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# The writing's on the wall (Cashflow)

I was working last week with a group whose job is analysing customer accounts. Ideally, they want to be able to recognise the sound businesses from the failing businesses. We looked at some of their customer credit reports, and picked up some interesting messages.

One of the companies had assets less than their liabilities. In other words they owed much more than they could pay. This meant they were insolvent. (There are two definitions of insolvency: liabilities exceeding assets; and being unable to pay your debts as they fall due). The surprise wasn't that they then went bust, but that it took them four years to do it.

Another company was solvent, but was making substantial losses each year. If a business loses þÿmoney every year, the writing is on the wall, it's just a question of

A third company was clearly having cashflow problems. The bank balance turned into an increasing overdraft. More worrying was seeing debtors increasing, and creditors also increasing. This implied that they couldn't get their customers to pay, which meant the money wasn't coming in to enable them to pay their suppliers. Sooner or later a supplier will lose patience and take legal action, and insolvency becomes more likely.

With hindsight, forecasting business failure is easy, but there are plenty of signs in advance. I've just finished reading " The signs were there "; a very readable book about some of the clues you'll see in the accounts before a company fails.