ClassTycoon cash flow vs profit instructor answer key

Allow 45 minutes. Use five minutes for definitions, ten for profit, ten for cash, ten for the growth decision, and ten for an individual recommendation.

September revenue is 300 times $12, or $3,600. Cost of goods sold is 300 times $4, or $1,200. Profit is $3,600 minus $1,200 minus $1,200 of operating expenses, or $1,200.

The business has delivered the notebooks and earned the full sale. Under the stated accrual accounting assumptions, the unpaid $1,800 is revenue and an account receivable, meaning money owed by customers.

Cash receipts are $1,800. Cash payments are $1,200 plus $1,200, or $2,400. Net cash flow is negative $600. Closing cash is $800 minus $600, or $200. September receipts arrive before the stated payments.

Profit of $1,200 minus the $1,800 increase in receivables equals negative $600 net cash flow. This reconciliation works for the simplified base case. Other cases may need inventory, supplier balances, or noncash expense adjustments.

The separate growth order needs $900 before the next customer collection. Available cash is $200, so the funding gap is $700. A projected negative balance identifies missing funding. No overdraft is assumed.

If all $1,800 arrives before payment, cash becomes $2,000 and falls to $1,100 after paying $900. If only $900 arrives early, cash becomes $1,100 and falls to $200 after payment. These are independent alternatives, with no other transactions.

Collecting an existing receivable creates no new revenue or profit. Paying the supplier creates a prepayment until delivery, then inventory. The inventory becomes cost of goods sold when sold. Do not subtract the growth payment from September profit in the base case.

Accept a recommendation to wait, collect early, or negotiate supplier terms when the student shows a feasible timeline and acknowledges uncertainty. Early collection needs customer agreement. Supplier terms need supplier agreement. A loan would add repayment obligations and possible interest outside this example.

Check that the student gives all four figures correctly, explains the receivable, and ties the recommendation to payment timing. A correct profit calculation alone does not show the growth order is affordable.

For a closing question, ask what would change if the customer paid late. Cash availability changes, even when the original sale remains recorded. If collection becomes doubtful, the simple assumption that the full amount will be collected must also be reconsidered.