

THE RELATIONSHIP BETWEEN PROFIT, TAX AND CASH

It's no surprise that many business owners misunderstand the combination of profit, tax and cash.

But having an understanding these functions have on your business and the impact they have on your business is easy with our quick guide.

THE TRUE MEANING (PUT SIMPLY)

It is essential for business owners to understand what profit means and why it has become almost a universal measure of business success.

And more so, not only understanding what the profit figure tells you about your business, but more importantly, what it doesn't tell you.



PROFIT VS. CASH

Profit is generally the income of the business less expenses. This is usually viewed on a “non-cash basis” which means, the numbers shown on a Profit & Loss report are not based on what is physically collected or paid. Rather, it reflects what may have been invoiced by your business, or expenditure invoiced to your business.

Cash on the other hand, is just that: the cold, hard stuff in your hot little hands. Cash flow, is the movement of cash in the business and how much “profit” is available in real cash for business operations and liquidity.

Common reasons for poor cash flow

- Slow paying customers
- Excessive owner drawings or shareholder loans
- Repayment of existing debts
- Purchase of capital assets



UNDERSTAND YOUR TAX REQUIREMENTS

Know how to and how often you will be expected to report and pay your various tax obligations

For most businesses this includes goods and services tax (GST) and pay-as-you-go instalments (PAYG). Other taxes that should factor into your cash flow analysis include fringe benefits tax (FBT). Another tax to be aware of is capital gains tax (CGT), which is applicable to you if making a profit from selling your business investments. Your tax obligations can create a domino effect for your cashflow and profits if not adequately prepared.



Need help managing your profit, tax and cashflow? Let's talk.

Love the blog? Subscribe to receive it fortnightly.

What do you think? We would love to hear your thoughts! Feel free to submit your comments below or comment on our Facebook Page or Twitter.