

# They Say I Make Money, So Why Don't I Have Any?

**“PROFIT MEANS MY INCOME WAS MORE THAN MY  
EXPENSE. SO IF MADE A PROFIT, SHOULDN'T I HAVE  
SOME CASH LEFT OVER?”**

# THEY SAY I MAKE MONEY, SO WHY DON'T I HAVE ANY?

**As a business coach, that is probably the number one question I am asked by business owners. Payroll this week, suppliers next week, debt service the week after, and tax deposits, seemingly, all the time.**

**Everybody wants our cash.**

**If you own a business, you know what I mean because you've asked the question yourself. Even when we make a profit, it feels as if business is a perpetual scramble for scarce cash.**

A fund manager I know uses a fitting metaphor to describe cash.

He says that if profit and sales were food and water, then cash would be oxygen. That's because a business can survive indefinitely without profit or sales, but can't make it past Friday's payroll without cash.

That makes cash a critical resource, which is why we're concerned about it. If we're making money, but don't have any cash, why not?

There are three possible reasons.

## 1. WE HAVEN'T RECEIVED IT YET

As you know, sales are the source of profit, but making a sale doesn't mean we were paid. Customers who buy from us on credit contribute to profit, but don't contribute cash. Whatever part of our profit comes from credit sales is not available as cash.

## 2. WE ALREADY SPENT IT

Even if we made a profit, and even if all of our customers paid, we wouldn't have any cash if we already spent it repaying debt or buying assets. Such expenditures are not expenses. The things we bought with borrowed money might have been expenses, but paying back the money is not.

Buying assets such as inventory, vehicles or equipment is not an expense either because expenses, by definition, are used up in a single accounting period. Assets, by definition, are not.

If we made a profit but don't have any cash, it may be because we sold enough to pay our expenses but not enough to pay both expense and non-expense obligations.

## 3. WE TOOK IT

There's nothing improper about taking cash from our companies. That's the point isn't it? But when it comes to accounting for cash, the salaries we take are expenses, the cash we take as distributions is not. Distributions are a special kind of non-expense use of cash similar to those described in #2 above.

## IT WORKS IN REVERSE

On happy occasions, we may find ourselves wondering why we have more cash than profit. That's a pleasant, but dangerous, position to be in.

Pleasant because it's nice to have a cash surplus. Dangerous because, if we don't understand how it happened, we will be tempted to spend it unwisely. So how does it happen? The answer is that the three reasons also work in reverse.

## 1. (R) WE RECEIVED MORE THAN WE SOLD

Sometimes we collect more cash from past sales than we sacrifice to new credit sales. (We might even be among the enlightened few who collect deposits in advance of future sales!)

## 2. (R) WE BROUGHT IN MORE THAN WE SPENT

There may be times during which we borrow more money than we repay. The difference would add to cash. The same thing would happen if we sold more inventory than we bought, or sold assets such as trucks, equipment or real estate. Selling assets often increases cash without increasing income.

There is also the matter of two kinds of expenses, depreciation and amortization, that don't consume cash. Both are simply bookkeeping entries your accountant makes. They reduce profit because they are expenses, but do not reduce cash because we don't actually "pay" them.

Some businesses have so much depreciation expense that they generate surplus cash even when they show losses on their income statements!

## 3. (R) YOU PUT IN MORE THAN YOU TOOK OUT

Simply put, we contributed more money to the company than we took out as distributions.

## MANAGE YOUR CASH

It is impossible to keep track through memory.

If we hope to survive in business, we have to understand and manage cash. It truly is the oxygen that breathes life into business, and without it businesses will fail.

If you think that's an overstatement, try telling your employees:

"Sorry, I messed up and can't pay you today. I promise I'll pay you next month."

They're not going to be happy about that because cash is their oxygen, too!

In the real world of business, our cash balance is the result of hundreds or thousands of transactions. Some provide cash and others consume it. How in the world can we even understand, let alone manage, the ebb and flow of cash in that environment?

We can't do it by guessing, and it's far too important to leave to chance.

Managing cash requires information, understanding and processes. The first step is to get with your accountant and set up good books. Good books are the source of proper financial statements which are the only way to stay on top of cash.

How about you? Have cash issues ever stressed you out? Have you ever wondered where your your money went? How would it affect your life if you knew?

Thanks for reading. As always, I would to hear your stories, questions and suggestions in the comments section below. And finally, I always appreciate feedback in the comments section. Was this article useful? Can you relate to the issue? Is there a subject you'd like to learn more about?

If you have any further questions, please don't hesitate to mail me at [Martin@annealbc.com](mailto:Martin@annealbc.com) or visit [www.annealbc.com](http://www.annealbc.com)





## Martin Holland

Martin Holland is the son of a successful entrepreneur. He grew up hearing about margins and markets, R&D and sales, risk and return on investment. He learned to love the language and rigors of business and grew to believe that business is both the most human of all endeavors and the highest calling. After selling a company in 2011, Martin became a coach in order to help other owners build profitable businesses that do not require their day-to-day involvement.

A native of Norman, Martin earned a B.A. degree from Hastings College in Hastings, Nebraska and a Masters in Business Administration degree from the University of Oklahoma. Over the past 7 years he has written business plans that have raised over \$52.4 million in bank and investor financing. He has helped 157 (and counting) business owners reduce stress and increase performance through clarity of purpose, better marriages, more money, and more free time away from the business.