

FREE GUIDE

THE 7 CASHFLOW TRAPS

Killing Australian small businesses —
and how to avoid every one of them.

WHAT'S INSIDE

- 7 cashflow traps destroying profitable businesses
- Profit vs cashflow — what the difference actually means
- The 5 metrics every business owner should track
- 3-step action plan to fix your cashflow this month

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Why Profitable Businesses Run Out of Cash

Here's something most business owners find shocking: **you can be profitable on paper and still run out of money.**

Your accountant shows you a healthy profit. Your P&L looks fine. But your bank account tells a very different story — and you're scrambling to cover payroll, the ATO, or your next supplier invoice.

Cashflow — not profitability — is the number one reason Australian small businesses fail. The ATO, late-paying clients, unexpected expenses, and fast growth can all drain your cash even when business is technically going well.

In this guide, I've outlined the 7 most common cashflow traps I see in small business — the same ones I encounter regularly as a Chartered Accountant working with business owners across regional NSW.

Profit vs Cashflow: The Key Difference

Shows income earned	Shows cash actually received
Shows expenses incurred	Shows cash actually paid
Includes non-cash items (depreciation)	Excludes non-cash items
Doesn't show loan repayments	Includes all bank movements
Looks backwards	Can be forecast forward
Doesn't tell you if you can pay your bills	Tells you exactly what's in the bank

Trap 1: Mixing GST and PAYG with Operating Cash

What happens: The biggest trap I see. GST collected and PAYG withheld **are not your money** — they belong to the ATO. But they sit in your bank account, and it's tempting to spend them when things are tight.

The fix: Open a dedicated tax holding account. Transfer GST and PAYG the moment you collect or withhold it. Treat it as untouchable. This single habit prevents the most common cashflow crisis I see in small business.

ATO payment plans are available if you fall behind — but the interest and penalties add up fast. Prevention is always cheaper.

Trap 2: Confusing Profit with Cash

What happens: You invoice \$20,000 in March. Your P&L shows a profit. But if your client doesn't pay until May, you don't have that \$20,000 in March. Meanwhile, your expenses still need to be paid.

The fix: Track cashflow — not just profit. Know when money actually lands in your account. A 13-week cashflow forecast gives you this visibility.

Trap 3: Letting Debtors Run Slow

What happens: 1 in 6 Australian SMEs lose over \$2,500 per month to late payments. Most of this is recoverable — it just requires a consistent, systematic follow-up process.

The fix: Calculate your Debtor Days: **(Accounts Receivable ÷ Annual Revenue) × 365**. Aim for under 30 days. Implement a 3-step follow-up: reminder at due date, call at 7 days, formal notice at 14 days.

Trap 4: Growing Without a Cashflow Plan

What happens: Growth consumes cash before it generates profit. A big new contract might require wages, materials, and equipment — all paid before your client pays you. Many businesses have grown themselves into a cashflow crisis.

The fix: Before taking on a significant new contract, model the cashflow impact. When does cash go out? When does it come in? Negotiate better payment terms before signing.

Trap 5: Ignoring Loan Repayments in Cashflow Planning

What happens: Principal repayments don't appear on your P&L — they're a balance sheet movement. But they absolutely drain your bank account. Many business owners only think about interest when planning.

The fix: Include all loan principal repayments as fixed outflows in your cashflow forecast. They're as real as any expense — they just don't show up where you might expect them.

Trap 6: No Cash Reserve

What happens: Businesses with 3-6 months of operating reserves fared significantly better during economic downturns. Most small businesses operate with almost no buffer — meaning one bad month can tip them into crisis.

The fix: Build a cash reserve. Start small — even 4 weeks of operating expenses changes how the business feels to run. Automate a weekly transfer into a dedicated reserve account.

Trap 7: Not Being Ready for Payday Super (from 1 July 2026)

What happens: From 1 July 2026, super contributions must be paid every pay cycle — not quarterly. This is the biggest change to super compliance in years. Businesses paying quarterly need to significantly adjust their cashflow timing.

The fix: Check your payroll system supports per-pay-run super before July 2026. Update your cashflow model to reflect more frequent super outflows.

This is coming regardless — build it into your planning now.

The 5 Metrics to Watch Instead of Just Your P&L

1. Debtor Days	$(\text{Accounts Receivable} \div \text{Annual Revenue}) \times 365$	Tells you how long clients take to pay. Aim for under 30 days. Over 45 days is a problem.
2. Cash Conversion Cycle	$\text{Debtor Days} + \text{Inventory Days} - \text{Creditor Days}$	How long it takes to turn a sale into cash in the bank. Shorter is better.
3. Operating Cashflow Ratio	$\text{Operating Cash Flow} \div \text{Current Liabilities}$	Can you cover your short-term debts with operating cashflow? Above 1.0 is healthy.
4. Cash Runway	$\text{Cash on Hand} \div \text{Monthly Cash Burn}$	How many months can you operate without new revenue? Aim for 3+ months.
5. Tax Liability Ratio	$\text{GST} + \text{PAYG Owing} \div \text{Monthly Revenue}$	Tracks whether your tax holding account is keeping pace with what you owe the ATO.

Your 3-Step Cashflow Action Plan

Step 1 — This Week

- Open a dedicated tax holding account if you don't have one. Transfer any outstanding GST and PAYG immediately.
- Calculate your Debtor Days. If it's over 45 days, that's your priority.
- Fill in Week 1 of your 13-week cashflow tracker — even rough numbers reveal problems early.

Step 2 — This Month

- Set up automated follow-up reminders for overdue invoices: due date, +7 days, +14 days.
- Review your loan statements and add all principal repayments to your cashflow tracker as fixed outflows.
- Block 30 minutes monthly to review actual cash movements vs your forecast.

Step 3 — This Quarter

- Build toward a 4-week cash reserve. Set up an automated weekly transfer into a dedicated reserve account.
- Confirm your payroll system is ready for Payday Super from 1 July 2026.
- Model the cashflow impact of any significant new contracts before signing them.

Ready to get your cashflow under control?

Book a complimentary 20-minute cashflow review with Carissa at CVG Accountants & Business Advisory. We work with business owners across Singleton and the Hunter Valley to build cashflow visibility, reduce tax surprises, and plan for sustainable growth.

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