start falling behind on their tax remittances. There is always a temptation to cover immediate cash needs instead of remitting payroll taxes or GST. Of course late payments are

	subject to interest charges and penalties which ultimately only add to the tax bill. There is also the danger that Revenue Canada may lose its patience with the business and actually become one of the creditors that forces a bankruptcy.
Falling Sales	A company is in trouble if its sales start dropping off. This can be observed as a smaller number of individual's sales or contracts, a smaller value to sales or contracts, or a smaller (non-existent or negative) profit margin on individual transactions. Any of these, observed over a longer period of time, may signal a fundamental weakening in the viability of a business.
Selling for Cash Flow	Businesses desperate for cash may begin bottom-feeding, taking any orders available, even if they are not profitable, just to maintain cash flow into the company. Over the short term, this strategy may bridge a cash crunch. Over the long term, it will weaken a company's overall profitability and provoke the crisis it was trying to avoid.

If the problem is cash flow, here is a list of things you can do to try to turn things around:

- Talk to your creditors about some sort of a payment plan. You may find that they will be willing to take less per month to avoid the time and cost of taking legal action.
- Look for ways to tighten up your accounts receivable. If possible offer shorter payment terms.
- Look through your expenses and try to cut any extravagant or unnecessary costs.
- Perhaps you may be able to find a partner who can infuse some investment into the business.
- Take a good, long look at your business and see if you need to go in a different direction.

In addition, you may ask for additional time to straighten things out The request for additional time usually involves a formal proposal for reorganization, prepared by the debtor and submitted to creditors for their approval. Such a proposal might ask for a deferral of payments until such time as measures to reorganize the debtor's operations and finances produce sufficient revenues to resume payments. Alternatively, the proposal might involve writing off a portion of the debts in order to lighten the debtor's burden and allow for recovery. If creditors do not feel that such a proposal serves their interests, or if they feel they can get more by dividing up the assets of an organization, they may reject the proposal, triggering formal bankruptcy.

Community Futures North Cariboo

Bankruptcy

General steps for a formal bankruptcy: (the business process is more detailed & lengthy)

1. The debtor prepares an application and files it with an official receiver appointed to administer the provisions of the Bankruptcy Act.
2. The receiver assigns a trustee and the debtor meets with the trustee who informs him or her about the process and their rights.
3. The debtor signs a document outlining the state of his or her financial affairs and assigning the trustee control over all assets. The trustee will be paid a service fee out of the debtor's assets.
4. The trustee files the papers with the Office of the Superintendent of Bankruptcy.
5. After filing, the trustee advises all creditors of the bankruptcy and invites them to a meeting.
6. If creditors so choose, they can ask that the debtor appear at an official inquiry into your affairs supervised by government officials. Alternatively, they will come to a meeting with the debtor at the trustee's office, to discuss the debtor's finances.
7. In cases of individual bankruptcy, there is a requirement that the debtor attend two financial counseling sessions to get help with managing money.
8. If they are available, assets such as cars, furniture, jewelry, furs or homes can be sold by the trustee to pay off some of the debts owing. The trustee will keep the proceeds from this sale in a trust account.
9. After nine months, the debtor can be given a certificate of discharge canceling remaining debts: a declaration of bankruptcy will not affect debts incurred by fraud, alimony payments, or payments imposed by court order.

After discharge, the trustee takes his or her fees out of any funds held in the debtor's trust account and pays the balance to creditors to reduce outstanding debts. Before you start the process, talk to a lawyer of trustee.

For More Information

***Internet*:** http://sands-trustee.com

http://strategis.ic.gc.ca click on "Bankruptcy Search" then "Trustee and Information Services"