Pre-Pack Insolvency

A Brief explanation

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In my post on the 8th June headed 'The changing role of the courier' I mentioned pre-pack insolvency, the response from people who have been lucky enough to not to be a victim of this loophole, I will attempt to explain how it works. Principally it is the same as a normal insolvency, except that the current owners take the assets of the company, and agree to pay for them at a knock down price in the future.

Let's assume you have a company with a large client base, plenty of assets and principally a good name, but with a cash flow problem, i.e. you can't pay your bills when due. A lot of companies try and trade their way out of insolvency, which only compounds the problem, then take the route of 'pre pack insolvency'. They call in their chartered accountant, show him the figures and suggest that they make an agreement to keep existing staff on, buy the company assets at a later date, and start trading again from the same address, same staff, same phone numbers, but with a very slight change to the company name. The accountant contacts the largest creditors, if they agree that they will accept payment in full or part at a later date, then the accountants set everything up, sends letters out to the other creditors, notifying them after the new company has started trading, that the old company has been liquidated. The new company trades with the same directors as before, the same cash flow policies, but now debt free totally or in part.

Most 'Pre Pack insolvencies' struggle, or are unable to get credit, ask yourself would you deal with a company who did this, with the consequences that they do go bankrupt before too long.

Article by Vic Farron RFT Express