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Nature of Profit - Profit is necessary a residual sum. Land, Labour and Capital are frequently used under contracts whereby they receive a predetermined return. Net profit is a sum over and above the ordinary costs of business including such contractual outlays.

Nobody contracts to pay the entrepreneur the residual sum which constitutes net profit. Business profits are, therefore, specially, contingent upon successful management of risk.

Business is faced with a number of uncertainties.

- (i) technical uncertainties - these relating to the physical process of production.
- (ii) cost uncertainties either due to change in the prices of raw material, wages, rent etc, or due to technology changes.
- (iii) demand uncertainties either due to changes in consumer preferences or due to innovations.
- (iv) Market uncertainties - these relating to future price of the product and volume of sales.

## Measurement of Profit

In the accounting sense, Profit is regarded as the revenue realised during the period ~~in~~ minus the cost and expenses incurred in producing the revenue. This concept of profit is also known as the residual concept.

The economist, however does not agree with the accountants approach to profit. The accountant would only deduct the explicit or actual costs from the revenues to determine profit. The economist points out that in addition to the deduction of explicit determining profit.

The economist points out that in addition to the deduction of explicit ~~determine profit~~ of explicit cost, Imputed costs. eg. the cost that would have been incurred in the absences of the employment of self-owned factors. should also be deducted.



## Profit Policies.

It is generally accepted that a business firm aims at making profits <sup>moreover</sup> moreover, the volume of profit made by it is regarded as a primary measure of its success.

1. Attainment of Industry leadership.
2. Forestalling potential competition.
3. Preventing Government's Intervention.
4. maintaining consumer goodwill.
5. Restraining Demand for wages increases.
6. Accent on Liquidity of the firm.
7. Avoiding Risk.
8. changes in Business structure.

## 9. Other Objections

1. Inequality of Income and wealth.
2. It is vague and non operational.
3. It ignores timing of returns.
4. It ignores risk.
5. conflict between short run and long run profits.

## Profit Planning and forecasting

The signs of a healthy business include making a profit consistent with the various risks that it has to face. A firm is faced with a number of uncertainties. These uncertainties are created by the dynamic nature of consumer needs, the diverse nature of competition.

The uncontrollable nature of most elements of cost and the continuous technological developments

so far as demand is concerned save for the basic needs essential for survival consumer preferences are highly subjective and therefore, most unpredictable. The uncertainty about the pattern and quantum of consumer demand for a particular product increases the degree of risk faced by the firm.

## Unit 5 V

### Macroeconomics.

#### 1. Meaning and scope of macroeconomics

The word macro is derived from the Greek word makros meaning large. macroeconomics deals with aggregate economics. macroeconomics is defined as the study of overall economics. Phenomena, such as problem of full employment, GNP, savings, investment, aggregate consumption, aggregate investment, economics growth etc.

#### 2. Importance of macroeconomics

- (a) It gives an overall view of the growing complexities of an economic system.
- (b) It provides powerful tools to explain the working of the complex economic systems.
- (c) It provides the basic and logical framework ~~of~~ for formulating appropriate macroeconomic policies. [eg. Inflation, Poverty, unemployment]
- (d) It helps in analysing the reason for economic fluctuations and provide remedies.



## Business cycle.

Meaning - The business cycle or trade cycle, as it is called in England, is an important feature of the working of the capitalist economy. The business cycle refers to fluctuations in economic activity that occurs more or less in regular time sequence in all capitalist societies.

The business cycle is nothing but upwards and downward of economic activity going one after another in a cyclical way.

### Features of Business cycle:

1. It occurs periodically
2. It is all embracing
3. It is wave-like
4. The process is cumulative and self-reinforcing
5. The cycles will be similar but not identical

## Economic Forecasting

Meaning - Economic forecasting consists of making forecasts of general business or economic activity such as movements of national income, aggregate industrial production of employment, and total exports or imports.

Economic forecasting may be distinguished from business forecasting which relates more directly to the activity of the particular firm and comprises short- and long-term forecasts of sales and price forecasts for materials and equipment.

## Uses of Economic Forecasting

1. Labour
2. Raw materials
3. Finance
4. Inventory and Investment.
5. Plant Expansion or construction plans.

## Methods of Economic Forecasting

1. Trend Projection.

2. Leading Indices

Certain important leading indices are:

1. new orders for durable goods.

2. residential building contracts.

3. commercial and industrial building contracts.

4. number of new incorporations, and

5. wholesale prices of basic commodities.

3. Diffusion Index

4. Econometric models.

### Input-output Analysis:-

Input-output analysis may be described as a mathematical study of production structure of an economy, taking into account the inter-dependence of the various production sectors constituting the economy. Input-output analysis purports to predict the total production for a sector.



## National Income - Meaning

National income means the total income of the people of the nation in a year. The net aggregate performance of the economy in a year. In simple words, it is the aggregate money value of all goods and services produced in a country during a year.

## Gross National Product - GNP.

Gross National Product is the basic social accounting measure of total output of goods and services produced in a year of a nation. It is defined as "the total market value of all final goods and services produced in a year." The term "Final" refers to finished goods ready for consumption for households and firms. i.e. all sales to household, firms and government - are treated as final products.

$$\text{GNP} = \text{GDP} + \text{NFIA}$$

GDP = Gross Domestic Product.

NFIA = Net Factor Income from Abroad.

GDP = GDP at market prices is inclusive of the indirect taxes levied by the government on producers in the economy.

Net National Income NNP

This is another very important concept of national income analysis and it refers to the net production of goods and services in a country during the year.

In calculating NNP, we have to deduct depreciation from GNP, NNP means the market values of all final goods and services after providing for depreciation. It is called National Income at market, NNP is a better concept than GNP, because it makes proper allowance for depreciation, NNP is useful for the study of economics of growth.

NNP or NI at market price =

$$GNP - \text{Depreciation}$$