

Bookkeeping for Smart Businesses

Cash vs Profit – Tips and Tricks to keep on top of Cash & Profit

There is a saying that "cash is king" and for good reason. Cash is coming in and out is how your business operates on a daily basis. It's the life blood that keeps the heart pumping.

Cashflow and profit are two critical financial metrics for businesses, but they serve different purposes and provide different insights into the health of a company.

- Cash is crucial to the day-to-day operations of a business and ensuring the business can meet its shortterm obligations. It's the actual cash received and spend by a business on a daily basis.
- Profit is essential for assessing long-term viability and success of the business. It's the amount of money that remains after the company has deducted its expenses from the income.

Cash vs Profit

> What is the difference between cash & profit?

Is cashflow the same as profit?

> Why is cash better than profit?

- > How does one improve their cash flow and keep finances in check?
- What reduces the cash balance but not profit? (example to demonstrate this is on page 2)

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Example

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Let's consider a small retail business in New Zealand with the following financial info:

- > Sales: \$100,000
- Cost of Goods Sold (COGS): \$55,000
- Operating Expenses: \$18,000
- > Depreciation: \$5,000
- > Interest: \$2,000
- ▶ Income Tax: \$2,500
- ➢ GST: \$1,000
- > New equipment purchased: \$8,000
- ▶ Business Loan received: \$15,000

The profit calculation is how this would show on your businesses profit and loss statement but will not reflect the funds in your business bank account(s).

The Cashflow calculation is how these financial activities would show on your businesses cashflow statement and will reflect you cash balance in your business bank account(s)

Profit Calculation:

Cash Flow Calculation:

Sales LESS: Cost of Goods Sold (GOGS)	\$100,000 \$55,000	Cash from Operations (Sales): LESS: Cash paid for COGS	\$100,000 \$55,000
GROSS PROFIT	\$45,000	LESS: Cash paid for Operating Expenses	\$18,000
LESS:		LESS: Cash Paid for GST	\$1,000
Operating Expenses	\$18,000	Total Cash from Operations (Sales)	\$27,000
Depreciation Interest	\$5,000 \$2,000	LESS: New Equipment Purchase PLUS: Business Loan Received	\$8,000 \$15,000
Total Operating Expenses	\$28,000	NET CASH FLOW	\$34,000
NET PROFIT before tax	\$17,000		
Less: Income Tax NET PROFIT after tax	\$2,500 \$15,000		

In this example, the business has a net profit of \$15,000 but a positive cash flow of \$34,000, highlighting the differences between profit and cash flow.

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Ways to improve cash flow: \geq

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- *

ACTIONS - TO DO LIST:

What can you work on now to help improve your cash flow?

- ≻
- AAAA

Do one thing right now!!! Write it down!

Please don't hesitate to reach out for further info. Here's my Virtual Summit Promo info: https://www.everycentaccounts.nz/virtual-summit-promo

Thank you,

Samantha Ngan **Business Owner/Director Every Cent Accounts Ltd**