“I can’t understand it! I know my business inside out and we started the year with very good prospects after signing a new contract with suppliers.”

That is what Constantino exclaimed after having to quickly return from the Seville Spring Fair when the bank called him to say that his bank account was at zero.

Constantino's company carried out an activity that was not very complex and the products they sold were well-accepted on the market. These products cost 0.90 € and were sold at 1.20 €. The ending inventory of stocks at the end of the month at the warehouse were maintained at a level equal to the deliveries made in the last 30 days, suppliers’ bills were paid in cash and clients' payments were received regularly every 30 days. And that was that!

With the new suppliers contract signed with Portugal, he was sure that sales would continue increasing regularly at a rhythm of 500 additional units per month; truth be told, everything seemed to indicate that this would be an exceptional year for the business.

And all of this was confirmed by his friend who worked in the accounting agency when, during the first months of the year, he sent Constantino the "four numbers" of the balance and the growth in sales and profits.

“So, with what I am earning, how can I not have any money in the bank? I reiterate, I don't understand”.

As a precaution, Constantino called a nephew of his who was doing one of these prestigious masters' and told him what was happening. In the end, his nephew told him that what was happening was normal, since he should have been increasing sales at a slower rhythm (“allegro, ma non troppo”, he interjected ironically) or that he should have financed the operative needs of funds which the stated increase of sales demanded with a healthy bank loan, which, among other things, these loans are for.

“So, the only thing that occurs to my witty nephew in the master's programme is to remind me of a musical beat so that we sell less, or, if not, of the existence of the bank so that I go into debt and then finance in that way the operative needs of funds. What on earth are they teaching him?”

Following on, you will find out in detail what happened monthly in the first quarter:

- **January**: the company started the month with Cash, Clients and Stocks balances of 930 €, 1,320 € and 900 € respectively. It sold and delivered 1,000 units at a cost of 900 €, it collected the appropriate payments from clients and purchased 1,000 units more. So it finished the
month with a 300 € profit and balances of Cash, Clients and Stocks of 1,350 €, 1,200 € and 900 € respectively.

- **February**: the monthly sales increased according to forecasts no less than 1,500 units, a 50% increase over the previous month! To maintain inventory at a level equal to the units sold in the last 30 days, a total of 2,000 units were purchased at a cost of 1,800 €. At the beginning of the month the company collected the appropriate payments from clients. The company therefore ended the month with a 450 € profit meaning that it had an accumulated profit of 750 € between January and February.

- **March**: sales in March continued growing to 2,000 units, clients made payments on time and production maintained the same stocks policy, this was increased to 2,500 units.

- **Abril**: in April sales increased another 500 units, arriving to a level of 2,500, causing Constantino to miss the Seville Fair. Clients religiously continued paying and stock purchasing increased to 3,000 units.

The rest of the story is already known: the bank called Constantino to tell him that his account was at zero and so the party ended. But, another one was about to begin…

Questions to ask ourselves:

1.- What are the balance for the 30th of April and the corresponding balance sheet for this first quarter?

2.- Why did the nephew say that it was normal to be without cash? What are the causes behind all of this?

3.- Could this situation have been forecasted? Is there any solution to it?

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