

Background and problem

This women's lingerie design company based in West London. The designs were done in the UK and the manufacture was carried out in Hong Kong. The company appeared to be profitable but they were always short of cash. The directors did not understand this as the turnover of the business had gone from £1M to over £6M. They had some very good high street names as customers and they were looking to expand the business by taking on extra designers.

The company was borrowing £600,000 using invoice discounting to fund their growing business. No financial reporting was being produced by the Financial Controller (FC) and the accounts were about to be audited. The company was always robbing Peter to pay Paul and were always short of cash and having to extend their credit with the Invoice Discounter.

The FC was also responsible for the IT of the company and he was forever fire fighting to keep the systems working.

Actions Taken

The accounts were reviewed and a number of anomalies were found. An IT company were employed to restructure the IT system and the LAN. The credit card statements of the FC were investigated as payments were being made to Gibraltar where the company had no suppliers. The FC was dismissed and we were appointed to take control over the finance function.

The cash flow was carefully managed to ensure prompt receipt of debts. All the Bank Accounts were reconciled which lead to the discovery of further fraudulent transactions. All Creditor accounts were reconciled which lead to the discovery of further fraudulent transactions. Payment terms were renegotiated with the overseas suppliers once the arrears were paid off.

The Fraud of £400,000 was investigated and documented and handed to the police. We recovered £70,000 from the FC. Ensured that the VAT and Import Duty was correctly processed.

The Results

Cash flow was carefully managed and the £600,000 debt was paid off together with all arrears to other creditors and the company had £550,000 in the bank when we handed over the accounts to the new bookkeeper.

Debtor days were reduced from 97 days to 43 days.

A new bookkeeper was recruited and trained and proper financial controls were put in place.

The Financial Controller's Fraud was documented and passed to the police for prosecution.

The company took on three new designers to cope with the growth.

The company now has a turnover of over £10 million with a profit of over £1,00,000.

If you want to find out more about any of the areas covered in this case study and how we can support your business – contact us today.