

The difference between profits and cash

Mr. Santos sold a product by 10 monetary units (m.u.) , which he produced a 7.5 each. Mr. Santos sold on credit to its customers, requiring payment 30 days after completion of the sale . Its suppliers (of various materials, services, labor, work) had to be paid in cash, which he fulfilled. For the manufacture of a product unit, few minutes are sufficient.

Mr. Santos defined the production level of each period equal to the sales estimate for the following period. These estimates - quite correctly - showed a consistent increase in sales that would be made in the following three months. Mr. Santos was very fortunate, as their customers always paid their debts within the agreed period of 30 days .

The following events described what occurred during the period between January 1 and April 1.

- Balance sheet on January 1st

Cash and deposits	7 500 u.m.
Inventories	11 250 u.m.
Accounts receivable	15 000 u.m.

During the month of January , 2000 units sold and produced over 2500 units in order to be equivalent to a 30 day supply of stock . Its net profit was positive and 5000 m.u. ($2.5 * 2000$ units).

- Balance sheet on February 1st

Cash and deposits	3 750 u.m.
Inventories	15 000 u.m.
Accounts receivable	20 000 u.m.

During the month of February , sales rose to 2500 units and production to 3000 units . The profit of Mr. Santos for the 6250 period was m.u. ($2.5 * 2500$) . The net results accumulated to date amounted to 11 250 m.u.

- Balance sheet on March 1st

Cash and deposits	1 250 u.m.
Inventories	18 750 u.m.
Accounts receivable	25 000 u.m.

During the month of March , sales increased to 3000 units and production to 3500 units . This time the result of Mr. Santos for the 7500 period was m.u. ($2.5 * 3000$ units) . Accumulated to date results now reach 18 750 m.u..

- Balance sheet on April 1st

Cash and deposits	0 u.m.
Inventories	22 500 u.m.
Accounts receivable	30 000 u.m.

On April 1 , Mr. Santos had no money and therefore could not produce more , despite the positive results recorded in all prior periods .