RISK PROTECTOR

Your First Line of Defence Against Director Liability, ATO Enforcement and Asset Exposure

BUSINESS & DIRECTOR RISK IDENTIFIER TOOL — NO. 32

Business Insolvency Signals Guide

Is My Business Showing Cash Flow Problems?

Read this guide when you suspect your business may not be able to meet its obligations as they fall due

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WHAT THIS GUIDE DOES — AND WHAT IT DOES NOT DO

Insolvency rarely arrives without warning. In almost every case there are signals — in the cash flow, in the creditor relationships, in the ATO position, in the way the business is being managed — that appear weeks or months before a formal insolvency event. Most directors see these signals but misread them as temporary pressure rather than structural stress.

This guide helps you assess whether the signals present in your business right now are consistent with a business under temporary pressure — or a business that may be approaching insolvency. It does not diagnose insolvency. That requires a formal solvency assessment from a qualified professional. What it does is tell you whether the signals you are seeing warrant that assessment urgently.

1	Answer each question based on what is actually happening in your business right now — not what you expect or hope will happen next month.
2	The verdict panel beside each answer tells you what that answer means in plain language. Read each one carefully — the signal is often more significant than it first appears.
3	If any answer is NO or UNSURE, treat it as a signal that warrants professional attention — not as something to monitor and revisit next month.
4	Be honest. Directors who minimise or rationalise insolvency signals consistently make their personal position worse, not better. Every day of delay reduces your options.

SECTION 1 — Cash Flow Signals

Can the business actually pay what it owes when it is due?

1 Can the company currently pay all debts that are due and payable — without relying on money that has not yet arrived?

☐ YES	☐ NO	☐ UNSURE
— The business is meeting its obligations from available cash. This is the core test of solvency — and you are currently passing it.	— The company cannot pay current debts from current cash. This is the definition of cash flow insolvency. Every new debt incurred from this point is a potential personal liability. See Tool 17 immediately.	— You are not certain of the company's current cash position. That uncertainty is itself a serious signal — a director has a legal obligation to know. Get an accurate cash position from your accountant today.

2 Has the company paid all employee wages, superannuation and PAYG withholding obligations in full and on time for the last three months?

☐ YES	☐ NO	☐ UNSURE
— Statutory employee obligations are current. This removes one of the most direct personal liability pathways — the DPN — from immediate play.	— Statutory employee obligations have not been met in full and on time. PAYG and SGC arrears create direct personal liability for directors through Director Penalty Notices regardless of what else happens to the company.	— You are not certain whether these obligations are fully current. Contact your accountant for confirmation before doing anything else. Contact Risk Protector for their take on the subject.

3 Is the company free of any overdue supplier invoices that suppliers have followed up more than once?

☐ YES	☐ NO	☐ UNSURE
— Creditor relationships are being managed. Overdue amounts exist in most businesses — repeated follow-up is the signal that matters here.	— Suppliers are chasing unpaid invoices repeatedly. This is a cash flow insolvency signal. Creditors who receive no payment and no communication escalate to	— You are not tracking creditor follow-up systematically. A creditor who feels ignored moves to legal action faster than one who receives

	legal action — often faster than directors expect.	regular communication. Know your creditor position.

SECTION 2 — Financial Management Signals

Is the way the business is being managed consistent with a solvent, viable operation?

4 Does the company have current financial statements — prepared within the last three months — that you have personally reviewed?

☐ **YES** — You have current financial visibility. A director who understands the company's financial position is fulfilling a core legal obligation — and is positioned to act early if the position deteriorates.	☐ **NO** — You do not have current financial statements. A director who does not know the company's financial position cannot assess solvency — and cannot use ignorance as a defence. This is a serious governance gap.	☐ **UNSURE** — Statements exist but you have not reviewed them personally. Director obligations cannot be delegated entirely to an accountant. You are required to understand and engage with the company's financial position.

5 Is the company free of any current or recent requests from your bank to reduce facilities, provide additional security or explain the company's financial position?

☐ **YES** — Your bank is not signalling concern about the company's financial position. Banks typically act before other creditors — a bank's silence is a positive signal.	☐ **NO** — Your bank has requested facility reductions, additional security or financial explanations. Banks make these requests when their own risk assessment has flagged the company. This is a serious early warning signal.	☐ **UNSURE** — You are not certain whether the bank has made any such requests. Check with your finance manager or accountant today. Bank requests are sometimes handled at staff level without reaching the director.

6 Has the company avoided taking on new debt — loans, credit facilities, supplier terms — in the last 60 days primarily to fund existing obligations?

