



Small Business Restructure Case Study: Bakery



In July 2020, our client began operating as a bakery manufacturer, functioning as a centralised production kitchen providing bakery and dessert items to its associated entities while selling products to external wholesale customers.

Unfortunately, the businesses of the client and its associated entities were adversely impacted by the COVID-19 Pandemic. Specifically, during the lockdown periods, a substantial number of orders for significant celebration cakes (with higher profit margins), such as wedding cakes, were cancelled.

Debt

There was an outstanding debt of \$18,793 to iCare Workers Compensation Nominal Insurer, an outstanding debt of \$908 regarding historical electricity supply and an outstanding tax debt of \$193,195 to the ATO.

Background

Due to various COVID-19 lockdowns, the client found it very difficult to attract regular orders from third-party wholesale customers, such as convenience stores, due to reduced sales at those shops.

As the Pandemic continued, the client faced significant increases in raw materials and labour costs while its trading position did not improve as expected. Consequently, it suffered a significant net loss of nearly \$200,000 during FY2021.

As a result, the client could not keep up to date with its obligations concerning the payment of its tax liabilities. In this regard, from March 2022 to January 2023, the client entered into three (3)

payment arrangements with the ATO. However, the scale of the commitments to the ATO imposed significant pressure on its cash flow, with the client failing to comply with all three (3) payment arrangements.

Proposal

The ATO and iCare voted in favour of the Restructuring Plan, as it offers a total distribution of \$53,333 to creditors, resulting in a return of 25c/\$, which was better than the estimated return in a hypothetical liquidation scenario.

Outcome

Through the implementation of the SBR Process, the employees retained their jobs and the client has been able to continue running the business, free from the burden of past debts. This achievement was made possible without incurring significant expenses typically associated with placing a business under Voluntary Administration.



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