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UNDERSTANDING CORPORATE INSOLVENCY

A DIRECTOR'S GUIDE TO LIQUIDATION & RECOVERY

PART OF THE DOUG CONSTABLE BUSINESS ADVISORY SERIES

BY DOUG CONSTABLE

About This Series

This eGUIDE is part of a growing collection designed to help business owners, directors, and professionals navigate financial challenges with clarity and confidence. Each guide takes a complex subject and simplifies it into practical, plain-English advice you can use straight away.

Whether you're facing cashflow struggles, creditor pressure, or difficult decisions about your company's future, this series is here to support you with real-world strategies and solutions.



What Corporate Insolvency Really Means

Corporate insolvency sounds intimidating, but in simple terms it means that a company can no longer pay its debts when they are due. For directors, this is more than just a financial problem—it's also a legal responsibility. Recognising the warning signs early and taking action is the key to protecting both the business and yourself.

Warning Signs Your Company May Be Insolvent

Directors often miss the early warning signs of insolvency. Here are some red flags to look out for:

- Struggling to pay ATO debts, suppliers, or staff wages on time
- Continually relying on new loans or credit to cover operating expenses
- Pressure from creditors or threats of legal action
- Bounced payments or maxed-out credit facilities
- Lack of reliable financial records or regular reporting

If these issues sound familiar, it's time to seek advice before the situation worsens.



Options Available to Directors

When a company is in financial distress, directors have several options available, including:

1. **Restructuring** – Negotiating with creditors and reorganising debts to give the company breathing space.
2. **Voluntary Administration** – Appointing an external administrator to assess options for saving the business.
3. **Liquidation** – Closing the company in an orderly way, selling assets to repay creditors.

Each option comes with its own implications for directors, employees, and creditors. Getting the right advice is crucial in choosing the best path forward.

The Role of Directors

Directors carry legal duties and obligations. Trading while insolvent can expose directors to personal liability, including penalties and even being held personally responsible for company debts.

However, directors who act promptly and seek professional guidance can usually protect themselves and achieve far better outcomes. The worst decision is to delay.

How Liquidation Works

Liquidation is the process of winding up a company's affairs. It involves:

1. Appointment of a liquidator
2. Selling company assets
3. Distributing funds to creditors in order of priority
4. Deregistering the company with ASIC

While liquidation may feel like the end, it can also be a clean slate for directors and business owners to move forward.

Common Mistakes to Avoid

When faced with financial distress, directors often make avoidable mistakes, such as:

- Ignoring the problem and hoping it will go away
- Continuing to incur debts without a repayment plan
- Using personal funds or credit cards to prop up the business
- Failing to seek professional advice early

These mistakes often worsen the situation and reduce the options available. The earlier you act, the better the outcome.

How an Advisor Helps

An experienced insolvency advisor works for you, not the creditors. At Resolvency and Resolve Business Solutions, we help directors understand their options, negotiate with creditors, and choose the best strategy for recovery or closure.

Think of us as a GP for your business—we diagnose the issues, explain your options clearly, and connect you with the right professionals, whether that's a liquidator, lawyer, or finance specialist.



Moving Forward

Insolvency doesn't have to mean the end of your career or business journey. Many directors bounce back stronger after going through restructuring or liquidation. The key is to learn, reset, and rebuild.

You are not alone in this process. With the right advice, you can navigate the challenges, protect your future, and move forward with confidence.

About Doug Constable & Resolvency

Doug Constable has spent over 35 years helping business owners and directors navigate financial crisis, insolvency, and recovery. Through Resolvency and Resolve Business Solutions, Doug provides practical, straightforward advice to individuals and companies facing financial stress.

For more resources, visit:

www.dougconstable.com.au

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