☐ **YES** — The company is not borrowing to survive. Using new debt to pay existing debt is one of the clearest indicators of insolvency — and one of the clearest pathways to insolvent trading liability.	☐ **NO** — The company has taken on new debt to fund existing obligations. This is the insolvent trading trap. Every new liability incurred while the company is insolvent creates personal director exposure. Stop and assess the full position before incurring any further debt.	☐ **UNSURE** — You are not certain whether recent borrowings were used to fund existing obligations. Review the last 60 days of cash flow with your accountant. The answer to this question matters significantly.

SECTION 3 — External Pressure Signals

What are creditors, the ATO and other external parties doing?

7 Is the company free of any current legal demands, Statutory Demands, court proceedings or formal creditor threats?

☐ **YES** — No formal legal pressure is currently active. This is a positive signal — but it does not mean creditors are satisfied, only that they have not yet moved to formal action.	☐ **NO** — Formal legal action is underway or threatened. A Statutory Demand triggers deemed insolvency in 21 days if not resolved. Court proceedings create judgment debts that are immediately enforceable. See Tools 15 and 12.	☐ **UNSURE** — You are not certain whether any formal demands or proceedings have been filed. Check with your accountant and solicitor today. Proceedings can be filed without the director's immediate knowledge.

8 Has the company received no ATO enforcement correspondence — garnishee notices, DPNs, wind-up applications or formal debt notices — in the last 12 months?

☐ **YES** — The ATO has not moved to formal enforcement in the last 12 months. Maintain compliance and monitor closely.	☐ **NO** — The ATO has issued formal enforcement correspondence. ATO enforcement escalates systematically — each step moves closer to garnishee, wind-up or DPN. This requires urgent attention. See Tools 11 and 13.	☐ **UNSURE** — You are not certain what ATO correspondence the company has received in the last 12 months. This is a significant gap — ATO notices addressed to the company sometimes go unread. Review all correspondence now.

9	**Is the company free of any situation where a key customer, contract or revenue source has recently been lost or significantly reduced?**

☐ YES —	☐ NO —	☐ UNSURE —
The company's revenue base is stable. A sudden revenue loss does not cause insolvency immediately — but it changes the solvency equation rapidly if obligations remain fixed.	A key revenue source has been lost or significantly reduced. The company's ability to meet fixed obligations from reduced revenue must be reassessed immediately. This is a structural change requiring a full financial review.	You are not certain of the impact of recent revenue changes on the company's ability to meet obligations. Run a 90-day cash flow projection with your accountant. Contact Risk Protector for their take on the subject.

SECTION 4 — Your Overall Situation Assessment

Based on your answers — are these signals consistent with temporary pressure or structural insolvency?

✓✓ MOSTLY YES — TEMPORARY PRESSURE, NOT STRUCTURAL INSOLVENCY

Your answers suggest the business is under pressure but is not currently showing the core signals of structural insolvency. Cash flow is meeting obligations, statutory payments are current, and external creditors have not moved to formal action. Monitor closely — pressure can become insolvency quickly if circumstances change. Review this guide again in 30 days or immediately if any answer changes.

☐ MIXED ANSWERS — DEVELOPING STRESS REQUIRING ATTENTION

Your answers show a mixed picture — some obligations being met, others not, some external pressure building. This is the zone where most directors convince themselves things will improve. They often do not. The personal liability exposure from continued trading while the company is in this zone is real and accumulating. Before engaging any adviser, best practice is to get a free A13 Structural Exposure Assessment from Risk Protector first — so your adviser understands your complete director exposure, not just the company's financial position.

✗ MOSTLY NO OR UNSURE — SERIOUS INSOLVENCY SIGNALS PRESENT

Your answers are consistent with a business that may already be insolvent or approaching insolvency rapidly. Cash flow cannot meet current obligations, statutory payments are in arrears, external creditors are applying pressure, or you simply do not know the answers — which is itself a serious director obligation concern. Every day of continued trading increases your personal insolvent trading exposure. Before engaging any adviser, best practice is to get a free A13 Structural Exposure Assessment from Risk Protector first — so that every decision made from this point is based on your complete structural and personal liability position.

IF THIS GUIDE HAS IDENTIFIED INSOLVENCY SIGNALS

Business insolvency signals do not exist in isolation from your personal director position. Your personal guarantee exposure, your PAYG and SGC director liability, your asset protection position and your full structural exposure all become critical the moment insolvency is suspected. The Risk Protector A13 Structural Exposure Assessment maps that complete picture before any decision is made.

The Risk Protector A13 Structural Exposure Assessment

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