

SFP



ABC LIMITED

SAMPLE QUICK COMPANY CHECK

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(Appendix A)

Dear Sirs

ABC Limited (“ABC”)

We are engaged at the request of both UK Lender ("UKL") and the directors of ABC to act as an intermediary, to review the current position of the business and to discuss our findings and recommendations with each party following our on-site visit.

We attended the premises of ABC on [] and met with the director, to discuss the business, its current position and future trading prospects.

We would ask you to bear in mind that in the short time available to us, we have been unable to do anything other than conduct a cursory review of the information available, which does not constitute an audit, nor did we conduct any third party verifications unless stated otherwise. We have relied exclusively upon information and explanations provided to us by management, and as a consequence, this email and its appendices must be considered as a guide only and possibly the subject of further work should the need arise.

This email and its appendices should not be used for any purpose other than stated, nor should it be circulated or discussed with any third party without our express written consent. Should any other person(s) to whom this report are shown choose to rely on its contents, they do so at their own risk. We do not accept or assume responsibility to any party other than the addressee.

We summarise below the findings from our visit:-

1. Background and Management

- 1.1 ABC provide waste clearance services to commercial businesses.
- 1.2 ABC is run by its main director and 50% shareholder. The other director and 50% shareholder, however is not involved in running the business on a day to day basis. They are both remunerated by way of dividends.
- 1.3 The majority of staff are paid through umbrella companies and are therefore not employees.

2. Financial Information

- 2.1 The last financial statements filed at Companies House are for the year ended [] and reflect turnover of £[], a profit before tax of £[] and a net asset position of £[] after dividends of £[]. Included in the balance sheet is a director's current account relating to unpaid dividends.
- 2.2 Management accounts for the 9 months to [] reflect turnover of £[], a profit before tax of £[] and a net asset position of £[]. The director advised these are the most accurate as their electronic records are yet to be reconciled for []. Please note the net profit figure is likely to decrease following a depreciation charge and corporation tax.

- 2.3 The director advised ABC continue to be profitable and have a good reputation in the industry and the company has increased in size as they now run [] lorries and turnover has grown to some £[] per month.
- 2.4 An estimated Statement of Affairs (*see Appendix A*) has been prepared based on information extracted from the [] management accounts together with more up to date information where available, see Appendix 1, but should be used as a guide only. The estimated Statement of Affairs suggests that ABC is solvent on book values by £[]. The position obviously deteriorates when account is taken of estimated to realise values, following a write down against various classes of assets.

3. Creditors

Trade

- 3.1 An aged creditors report was provided which reflects total liabilities of £[], with 25% due over 90 days.
- 3.2 The director advised that ABC are on good terms with its suppliers and have not had any issues in the past.
- 3.3 Creditsafe.com reflects a CCJ with a company called B. The director advised she has no idea what this relates to and has never received any correspondence from them until ABC were issued with proceedings. We have seen a notice dated [] detailing County Court are now dealing with ABC's application for judgement to be set aside. The director advised ABC will go to court to resolve this issue.

H M Revenue & Customs ("HMRC")

- VAT

ABC have agreed with HMRC that the VAT return for the quarter ended [] be extended to a 6 month return to [] and this was due to be filed and submitted on []. This return is now overdue and the director advised they are in the process of doing this. The records reflect an amount payable for this period of some £[].

- PAYE and NIC

ABC only have 2 employees on the payroll and therefore the liabilities are relatively small and pay quarterly. The quarter to [] reflects a liability due of £[], which is due by [].

4. Hire Purchase

- 4.1 ABC have various vehicles which are currently on finance with several different finance companies. The outstanding finance to date totals approximately £[].
- 4.2 The director advised that ABC also sell vehicles, and can make a profit on them as they retain their value well. We understand one lorry was recently sold with an amount still due to the finance company of £[].

5. Bank

- 5.1 ABC have an £[] overdraft facility with Bank 1 and a £[] facility with Bank 2, both of which are unsecured.
- 5.2 The director advised that Bank 3 is no longer being used and ABC are looking to reduce this balance to Nil over the coming months.

6. Debtors

Trade

- 6.1 An aged debtors report was provided as at [] which reflects total debtors of £[], with 15% due over 90 days. Also reflected is an amount due from B limited totalling £[]. The director advised this amount is not factored and relates to work done between [] and [], with the first invoice of £[] plus VAT due to be paid at the end of []. We are unsure of the current financial position of this company and therefore the recoverability of the debt. This needs to be reviewed and clarified as a matter of urgency.
- 6.2 The director advised they rarely suffer bad debts, however is trying to improve credit control to assist cash flow. We understand that UKL may be able to assist with credit control going forward.
- 6.3 We understand some reciprocal trading has occurred between ABC and around 5 or 6 customers/suppliers (C Limited, D Limited, E Limited, F Limited and G). The director advised they never put through contras and the invoices are always paid/received. We understand this situation is currently being looked into by UKL.

7. Critical Payments

- 7.1 The director advised us of the following payments which need to be made this week:-

Payment detail/Supplier	Amount (£)	Due
S	[]	Cheque already sent
I	[]	Direct debt already dishonoured
T	[]	[]
Sub-contractor arrears	[]	Now
Electrician	[]	Cheque already sent
Tipping costs	[]	[]
Sub-contractor payments	[]	[]
Total	[]	

- 7.2 In addition to these payments, the VAT return for the 6 month period to [] is now overdue and once submitted the payment will need to be made immediately. This may be in the region of £[].
- 7.3 The amount due to the finance company of £[] (£[] plus VAT) also needs to be paid as this vehicle has been sold without settling outstanding finance.

