Report Extract:

Boston Facilities Management

BUBNELL CONSULTING

Financial Standing

Your auditor has graded the financial standing as "B" on the basis the company has, in the last set of accounts, a net worth of £500k+ and is making profits in excess of £100k per annum. However, they have omitted to point out that, within the company's assets, is a loan to an associated company, well in excess of £550k and there are no accounts for this company. The writer is told that this is a property owning business so it may be a good asset but, without clarification, it is dangerous to assume so.

Recoverability

Your auditor has also stated that the debtor book is "recoverable but with some small issues". In this regard we would comment as follows;

The audit/verification trail is weak - and will always be so, as a lot of their work is carried out on vacant buildings and/or where there is no-one in attendance to sign off;

Whilst most invoices are for completed, specified work, such work is done under a maintenance contract. If the company were to fail this, and the lack of a great paper-trail, would make debt recovery less than straightforward.

Ageing

The company's system raises an invoice for the work, as the job is entered on the system so, to some degree, they are pre-invoicing (although you do not advance until you have some proof the job has been done).

Because of this, however, an invoice is often 30 days old before it is recognised as being payable by the customer - whose credit terms are, typically, 30 days EOM (one or two are 60 days e.o.m.).

This means if a customer takes over 60 days credit, it ends up ageing – briefly. Aged debt will be cleared but quickly replaced with a new batch.

Summary recommendation

We would recommend that, because of such imperfections, you revisit your earlier discussions regarding the taking of collateral – being prepared to make concessions to obtain cover for what is an imperfect relationship.