

# Are You Mistaking Revenue for Profit?

By Angeline M. Huffman, MBA

Do you ever ask yourself, “I made all this money in my business last year, but where did it go? Why don’t I have any left over for me?” The answer to these troublesome questions requires that you recognize the **difference between revenue and profit**.



## Make the Paradigm Shift from Employee to Business Owner

The questions above are some of the most common I hear from small business owners. The answer lies in how the word “made” is defined. Most often the owner thinks of the *revenue* she brought into the business as what she has “made”—that is, her *profit*. This is most often the case with newer business owners who have spent most of their working lives as employees earning a regular paycheck. They equate money “made” with “take-home-pay.” It then seems reasonable to equate revenues with profit. A problem with this thinking is that the owner has not yet **deducted her expenses** from what she has “made” to arrive at an accurate profit figure.

**Start Thinking Like a Business Owner:  
Revenue ≠ Profit**

## “Revenue” Defined

Encarta Dictionary defines business “revenue” as money that comes into a business from the sale of goods or services. Revenue is the money you receive when you sell something. Examples of revenue include:

- Sales of your products to customers
- Payments from offering a service, like consulting
- Commissions from selling others’ products.

## “Profit” Defined

The money that’s left over from the revenues you received **after** paying for all your business expenses is your profit. Another term for profit is “**net income**.” The key formula is: Revenue *minus* expenses *equals* profit, or net income. Your **profit** is the money you have made in the business, not your revenues.

## Dawn and Her Baskets

Demand for Dawn’s baskets seemed to be growing by leaps and bounds. She was certainly working harder to keep up and the cash was definitely pouring in. However, there was never anything left in the business checking account for Dawn. She asked, “How could I be **making** all this money and not have anything left for me?” Dawn confused revenue with profit.

Dawn and I took the following **steps** to determine what she really *made* in the business:

1. We **added** together all the money she received from the sale of her baskets.
2. From that total we **subtracted**:
  - a. Her cost for the baskets,
  - b. Her cost for the items that went into the baskets, and

- c. Her cost for the wrapping supplies used on the baskets.
- 3. We also **subtracted**:
  - a. Her cost for shipping or delivering her baskets,
  - b. The cost of her business cards and brochures, and
  - c. Her cost for participating in trade shows to market her business.

Dawn now knows her actual profit—what she’s really made. Knowing this allows Dawn to make smarter business decisions, thus increasing her chances of creating a profit for her personal enjoyment.

### **Start Thinking Like a Business Owner**

I encourage you to use this formula: Revenue *minus* expenses *equals* profit. If you are not an accountant, or especially if you don’t like math, invest in professional accounting services. You went into business to do what you love. The **smart business owner** pays others to do what they don’t know how or don’t like to do.

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**Angeline (Angie) Huffman, Huffman Financial Solutions,** is a *holistic* accountant and business coach, helping business owners ensure their *cash flows* towards reaching their business **and** life goals while discovering financial freedom. Visit [www.huffmanfs.com](http://www.huffmanfs.com) to receive your **FREE** financial coaching session.