SIGNALJOURNAL EXECUTIVE BRIEF

PROFIT Vs CASH FLOW

Why Cash Flow Determines Survival

EXECUTIVE QUESTION ***Is your reported profit backed by available cash — or is it sitting uncollected in receivables and inventory?***

CORE SIGNAL Businesses rarely fail because profit disappears. They fail because cash becomes unavailable to meet payroll, suppliers, and debt — often while the income statement still shows a profit.

DECISION GUIDE — READING PROFIT AGAINST CASH FLOW

Net Income	Operating Cash Flow	Survival Risk	Consider Next
Positive	Positive	**Low**	Continue standard monitoring
Positive	Negative	**High**	Investigate why cash isn't following profit
Negative	Negative	**Very High**	Escalate for immediate leadership review
Negative	Positive	**Moderate**	Monitor recovery trajectory

WARNING SIGNS TO CHECK

- ☐ Receivables growing faster than revenue
- ☐ Inventory expanding faster than sales
- ☐ Operating cash flow negative while net income is positive
- ☐ Cash conversion cycle (receivable + inventory − payable days) lengthening
- ☐ Growing reliance on external financing or credit to cover operations

EVIDENCE TO ASSEMBLE BEFORE THE NEXT REVIEW

- Trend of operating cash flow vs. net income over the last several periods
- Current cash conversion cycle and whether it is shortening or lengthening
- Growth rate of receivables and inventory relative to revenue growth
- Extent of dependence on external financing to fund day-to-day operations

FIRST STEP	ESCALATE WHEN
Compare operating cash flow against net income for the last three reporting periods and calculate the current cash conversion cycle.	Operating cash flow turns negative while net income remains positive, or both measures decline together.

Source: SignalJournal Research: Profit vs Cash Flow: Why Cash Flow Determines Survival

Read full article: signaljournal.com/profit-vs-cash-flow-why-cash-flow-determines-survival