



How is cash different to profit?

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Cash and profit are two important financial concepts that are often used interchangeably, but they are not the same thing.

Understanding the difference between cash and profit is crucial for managing a business's finances effectively. In this article, we will explore how cash is different from profit.

What is cash?

Cash refers to the **actual physical currency or money that a business has** on hand or in the bank. It includes all the liquid assets that can be used to pay for expenses or invest in new opportunities.

Cash can come from a variety of sources, such as sales revenue, loans, investments, or other income.

What is profit?

Profit, on the other hand, is **the difference between the revenue that a business generates and the expenses that it incurs**. It represents the financial gain or profit that a business makes over a given period of time.

Profit can be calculated on a monthly, quarterly, or annual basis, and is typically reported on a company's income statement.

How are cash and profit different?

While cash and profit are related, they are not the same thing. The main difference between cash and profit is that cash represents the actual money that a business has on hand, while profit is a measure of financial gain over a period of time.

Here are some of the key differences between cash and profit:

- 1. Timing:** Cash and profit are measured over different time periods. Cash represents the money a business has on hand at a given point in time, while profit is calculated over a period of time, such as a month or a year.
- 2. Revenue recognition:** Cash is only generated when a business receives payment for its goods or services, while revenue is recognized when goods or services are sold, regardless of when payment is received. This means that a business can have revenue without cash, and vice versa.
- 3. Non-cash expenses:** Profit is calculated by subtracting all expenses from revenue, including non-cash expenses such as depreciation. However, these expenses do not impact cash flow directly, so a business can have positive cash flow even if it is not making a profit.
- 4. Timing of expenses:** Expenses can be paid with cash at the time they are incurred or can be paid later. This means that a business can have negative cash flow even if it is profitable, because it is paying expenses that it incurred in a previous period.

Can a business fail because they don't manage their cash?

Yes, a business can certainly fail if they don't manage their cash properly. In fact, poor cash management is one of the most common reasons that businesses fail. Here are some of the ways that not managing cash can lead to failure:

- 1. Running out of cash:** If a business doesn't manage its cash flow properly, it can quickly run out of money to pay its bills and employees. This can lead to missed payments, defaulted loans, and even bankruptcy.
- 2. Inability to invest in growth:** Without a strong cash position, businesses may be unable to invest in growth opportunities such as new product development, marketing, or expansion into new markets. This can lead to falling behind competitors and losing market share.
- 3. Poor financial performance:** Poor cash management can lead to poor financial performance, including falling profits and declining revenue. This can make it difficult for a business to attract investment and grow over the long term.

4. **High debt levels:** If a business relies too heavily on debt to cover its expenses, it can quickly become burdened with high interest payments and struggle to keep up with repayments. This can lead to a cycle of borrowing and more debt, making it difficult to ever become financially stable.
5. **Strained relationships:** If a business is unable to pay its bills on time, it can strain relationships with suppliers, creditors, and employees. This can make it difficult to maintain key partnerships and retain talented employees.

In conclusion, managing cash is crucial to the success of any business. By keeping a close eye on cash flow, investing in growth opportunities, and avoiding excessive debt, businesses can maintain a strong financial position and avoid the risks of failure.



If we can help you, reach out for a no obligation chat to [Jo Hands](https://www.whiteark.com.au) on 0459826221, or jo.hands@whiteark.com.au