

Areas of concern to ensure business success

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Areas of Concern to Ensure Business Success

a) Change of ownership

Jones is a sole trader as he manages and enjoys all the profits alone. However, sole proprietorship has disadvantages. First, the business lacks continuity because the life of the business is limited to the life-span of the owner. This means the business closes down if the owner becomes bankrupt, dies or imprisoned. Therefore, Jones should consider converting the business form into a company. Sole traders also work for long hours and are unable to attract and maintain experienced staff. The sole trader is also liable for all the debts of the business and if assets are not enough, personal property may be used to pay creditors. Finally, they are often unable to raise sufficient funds as they only rely on their own ability.

b) Diversify the business

Diversification is a method used in spreading risk. In the case of Jones Electrical Distribution, the business is only in operation during summer and spring when weather is conducive for construction work. He should expand operations to ensure that business activity is not faced by seasonality. He should try other products that sell throughout.

c) Reduce the number of suppliers

Having a fewer suppliers helps in cutting down distribution costs and the degree of logistic of the company. Consistency in the quality of materials supplied is also assured. This also reduces the number of customer complaints and establishes an intimate relationship with the supplier. In addition, the supplier aims at pleasing the customer because of the huge quantities by giving discounts. It's not fit to have a single supplier though because if the supplier is adversely affected by an event, the business is also

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affected. The supplier might also become complacent since he knows you cannot get better supplier than them.

Q 2

Jones Electrical Distribution has liquidity problem. The business does not have sufficient cash to meet its short- term financial obligations despite the fact that it is making profits.

Areas that are responsible for the urgent need of cash include:

Rapid increase in accounts payables. Increase in accounts payable means more cash to settle the creditors.

Increase in the line of credit. Payments were being made within 10 days instead of 30 days as stipulated by the suppliers.

Additional working capital investments associated with the increase in sales

The only source of income was from the electrical distribution business. .

Q4

The income statements and balance sheet for the year 2007 have been worked out in excel.

Q5

The \$350, 000 line of credit is not enough money for the business. Looking at the 2007 balance sheet, the amount of financing required is more than \$350, 000. The business requires twice the amount in order to bring its liquidity to an acceptable level.

Q6

Alternatively, Jones can consider using profits of the business as a source of finance. Secondly, he can borrow from friends at agreeable interest rates. Finally, he can use own savings and donations from friends.

Reference

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Gibson, C. H. (2010). *Financial Reporting and Analysis: Using Financial Accounting*. Cengage Learning.