

CASH FLOW VS PROFIT

Definition

Cash flow refers to the actual cash generated and spent by a business during a specific period, including cash from operations, investments, and financing activities.

Profit, also known as net income or earnings, is the amount of money a business earns after deducting all expenses from its total revenue over a certain period.

Timing

Focuses on the timing of cash movements, reflecting when cash is received and paid out.

Reflects the overall profitability of a business over a specific period, regardless of when cash transactions occur.

Measurement

Measured in terms of actual cash inflows and outflows.

Measured in terms of accounting principles, considering revenues earned and expenses incurred, regardless of cash movements.

Purpose

Helps assess a company's liquidity, ability to meet short-term obligations, and cash management practices.

Indicates the financial performance and profitability of a business, reflecting its ability to generate income.

Predictive Ability

Provides insights into a company's ability to sustain its operations and invest in growth opportunities in the short term.

Reflects the long-term sustainability and success of a business, impacting its valuation and investment attractiveness.

Non-Cash Items

Does not consider non-cash items such as depreciation and amortization.

Includes non-cash items, which may impact reported profitability but not actual cash position.

Use in Decision Making

Critical for short-term operational decisions, budgeting, and cash flow forecasting.

Important for assessing overall financial health, shareholder returns, and long-term strategic planning.

Investor Perspective

Investors may view positive cash flow as a sign of financial health and stability, indicating the ability to meet obligations.

Investors often focus on profit as a key measure of a company's success and potential for growth and return on investment.