BUSINESS CREDIT MANAGEMENT ASSOCIATION
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Bankruptcy Early Warning Checklist

There are a number of events that should trigger additional concern about the risk of extending credit to a customer. Among these Risk Flags are:

- A deterioration in the customer's cash position
- A bounced check
- High levels of debt
- A slowdown in the receivables collection period
- Higher inventory levels
- Inadequate inventory levels to meet sales demand
- A slowdown in inventory turnover
- Changes in the customer's credit and sales philosophy
- A sharp increase in the dollar amount of accounts receivable
- A sharp rise in accounts payable
- Higher DSO
- Broken payment commitments
- A change in key personnel in the debtor company
- Loss of key personnel
- A layoff at the debtor company
- A decline in current assets as a % of total assets
- Re-valuation of fixed assets for the purpose of improving the balance sheet
- Losses, or a declining profit margin
- A decision to sell merchandise below cost
- Lower returns on sales
- Lower gross margins
- Lower sales
- A loss of market share
- Low working capital level
- The existence of heavy liens on assets
- One or more lawsuits filed by trade creditors
- One or more creditors placing the debtor company for collection
- A high concentration of intangible assets
- A decrease in current assets
- A decrease in liquid assets

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Bankruptcy Early Warning Checklist
(Continued)

- A disproportionate increases in current debt relative to current assets
- Negative working capital
- A narrowing current ratio
- A low quick ratio
- A high debt to equity ratio
- Negative equity
- Negative tangible net worth
- A substantial increase in long-term debt
- A high debt to capital relationship
- A major gap between gross and net sales
- Rising costs as a percent of sales
- Falling profits
- Mismanagement
- Significant changes in the balance sheet structure
- Rising levels of bad debt losses
- The business is operating in a declining market
- Sales are declining
- Management is inexperienced
- There is a heavy turnover among employees
- The debtor refuses to provide financial information to even its largest creditors
- The debtor account is being placed on hold by other trade creditors
- The debtor has been placed for collection by one or more creditors
- One or more tax liens have been entered against the company
- The debtor makes and then breaks payment commitments
- The debtor claims one or more payments were lost in the mail
- A payment (check) bounces
- Other creditors report a significant slowdown in payments

Please note however that this list is not intended to be comprehensive. However, the more of these that apply, the higher the risk to your organization.

By Michael Dennis. Michael is a frequent Webinar presenter for WCA, and the author of the Encyclopedia of Credit, a fast, free, searchable online resource for credit professionals: http://www.encyclopediaofcredit.com/*.*