

Bookkeeping Tips

Helping Your Company or Clients Live With Loan Covenants

Your company's loan agreement may include rules it must follow while the loan is outstanding. A typical covenant may include restrictions such as requiring at all times both that net current assets stay at a minimum of 150% of net current liabilities, and that there be \$100,000 in working capital (current assets less current liabilities).

Impress your company by monitoring records carefully to make sure that restrictions are not exceeded. If you see your firm edging toward a violation of one of the restrictions, alert the owner. You may want to suggest potential remedies, such as the following:

- ✓ Reducing inventory levels by stocking less.
- ✓ Asking suppliers to consent to sales on consignment to help lower inventories.
- ✓ Offering special discounts to speed collection of receivables.
- ✓ Suggesting that the owner ask the lender to renegotiate restrictions for a limited period when it may be impossible to live within them.

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