

2. Gomez is a sole trader. He provides painting and decorating services to business customers. His business does not benefit from any economies of scale because it is small. Gomez has to pay his suppliers within 1 month. However, he gives customers 3 months to pay. Gomez uses an old van he has borrowed from his father to travel to his customers' offices and shops. As the van often breaks down, Gomez is thinking of buying a new van. A cash-flow forecast for the next 3 months is shown in Table 2.1.

Do you think asking customers to pay more quickly is the best way for a small business to improve its cash-flow? Justify your answer.

(e) Yes because there will be no need to borrow so no interest paid so does not increase cash outflows

No because customers may be unable or unwilling to pay more quickly so may look for alternative suppliers so reducing cash inflows.

As the business is small, it may be better to ask suppliers for more time to pay as the business may not have many customers so does not want to risk losing them by asking them to pay more quickly..... [6].