8. Future

- 8.1 The director advised that ABC has grown considerably over the past year and is anticipating turnover in the region of £[] million and £[] million in the years ended [] and [].
- 8.2 The director advised that they are looking to consolidate ABC's position and run at the current level of [] lorries, turning over circa £[] per week. We understand the director is currently turning away further work from its biggest customer, K Limited whilst consolidates the position.
- 8.3 ABC have recently moved into new premises on a 5 year lease at £[] per month and are currently in the process of getting everything set up.

Forecasts

- 8.4 ABC do not currently produce forecasts and it would be advisable that an integrated profit & loss, balance sheet and cash flow be produced by the external accountant to reflect the performance of the company in the short term (next 3 months) and medium term (3 to 6 months).

9. Cover for UKL

- 9.1 UKL hold a debenture which was created on [] and registered at Companies House on [].
- 9.2 UKL currently advance at 85% on the majority of sales invoices. We summarise the facility as at 6 April 2014 below:-

	£
Gross debtors	[]
Less: Disapproved	[]
Approved ledger	[]
Approved funding at 85%	[]
Current account	[]
Overpaid	[]

- 9.3 UKL are currently in an overpaid position due to the large level of disapprovals which largely relate to contra invoices. We also understand that an element also relates to the funding limit being exceeded with K Limited. We understand UKL are currently reviewing the position regarding the disapprovals going forward.
- 9.4 The director advised ABC have an additional £[] of invoicing to be uploaded to UKL.

10. Conclusion and Recommendations

- 10.1 ABC appear to be solvent on a balance sheet basis which is reflected in the recent management accounts and in the estimated Statement of Affairs constructed at the date of our visit, see Appendix 1. Included in this figure is an amount due to the director of £[], which we are advised will only be repayable once the current cash flow issues are resolved.

- 10.2 ABC do appear insolvent on a cash flow basis. This appears to have arisen due to ABC giving generous credit terms to C in [] which won't be billed / paid until the end of []. This seems to have had a detrimental impact on cash flow.
- 10.3 ABC appear to be profitable and have not had any problems in the past, however of concern is the amount outstanding for VAT which is now overdue. As ABC are unable to pay this, a time to pay arrangement may be the best option going forward.
- 10.4 It is evident that ABC need support from UKL and require critical payments to be satisfied. As UKL are currently in an overpaid position, any advances will further effect this position. However without the urgent immediate support of UKL the company will fail as it needs to pay its drivers, insurance, and tipping costs in order to be able to continue today.
- 10.5 With the continued support of UKL we suggest the following:-
- Submit the 6 monthly return to [] and agree a Time To Pay arrangement with HMRC for the outstanding VAT;
 - Request an interim payment from C as well as getting written confirmation of when the remaining payments will be made;
 - Put in place a new credit control system;
 - Update the electronic records to reflect management accounts to []; and
 - Produce integrated forecasts for the next 3 to 6 months and monitor against actual results.

Once you have had the opportunity to review the report we will be pleased to hold a conference call to discuss further

Kind Regards

Estimated Statement of Affairs

Estimated statement of affairs at [DATE]		Notes		[DATE] accounts		Book values		Estimated to realise	
				£	£	£	£	£	£
Assets specifically pledged									
Trade Debtors									
Trade Debtors - reciprocal trading									
Trade Debtor - B Limited									
Less: Provision for bad debts (15%)									
Less: UKL									
Motor vehicles									
Less: Hire Purchase									
Surplus on hire purchase									
Assets not specifically pledged									
Tangible Assets									
M current account									
M deposit account									
Liabilities									
Trade Creditors									
Trade Creditors - reciprocal trading									
Hire Purchase settlement									
Sub-contractor amounts due									
L current account									
M current account									
Directors current account									
Corporation tax									
Suspense									
VAT									
PAYE/NIC									
Net surplus/ (deficiency)									

Notes to the estimated Statement of Affairs:

The estimated Statement of Affairs at [] is largely based on figures obtained from the electronic records accounting system together with more current figures if available. We have not audited the figures or sought confirmation from third parties and on that basis must be viewed as a guide only and read in conjunction with our e-mail report dated [] to UKL and ABC's directors.
Trade debtor figure extracted from their electronic records as at []. We have split trade debtors which have a trade creditor balance.
Current account figure as per UKL's system on [].
Fixed assets and hire purchase figures as per their electronic records as at [] and adjusted for depreciation and to include March Hire purchase payments. There is unlikely to be any surplus and on that basis we have reduced the estimated to realise value to nil.
Relates to a non-factored debtor, which some £[] is due to be received at the end of [].
Balance per bank statements as at [].
Figure as per their electronic records as at [].
Figure relates to outstanding hire purchase due on a lorry which has been sold.
Arrears due to 3 sub-contractors.
Figure per their electronic records as at [] and updated to reflect any further movement to date. The director advised this balance relates mainly to unpaid dividends.
VAT figure per their electronic records as at [] and an estimation of £[] for []. The 6 month return to [] was due to be paid and submitted on [].
Figure relates to PAYE and NIC due to be paid by [].
The director advised that this account is no longer used and the overdraft is due to be cleared over the coming months.