Clara Vista BOOKKEEPING

Cash vs. Profit: Why They're Different

Why profitable businesses still run out of money.

Two different questions

Profit and cash sound like the same thing. They're not, and the difference has sunk a lot of good businesses.

Profit is an opinion about a period of time. It says: "during March, we earned more than we spent." **Cash is a fact.** It's what's sitting in the bank right now. Your P&L can show a great month while your bank account says you can't make payroll — and both can be true at the same time.

The four usual gaps

- **1. Customers haven't paid you yet.** The moment you send an invoice, your P&L counts it as revenue. But invoiced is not collected. The "profit" exists on paper while the money is still sitting in your customer's bank account.
- **2. Loan payments barely show up.** Only the interest part of a loan payment appears on your P&L. The principal — paying back the amount you actually borrowed — never does. So real cash leaves the bank every month that your profit never sees.
- **3. Inventory and equipment tie up cash.** Buy $15,000 of materials or a new truck, and the cash walks out the door today. The P&L spreads that cost out over months or years, so profit barely flinches while your bank balance takes the full hit.
- **4. Owner draws aren't expenses.** Money you pay yourself as a draw comes straight out of the bank, but it never appears on the P&L. A business can look nicely profitable while quietly draining every month.

A short story you may recognize

A contractor lands the biggest job of his life. He invoices $120,000, and his P&L shows record profit — his best month ever, on paper. But the customer's contract says payment in 60 days. Meanwhile, he pays his crew every Friday and buys materials up front.

Six weeks in, with a record "profit" sitting on the books, he misses payroll. Nothing was wrong with his business. The timing of the cash was wrong — and nobody was watching it.

What to actually do

- **Watch your A/R.** "Accounts receivable" is the polite term for money customers owe you. Look at it weekly. Chase anything past due — politely, but chase it. Old invoices don't age like wine.

- **Keep a cash cushion.** A good rule of thumb: enough in the bank to cover 4–8 weeks of expenses. It turns emergencies back into inconveniences.
- **Run a simple 8-week cash forecast.** Cash now, plus what's coming in, minus what's going out — week by week, eight weeks ahead. It takes about 20 minutes and removes most nasty surprises. (Our free Cash Flow Tracker on this same resources page does the math for you.)

KEY TAKEAWAY

Profit is a report card. Cash is oxygen. You can survive a bad report card — you can't survive running out of oxygen.

If your bank balance and your P&L keep telling you different stories, one of the four gaps above is usually why. Finding which one takes about an hour with clean books.