

Cash flow Is Different Then Profit

Written by Steve Marr
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One business owner told me, "I don't worry about my profit and loss statement, I just worry about my bank balance. If I have cash in the bank, great, if not, bad." While this may be a simplistic perspective, cash flow may be more important then how much income you report.

A critical part of any business is cash flow. Every business either generates cash or consumes cash. Business owners and managers need to understand every component of a business and how cash flow is affected.

One business owner was investing to build inventory. They were holding around \$500,000 in inventory, very high for the business. The income statement showed a profit that year of \$55,000.00, but the business experienced negative cash flow of over \$200,000. They were literally running out of cash. I encouraged them to replace less inventory when sold, and over 6 months were able to increase cash by \$150,000.00, enough to stay out of trouble.

Another business owner was investing in more equipment. He had bought \$800,000.00 of new equipment for cash. He was limited as to the depreciation he could take each year. His income statement showed a profit of \$185,000.00, not bad. However, he was literally out of cash and unable to pay current bills. He was unable to get a bank loan, so his only solution was to sell some of the equipment at a discount to raise cash. The error of not understanding the implications of cash flow cost him a lot of money. If he had leased the equipment, rather than buying, his cash would have been persevered.

Also, review your billing and collection system, inventory control, and every operating expense and determine one change in your business operation that will improve cash flow.

King Solomon wrote, "Know well the condition of your flocks for riches are not forever" (Proverbs 27:23-24 NASB). Knowing and understanding your cash flow is part of understanding your present day flocks.

The increased cash generated can be used to grow your business profitably.

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