

Voluntary Administration to Liquidation

Background

Silk Pty Ltd (fictional name) was a Sydney-based company that manufactured frames for the silk screening industry for 15 years. In the last 12 months, it had diversified its activities to include office fit-outs, using the director's engineering experience.

Changes in the market meant that silk screening work had moved from Australia to China. This had reduced the local demand for silk-screen frames.

Meanwhile, the company was incurring large losses. It had invested heavily in frame manufacturing machinery and turnover had substantially declined. The office fit-out division had introduced a new portfolio of creditors and their money was being used to pay creditors in the silk-screen business.

Further, the bank had obtained security for its credit over the director's home. The bank was concerned that the security was not sufficient to cover the borrowings and that continuing losses were further eroding its position.

The director's wife, who was also a director of the company, was unaware of the precarious situation.

Levi Consulting conducted a quick site-visit and corporate health check. It found that the office fit-out business was fundamentally viable, but the company's losses in getting to break-even exceeded the directors' expectations. Levi also identified shortcomings in the financial management of the business; and the commercial value of debtors was substantially below the book value arising from some disputes with clients.

There was prospect of a Deed of Company Arrangement being formulated by the directors. The directors appointed David Levi as Voluntary Administrator. The company's directors did have the financial capacity to propose a Deed. Also, the business appeared to have the ability to generate sufficient profits over the next few years to pay creditors an amount out of future profits. Several of the major creditors wanted the company liquidated. In their view, creditors would be in a stronger position if the company was liquidated because a Liquidator would possess extensive powers to sue the directors for insolvent trading and other breaches of duty under the Corporations Act.

Conclusion

Levi was appointed Voluntary Administrator. Creditors did not approve a Deed of Company Arrangement. David Levi became the liquidator.

The Liquidator arranged for the sale of the company's plant and equipment; and legal action was brought against the directors by the liquidator.

The bank received payment from its security, and the company's unsecured creditors received a dividend.

Take a moment to call David Levi at 02 9223 9044 or email dlevi@leviconsulting.com.au. And let us help you get your company to where it needs to be.

This case study is not a substitute for formal advice concerning your circumstances. Liability is limited by the Accountants Scheme approved under the Professional Standards Act 1994 (NSW).

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