

Managing Cashflow Guides



10. When your customer goes bust



Cashflow is critical to business survival but all too often the day-to-day challenge of running a business, particularly a smaller business, can mean losing sight of some of the skills for successful cashflow management. This series of guides, developed in partnership with the Institute of Credit Management, is part of a series of initiatives providing practical support to help businesses help themselves through these difficult times. They are designed to provide straightforward and speedy advice with simple checklists and top tips. I hope you find them useful.

Peter Mandelson
Secretary of State for Business

Inevitably, businesses fail and - when one of your customers goes bust - it hurts. There is little you can do except wait to hear the outcome. The general outcome is that the debtor's assets are divided amongst its creditors and the insolvent debtor is released from the burden of its debts. Once most formal insolvency processes are underway, you cannot start or continue any action to recover your debt.

Types of insolvency

It helps to understand the main types of insolvency (for more detailed information see www.insolvency.gov.uk).

Bankruptcy

Bankruptcy can only apply to individuals (including sole traders and individual members of a partnership). Bankruptcy petitions may be presented to the court by the individual, by creditors who are owed £750 or more, or by the supervisor of an individual voluntary arrangement. A bankruptcy order is made by the court.

Individual Voluntary Arrangement (IVA)

An individual comes to an arrangement with creditors to pay his/her debts in full or in part over time as an alternative to bankruptcy. The arrangement is set up by a licensed Insolvency Practitioner who will put it to a meeting of creditors. If the proposal is accepted at the meeting, the agreement reached with the creditors will be legally binding. An Interim Order is sometimes issued by a court and will immediately protect the debtor from any legal action by creditors.

Company Voluntary Arrangement

A company comes to an arrangement with its creditors to pay the debts in full or in part over time. A CVA begins with the company (or its adviser) drafting a formal proposal at a Creditors' Meeting to pay part or all of the debts. If the proposal is accepted by the creditors, the arrangement will become legally binding and the directors will retain control of the company.

Compulsory Liquidation

Compulsory liquidation is the winding up of a company or a partnership by a court order (a winding up order). A petition is normally presented to the court by a creditor stating that he or she is owed a sum of money by the company and that the company cannot pay. The Official Receiver becomes liquidator when the order is made but an Insolvency Practitioner will be appointed to take over if the company has significant assets. The liquidator's role is to realise the company's assets, pay all the fees and charges arising from the liquidation, and pay the creditors as far as funds allow in a strict order of priority.

Creditors' Voluntary Liquidation

In a creditors' voluntary liquidation the shareholders pass a resolution to wind the company up without the need for a court order. A Creditors' Meeting is held to nominate the appointment of a liquidator and consider a statement of affairs. Creditors can appoint a committee to work with the liquidator, whose role is to realise the company's assets, pay all the fees and charges arising from the liquidation, and pay the creditors as far as funds allow in a strict order of priority.

Administration

Administration applies to limited companies and partnerships and is intended to get the company out of trouble and trading again if possible. Administrators can be appointed to a company that is unable, or is likely to become unable, to pay its debts. They can be appointed by the courts (on application from a creditor, directors or partners), the holder of a qualifying floating charge over the assets of the business, or the company or its directors.

An administrator's primary goal is to rescue the company as a going concern. If this isn't possible, the administrator will try to get a better result for the creditors than would be possible if the company was wound up. If neither of these is possible, the administrator will sell the company's property to make at least a partial payment to one or more secured or preferential creditors, such as employees or the bank.

Five Top Tips

1. You should be contacted automatically by the Official Receiver or Insolvency Practitioner if they know that you are a creditor.
2. If you believe an individual may be subject to insolvency proceedings and you have not heard, search the [Individual Insolvency Register](#).
3. If you believe a company may be subject to insolvency proceedings and you have not heard, use the Companies House [WebCheck](#) service.
4. If you think your customer is bankrupt or the subject of a compulsory liquidation, contact the Insolvency Enquiry Line - **0845 602 9848** or email insolvency.enquiryline@insolvency.gsi.gov.uk
5. If in doubt, contact the Official Receiver or Insolvency Practitioner to make sure they have details of your debt. Also, contact them if you have any information about the assets or the conduct of an individual or company.

The Guides in this series:

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10. When your customer goes bust



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For tips on getting paid and advice on best practice in credit management, call the Institute of Credit Management on **01780 722 911** email **tech@icm.org.uk** or visit **www.creditmanagement.org.uk**

For further information and advice on starting up, running and growing a business, call Business Link on **0845 600 9006** or visit **www.businesslink.gov.uk**



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