Research the possible actions that Jem might take to improve the cash flow position of MT ltd.(10 marks)

Jem would have to improve credit control by allowing less time for customers to settle their bills. Currently customers pay 10% upfront and the pay the rest after the work is done which could take 8 months. This is very bad for their cash flow as within that 8 months they are going to be at a loss as they would have to keep on paying their working capital therefore I would suggest that Jem charges 50% upfront and then pay the rest when the job is done. Since thatching takes quite long, Jem would have to ensure that customers pay up the remaining 50% as soon as the job is completed and not giving them a grace of 60 days as if the job takes up to 6 months then the customers should have had enough time to save up so that they can pay up their bill as soon as the job is done.

I would also suggest that Jem negotiates a better trade credit with her suppliers as 21 days isn’t long enough. Being that the cost of straw ad reeds rise unexpectedly suppliers should give Jem a longer period of time to pay up. If she could negotiate a trade credit of a month or two then this will ease up her cash flow greatly as the she has more time to pay up especially since she doesn’t get payment from her customers till her job is done which could take up to 6 months. A longer trade credit will ease up the demands of her cash flow forecast and also ensure that she can adjust her working capital till her customers pay up.

In addition I would also suggest that Jem negotiates an overdraft with his bank manager friend. Since thatching is a seasonal business and there is often periods of inactivity during the winter an overdraft will go a long way in ensuring that the businesses day-to-day bills are paid and that she can pay her suppliers during the winter months. Not only will she be able to pay up suppliers and keep the business during it will ensure that the business doesn’t incurs ay losses during the inactive winter months. Since the UK often experiences longer winter moths than summer moths I would suggest that she tries to book as many thatching jobs as possible as she can in the summer months ad especially in September so that by the time the job is completed customers would be paying up during the winter months, this way they will be some cash inflow during the winter months. In addition to this for this idea to work I would suggest that Jem hires more apprentices however have them working part-time only in the summer months, this way she can run multiple thatching jobs consequently during the summer months maximising profits and productivity and have a higher cash inflow so that during the winter months she has very little cash outflows only for fixed costs and to pay up her suppliers –this way she won’t have to pay her apprentices wages during the winter months when there’s a cash short fall. All these above actions will help Jem improve the cash flow position of MT ltd greatly.

Investigate the issues that the owner of a business would consider before deciding on a major investment in a established business. (16 marks)

Miss I didn’t really know what to write for this question but this is what I have got so far.

As an investor I would want to see a detailed business plan before deciding whether to invest in a business or not. A detailed business plan would include the businesses aims and objectives, market research data ad a cash flow forecast. All these documents are very important and before investing I would want to have a look at this document to make sure I am investing in a profitable business. As an investor I would also like to see a cash flow forecast as this will show any periods of cash shortfall and therefore we can think of ways to overcome them or any periods of cash surplus so we can use the money elsewhere. A cash flow forecast will also show if the business is viable or not as from a cash flow forecast you would be able to tell whether the business is going to make a profit or a loss and how much of a profit or a loss I stand to gain as an investor.

In addition, I would also like to see a budget. With a budget I would be able to see how much money is set aside for costs and for sales and therefore I can compare whether the business sticks to their budget or not. Also a budget will help with estimating costs and it will also be good for noticing when we have adverse variances so we can improve those areas or favourable variances. A budget will also set employees and manager targets to meet and this way it’s easy to see if they have met up to their target or not. It’s also a good way to motivate staff and it helps with the organising of the businesses finance.