



## Five signs your business may be in trouble

It can be difficult when running a business to spot the early signs of trouble. However, by recognising the warning signals early on, businesses can seek professional advice, explore restructuring options, or make necessary adjustments to prevent insolvency. In this document, we will discuss five key signs that indicate a company may be on the verge of insolvency.

Whilst each one on its own may not be significant, the more of them that apply to your business, the greater your need to consider whether your business is in danger of insolvency.

### **Declining profit margins and revenue**

One of the earliest signs of financial issues is consistent decline in profit margins and revenue. If a company's sales are stagnating or decreasing while costs continue to rise, it often leads to financial instability. Factors such as increased competition, changing market dynamics or ineffective cost management can contribute to diminishing profitability. Ignoring these warning signs can result in a company's profitability reaching critical levels, pushing it closer to insolvency.

### **Cash flow problems**

One of the primary indicators of impending insolvency is persistent pressure on cash flow. If a company struggles to meet its financial obligations, such as meeting the regular terms for paying suppliers, employees, tax obligations or creditors, it's a clear warning sign. Irregularities in cash flow can result from declining sales, excessive debt burden, poor credit management or inadequate working capital. We often see companies carrying significant and increasing debtor balances where the company is either growing much faster than it has the working capital investment to support or where bad debts are not being recognised. Consistent negative cash flow can quickly escalate into a severe financial crisis if left unaddressed.

### **Increasing debt and creditor pressure**

When a company accumulates mounting debt and faces constant pressure from creditors, it may indicate an impending insolvency. If payment demands increase, creditors put a hold on supply or threaten legal action, or suppliers change their payment terms to stricter conditions, these are red flags that should not be ignored.

Business owners should be careful in using personal funds to deal with cash flow problems to avoid using a funding source that may yield a better return if deployed as part of a turnaround plan. Delaying in devising a business plan that improves cash flow will only increase the difficulty of negotiating new arrangements with creditors or the securing of additional financing.

### **Inadequate financial planning and control**

Poor books and records and weak financial planning and control can be detrimental to a company's financial health. Failure to accurately forecast future cash flows, poor budgeting, or lack of financial oversight can lead to financial distress. Inadequate monitoring of key performance indicators, such as profit margins, inventory turnover or debtor days, can prevent timely detection of financial difficulties. By implementing robust financial controls and monitoring mechanisms, businesses can better identify and address potential solvency issues.

### **Legal and compliance issues**

Legal and compliance problems can significantly impact a company's financial stability. Failure to meet statutory obligations, such as timely filing and payment of tax returns or filing of the annual return with the Companies Registration Office, are often precursors to greater problems and can add to the pressures as penalties and legal repercussions can quickly follow breaches in meeting compliance obligations. Additionally, lawsuits, regulatory investigations or breaches of contracts can strain a company's financial resources and damage its reputation. Persistent legal and compliance issues can be early signs of a deteriorating financial position.

### **Be alert to the signs, take advice and act early**

Recognising the warning signs of pending insolvency is crucial for Irish businesses to safeguard both financial stability and longevity. By closely monitoring cash flow, debt levels, profitability, financial planning and legal compliance, businesses can identify potential solvency issues early and take corrective actions in a timely manner.

If you believe your business is experiencing one or more of the above issues, please do not hesitate to contact us.

These signs do not automatically mean that your business cannot survive.

Often, with the right advice a business can be restructured and put on a much sounder footing.

We act for many business owners who have reached the stage of simply not being able to “see the wood for the trees”.

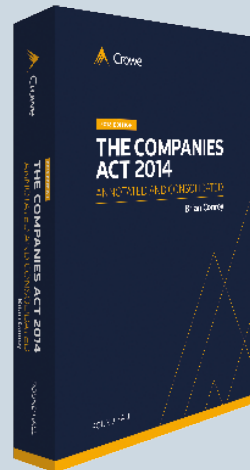
We can help you step back, take stock and make the right decision for you.

There are a number of formal and informal restructuring processes available to Irish companies that find themselves in a period of insolvency.

At Crowe, we have a team of experienced and licensed insolvency practitioners who can advise you on the best course of action, depending on your business’s circumstances.

If you would like to discuss any of these matters please get in touch with either Aiden Murphy or Declan Hanly who are business rescue and restructuring experts, or your usual Crowe contact.

## Special offer



*The Companies Act 2014: Annotated and Consolidated* is the successor to the *Combined Companies Acts* and its publication marks 30 years of Crowe overseeing this essential annotated reference to the legislation. The first edition was published by Crowe in 1989 under the firm’s former name, Bastow Charleton.

We are proud to have this long-standing association with The Irish Companies Acts and our track record advising on transactions that fall within their remit.

We would be delighted to offer a complimentary copy of the latest edition on the referral of any assignment and work with you on projects going forward.

## About us

Established in 1941, Crowe is a leading accountancy and business advisory firm in Ireland. Throughout our 80-year history, we have developed an unrivalled understanding of the Irish business environment and built a national reputation in auditing, tax and business consultancy.

We work with a variety of clients across commercial and public sectors. Our services include Audit & Assurance, Tax, Corporate Insolvency & Recovery, Corporate Finance, Consultancy, and Outsourcing.

We are also independent members of Crowe Global, one of the top 10 accountancy networks in the world, with colleagues in over 750 offices across 130 countries. Through this global reach we are able to offer clients a seamless service when trading internationally.

At Crowe we pride ourselves on delivering hard-working, practical solutions to all our clients’ business challenges. We help clients make smarter decisions today that create lasting value for tomorrow.

**Smart decisions. Lasting value.**

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