

## HOW COME I MADE A PROFIT, BUT HAVE NO CASH?

This is a question that accountants often hear, particularly at tax time.

There are a number of areas that can affect the cash position of a business such as **Debtors, Margins and costings, Financing, Drawings and Capital Expenditure**.

A lot of businesses run credit for their customers, called debtors if they owe you money for products or services purchased. Often you have already paid the costs and wages associated with the goods or services themselves.

Under the accruals regime, all sales have to be declared in the tax year they are billed whether they have been paid for or not. You are then paying tax on the profit of the sale even though you may not have received the cash to pay the tax with

Often, businesses only focus on is the sale itself, with little regard for whether the sale is worth it if you do not receive the money, say on average, until two months or more down the track. The sale's not made until the money is in the bank. You've paid for the goods and the wages for your team and then, if you have an overdraft, the interest because you didn't receive the money earlier. How much profit have you really received on the sale?

It's critical to stay on top of your debtors. Not all of us are good at making the phone call, and in fact, the business owner is not the best person to make that call anyway. You may find that much better results are achieved using someone experienced in the art of debtor management. And if you're going through a growth phase, you definitely need to stay on top of this.

An area that can be neglected is product and service costings, so that over time, margin is eroded and as margin is eroded, so is the bottom line. While businesses need to stay competitive in their pricing, it is also better to increase prices a little and often. Also be wary of discounting – businesses do not often understand the cost of discounting and what it does to the bottom line.

Something else that's excluded from the bottom line are the principle repayments made on loans and mortgages as only the interest component goes through the profit and loss account. On most loans and mortgages, the bulk of the repayments at the beginning are interest, and over time, this switches so that the principle portion increases. This means that the cash available in your business will decrease in line with the principle repayments.

Drawings in particular is an area where cash can flow out of the business and the business owner not realising the impact this will have. Drawings do not go through the profit and loss account so won't have an impact on the bottom line. The big problem with drawings is that many business owners do not realise just how much they are taking out of the business, thereby draining it of the life blood needed for the business to operate.

And last but not least, there's your capital expenditure – fixed assets. Any fixed assets greater than \$500 have to be capitalised, which means that they will end up in the balance sheet and you'll be able to depreciate them – a non-cash expense.

So, if your business is making a profit and you don't know where the money is, these are some of the areas you can look to find what the money's gone.