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The Cash Gap

You can be profitable on paper and still run out of money. Businesses rarely fail for want of customers — they fail when the cash runs out at the wrong moment. Here is how to see it coming.

A Moor & Co commercial briefing
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IN SHORT

Profit and cash are not the same thing, and confusing the two is one of the most common ways a sound business gets into trouble. You can be profitable on paper, with a full order book, and still be unable to make this month's wages, because the money you have earned has not arrived yet, or is tied up in stock, tax and unpaid invoices. Businesses rarely fail for lack of customers. They fail because the cash runs out at the wrong moment. This briefing explains the gap between profit and cash, where your money actually goes, and the one habit that turns a cash crisis into a problem you saw coming.

1. Profit is an opinion. Cash is a fact.

Your profit and loss account records a sale the moment you raise the invoice, not the moment you are paid. It is built on judgement: when income is recognised, how costs are spread, what counts in which period. Two honest accountants can show two different profits for the same business. Profit is, in that sense, an opinion.

Cash is not. Cash is simply what is in the bank, and you pay your people, your suppliers and HMRC with cash, never with profit. That is why a business can show a healthy profit and an empty account in the same week, and when the two disagree, it is the account that decides whether the doors stay open.

2. Where the money actually goes

Even a genuinely profitable business ties its cash up in places the profit figure does not show. Knowing where is half the battle.

- **Unpaid invoices.** You have done the work and booked the profit, but the customer has not paid. That money is yours on paper and useless in practice until it lands.
- **Stock.** Every item on the shelf is cash you have already spent and not yet recovered. A full warehouse is not wealth; it is money sitting still.
- **Tax and VAT.** Some of the money in your account was never yours: it is VAT and tax owed to HMRC, due in lumps. Spend it by accident and the shortfall turns up at the worst possible time.
- **Equipment and one-offs.** A van, a fit-out, a big deposit. The cash leaves today; the benefit, and the profit, arrive slowly over years.

None of these is a mistake. Each is the normal cost of trading. But together they explain how an owner can look at a profitable set of accounts and a frightening bank balance and struggle to see how both can be true.

3. The cruelty of growth

Here is the part that catches good businesses out: growth eats cash. The faster you grow, the more cash you need up front, because you buy the stock, take on the people and fund the work long before the new customers pay you. A surge of orders feels like success, and it is, but every one of them has to be paid for before it pays you back.

This is how a business can grow itself into a crisis with a full order book and a healthy profit forecast, a situation old enough to have its own name: overtrading. It is one of the cruellest ways to fail, because every outward sign says you are winning right up until the moment the cash runs dry.

4. Why this ends businesses

This is not a theoretical risk. Almost 24,000 companies in England and Wales entered formal insolvency in 2025, close to the highest annual figure in thirty years, the equivalent of around one company in every 190. The headline pressures are real enough, but the proximate cause is very often the same: the cash ran out before the next payment came in.

Late payment alone is linked to an estimated 14,000 business closures a year, around 38 every day. At any one time roughly £26 billion is owed to UK firms in overdue invoices, about £17,000 for each affected business. A great many of those were not failing businesses at all. They were profitable ones, owed money they never collected in time.

Profit is what the business earns. Cash is what keeps it alive. You can survive a bad month of profit. You cannot survive a Friday with no money for wages.

5. The fix: see the low point before you hit it

The single most useful number a small business can have is not its profit. It is the lowest point its bank balance is going to reach in the next few weeks, and the date it gets there. That comes from a rolling cash forecast: a simple, forward look, usually thirty to ninety days out, of the money you genuinely expect in and the money you know is going out.

It does not need to be elaborate. It needs to be honest and kept up to date. With it, a cash squeeze stops being a Friday-afternoon emergency and becomes a decision you make calmly in advance: you chase the late payer this week rather than next, you hold off on the non-urgent purchase, you arrange finance while you still look strong to a lender rather than when you are desperate. The problem does not disappear, but you meet it on your terms.

6. The levers that protect cash

Once you can see the gap coming, a handful of ordinary habits keep it from opening.

- **Invoice the moment the work is done,** not at month-end. The clock on getting paid only starts when the invoice goes out.
- **Chase early, and use your rights.** You are legally entitled to interest and compensation on late commercial payments. Asking to be paid on time is not rude; it is running a business.
- **Take deposits and stage payments,** so you are not funding the whole job out of your own pocket before you see a penny.
- **Hold only the stock you need.** Cash on a shelf earns nothing and risks going out of date.
- **Set tax and VAT aside as you go,** so the bill is money you have parked, not money you have to find.
- **Keep a buffer.** A few weeks of running costs in reserve turns most shocks from a crisis into an inconvenience.

7. A practical response

- **Build a rolling cash forecast** for the next 90 days and find your lowest point.
- **Invoice faster and chase earlier;** make getting paid a process, not an afterthought.
- **Ask for deposits** on anything large or made to order.
- **Ring-fence tax and VAT** the moment the money comes in.
- **Build a buffer** of a few weeks' costs, and protect it.
- **Check the forecast weekly.** It is the one number that tells you whether next month is safe.

Profit tells you whether the business model works. Cash tells you whether the business survives long enough to prove it. Both matter, but only one of them pays the wages on Friday.

ABOUT MOOR & CO & 3DMAI

Profit keeps the score. Cash keeps the doors open. We help you watch the right one.

Moor & Co is a commercial advisory for small business owners, built by someone who has run, scaled and exited real businesses, and knows the difference between a good profit and a safe bank balance. We help firms across North Staffordshire and South Cheshire get a proper grip on cash, so a tight month is something you plan for, not something that ambushes you.

The numbers behind it run on **3DMAI**, our commercial intelligence platform for UK SMEs. Its 30-day cashflow tool shows you the low point ahead before you reach it, on your own numbers and in plain English, for £19.99 a month. The free tools need no sign-up. If you would rather talk it through first, the discovery call is free and there is no commitment.

Book a free discovery call →
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SOURCES

1. The Insolvency Service (GOV.UK), *Company Insolvency Statistics*, 2025 (published January 2026) — 23,938 registered company insolvencies in England and Wales in 2025, close to the thirty-year high, a rate of around one company in 190.
2. Department for Business and Trade and the Office of the Small Business Commissioner (research by London Economics), *Late Payments Research* (July 2025) — late payment linked to roughly 14,000 closures a year, around £26bn owed at any one time, about £17,000 per affected business.

The distinction between profit and cash described here is standard accounting; the figures are drawn from the sources named and were current at the time of writing. General guidance only — not financial or legal advice.