



Don't become a business failure statistic!

10 business health check questions you must ask



ACCOUNTANTS
AUSTRALIA

Sydney: (02) 9194 0110

Perth: (08) 6336 7526

www.accountantsaustralia.com.au



Australian businesses are going under at an alarming rate. Dun & Bradstreet statistics show that between quarters two and three last year, failures increased by an astounding 42 per cent. Even in a business powerhouse like New South Wales, more than 5,000 businesses failed in a single quarter.

In this climate, it's hard to be sure if your business has what it takes to survive. Start by asking yourself these questions - too many "no" answers, and you're likely to need the services of a professional accountant very soon.

“Dun & Bradstreet statistics show that between quarters two and three last year, failures increased by an astounding 42 per cent.”



1. Can you pay all of your debts on time?

Businesses are struggling to make their payments on time. Dun & Bradstreet's Trade Payments Analysis shows that nationally, the average late payment was more than two weeks overdue, with New South Wales the second worst state or territory on this front.

If your business consistently cannot pay its debts on time, there could be a serious issue with cash flow. An accountant can analyse your statements and identify choke points for your cash flow, allowing you to re-organise and free up money to pay down debt. You may even need weekly cash flow forecasts to manage money in the short-term.

2. What's your break-even point?

If you don't know your break-even point, you don't know the minimum amount of revenue required to stay afloat.

Break-even point analysis calculates the amount of revenue or units of products that must be sold to cover fixed and variable costs associated with making the sales.

Your break-even point determines the minimum number of sales you need to make a profit. To find this, you need to know your fixed and variable costs, the price of products and services you sell, and margins at the very least. If you can't identify what you need to find the break-even point, you need an accountant to determine this for you and find strategies to meet and exceed it.



3. How does your cash flow look for the coming year?

Cash flow forecasts are critical for business budgeting - without them, you won't know the true nature of your business' performance. For example, you might have a lot of cash in the bank, but this might be coming from a second mortgage on your own home. You need to know this to project sustainable growth and whether your business can even keep operating.

This means: taking last year's sales figures and adjusting for the current climate and next 12 months; incorporating investments, loans, rebates, and fees; determining expenses for the coming year; and factoring in one-off costs like plant and equipment purchases.

If you can't put this together, don't leave your forecasting to chance - use an accountant to get a clear picture of whether your business will make money in the next 12 months.

4. Is your business performing according to forecast?

If you don't go back and compare your cash flow and profit & loss forecasts to actual progress every month or quarter, you're failing to improve your standing. This comparison lets you see where your business is not meeting expectations, when money is coming in, and where your finances stagnate.

With this comparison, you can implement specific marketing initiatives, or remove goods from production entirely. If you don't know how to compare forecasts with actual performance, you're going to need a professional accountant.

“If you don't know how to compare forecasts with actual performance, you're going to need a professional accountant.”



5. Do you know how to chase debt?

Don't let outstanding debts cause you pain. With a system in place to chase these and take action to recoup what is yours, you can establish better cash flow and avoid paying unnecessary interests on your business overdrafts. If you do not chase debtors or even know how to, you are letting money slip right out of your hands.

This can include a systematic way to follow up on debtors, incentives for paying on time, or stricter credit terms like demanding cash on delivery. Your business can't afford to waste time with slow payment from clients, or you risk falling further into debt yourself.

“If you do not chase debtors or even know how to, you are letting money slip right out of your hands.”

6. Are your KPIs based on hard data?

Setting general rule of thumb performance indicators may be useful, but ultimately not the best thing for your business. You need specific, accurate key performance indicators (KPIs) based around hard data.

For example, if you are only just meeting your break-even point in a year, you need detailed business bookkeeping and an accountant's analysis to determine a realistic point above breaking even that you can set as a KPI. This involves correct allocation of expenses and identification of weak points in your business.

Your KPIs may be in revenue or a reduction of operating costs, but poor bookkeeping and analysis will mean you don't have the right information to set these. You may end up aiming for goals that aren't within your reach, or won't make a substantial difference to your business.



7. Are you using professional bookkeeping software?

An Excel spreadsheet just isn't good enough. Many businesses put their bookkeeping on the back burner, keeping a list of income and expenses in a simple spreadsheet. Others may secure the right software, but not a professional that knows how to use it.

This system is susceptible to human error, and is far from appropriate for small businesses. It's a compliance nightmare waiting to happen.

Use a professional accounting service with access to software like Xero, Quickbooks or MYOB that cater specifically to the needs of a business. Anything less and you could be in serious trouble.

8. Can you survive with limited or no revenue?

Uncertainty risks are rife, and they will impact your business eventually. Global economic conditions might turn, your product could be rendered obsolete, even a change in employment laws could cause your company to crash in a matter of days.

To combat this, businesses need emergency management plans - none of which will exist without a sound understanding of where your money comes from. To survive for even three months in tough economic times is near-impossible for many businesses.

By using a professional accounting service, you get insight into where money can be saved and the amount of contingency funds your business will require to operate in tougher times.



9. Are your staff happy?

An unhappy workforce can spell doom for a business. Just one employee leaving can have a massive ripple effect - word gets around about why they left, you have to spend time and money training new staff, and you lose productivity every second your staff are not operating at full capacity.

Recruitment planning, regular performance reviews and goal settings, regular reviews of your employment expenses and professional payroll bookkeeping can help keep staff happy and your costs in check.

“Just one employee leaving can have a massive ripple effect.”

10. Do you seek advice from your accountants regularly?

Most business owners are very good with the technical issues relating to their businesses, but not strong in financial management issues.

Due to budgeting and time constraints, they sometimes try to find answers for financial questions from other business owners or hearsay in an ad hoc manner. It becomes a case of the blind leading the blind, and a downward spiral to business failures.

Don't leave your business decision making to chance. Good accountants help you to identify problems early and provide you with ideas to make strategic decisions to ensure that your business gets all the ticks with a business health check.



So, what is your score in this business health check?

These questions are typical of issues faced by business owners. If you can't answer even half of these questions in the affirmative, it's time for your business to take serious action to address some glaring flaws.

Talk to **Accountants Australia** today about how to keep your business going during bad times and to prosper during good times. Time is of the essence!



ACCOUNTANTS
AUSTRALIA

Sydney: (02) 9194 0110

Perth: (08) 6336 7526

www.accountantsaustralia.com.au