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## Error sources and possible solutions in a start-up company

Dear Sir or Madam,

With this newsletter, we would like to highlight the most important sources of error for a newly established company. It should provide an overview of those errors which ought to be avoided.

### **Liquidity**

Liquidity can have negative consequences on cash flow. To avoid liquidity shortfalls, statements on a daily basis are sensible. In a service industry this would, on the one hand, concern invoicing for services rendered, and on the other hand the recording, on a daily basis, of all deliveries. Following this, periodical statements should be prepared. It often happens in newly established companies that it will take between two and five months until the first bills are being paid in.

### **Debtors' default risk**

For the best possible assessment of a client's financial solvency, customer files should be prepared in a preliminary review. The more information you have about a client, the better you can assess his or her financial solvency. For large orders, an on-site-inspection is highly recommended. The dual-control principle should be introduced in-house to ensure not just one person takes decision with orders. Large mandates should be accepted by a joint team. For this reason, credit assessments are highly recommended.

### **Lack of attention to the timely payment of creditors**

Receipt of payment is important, just as much as an overview of outgoing payments. For this reason, an appropriate set-up to structure payment transactions is highly recommended. Consequently, orders should only be possible with the signature of a second person, and any such persons should be clearly identifiable. An optimum solution is centralised purchasing. Additionally, an overview of transacted orders and incoming invoices should be created. When it comes to paying creditors, continuous accounting is highly recommended, whilst at the same time setting up a payment schedule. With liquidity in place, short-term payment of invoices can be used to take advantage of available cash discounts.

## **Ignoring currency risks**

Many companies are export-oriented and have payments made in multiple currencies, e.g. Swiss Francs, Euros or US-Dollars. With large volumes for a company, it is highly recommended to take the currency risk into consideration. Currency bills of exchange are avoided, thereby reducing currency diversity. It is well-known that such currency bills of exchange are very expensive at the banks. When it comes to currency conversions there are other options available at the banks that, within the framework of a collective back-office, offer affordable solutions. In such situations, we have already encountered banks that have foregone the basic transaction as the attractive currency bill of exchange was lost.

## **Default risk**

While the default risk of business clients is rather small due to the client's structure, it is comparatively higher with private clients. For this reason, requesting advance payments from private clients is highly recommended, as long as the business structure allows it. Another attractive option is cash discount, which should reduce default risks.

## **Deficit with customs and VAT returns**

In this context it is important to note that the correct documents are used, in order to prove that value-added tax had been paid at the moment of import. You can find further information about the topic of customs and VAT in our comprehensive [newsletter](#) published on 3 October 2017.

## **Settlement of business transactions**

Very often, final accounting is delayed because certain project costs and client costs turn up rather late. In this situation, it is necessary to take organisational and imputed action which is suitable to ensure that the process of invoicing is not delayed. Large delays will lead to procrastination of invoicing and consequently to an increasing loss of liquidity. Furthermore, it is equally possible that withheld invoices will meet with client incomprehension, and consequently the client's willingness to make timely payment will decrease.

## **Observation of business transactions not affecting liquidity**

Debtors and creditors have the greatest effect on liquidity, whilst numerous transactions may not even be measurable in terms of liquidity. For this reason, continuous accounting is indispensable to ensure the availability of a regular and transparent result. Depending on the size of the company, this can take place on a daily, weekly, monthly or a quarterly basis. Even for small companies, at least a quarterly assessment is a prerequisite.

The points listed here have been personally selected. Depending on the company and on the industry, these need to be adjusted. The inspiration for this newsletter came from an overview table by the SPEDLOGSWISS association (in German only).

We would like to use this opportunity to express our thanks for the provision of this material.

Kind regards

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