

# Reasons to close a company

There are two main reasons a company may close.

## 1. When a company has ceased trading

- A company's life can also come to an end when the director(s) decide to cease trading.
- The Registrar must be satisfied that the company has ceased trading and there are no other reasons for the company to carry on business. Specifically, the company has discharged in full its liabilities to all its known creditors (including the Financial Secretary) and has no assets because it has distributed its surplus assets in accordance with the company rules and the Act.

## 2. Insolvency

Your company is insolvent if either:

- It is unable to pay its debts as they fall due for payment, or
- Its liabilities (debts), including contingent liabilities exceed the value of its assets (what it owns)
- As soon as the directors and/or shareholders become aware the company is insolvent, they need to decide whether the company should continue to trade or appoint a liquidator. By continuing to trade they are placing themselves at risk of being made personally liable to creditors for any further deterioration in the company's financial position.

This is why it is important to keep your accounting records up to date. Regular financial reports will reveal if the company is solvent or insolvent.