

### Business Services Common: Poor debt vs equity Ratio

The business has either:

Too much debt so financing costs are too great a burden	Too much equity with little or no extra debt facility to cover contingencies
<p>Indicators</p> <ul style="list-style-type: none"> <li>• The business is finding it increasingly difficult to meet its debt repayments.</li> <li>• There are only a few shareholders with a small amount of equity.</li> <li>• Usually one shareholder will have controlling interest.</li> <li>• Interest expenses represent a major item of expense in profit and loss.</li> </ul>	<p>Indicators</p> <ul style="list-style-type: none"> <li>• The business has always found it difficult to finance its expansion.</li> </ul>
<p>Causes of the problem</p> <ul style="list-style-type: none"> <li>• Inadequate forecasting in relation to the business's capacity to meet future obligations.</li> <li>• Original shareholders are unwilling to forgo their controlling interest in the business.</li> <li>• Mismanagement of working capital.</li> </ul>	<p>Causes of the problem</p> <ul style="list-style-type: none"> <li>• Failure to convince financial institutions to supply debt facility.</li> </ul>
<p>Short term solutions</p> <ul style="list-style-type: none"> <li>• Inject further capital into the business, either from the existing proprietors or from a new equity partner.</li> <li>• Renegotiate debt repayment schedule. Debt should be made repayable with the seasonal fluctuations of the business.</li> <li>• Increase trade creditors as a form of short term debt finance to satisfy financial institutions (ie delay paying for as long as possible).</li> <li>• Maximise the use of working capital.</li> </ul>	<p>Short term solutions</p> <ul style="list-style-type: none"> <li>• Increase the use of the business's creditors as a form of short term finance for expansion, eg by extending payment periods.</li> </ul>
<p>Long term solutions</p> <ul style="list-style-type: none"> <li>• Ensure forecasts are realistic by comparing them with the actual results achieved in past periods. Decrease the amount of debt held by the business (eg by disposing of any underutilised fixed/non-current assets).</li> <li>• Do not distribute any dividends.</li> </ul>	<p>Long term solutions</p> <ul style="list-style-type: none"> <li>• Establish expansion program to determine the extent of future funding required.</li> <li>• Establish debt facility by ensuring that proposals made to financial institutions are well researched, realistic,</li> </ul>



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| <ul style="list-style-type: none"><li>• Restructure debts so cash inflows correspond to cash outflows.</li></ul> | substantiated and properly presented. |
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