# $\underline{CHAPTER-V}$

# Profit and its distribution

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### Introduction

Profit is a very important aspect of business. Therefore, the question is : What is profit ? Law has not defined the word profit. Even the account are not unanimous on this matter. The word profit is variously defined. It is said "Generally speaking, the profit of business during a given period is, the excess of income over expenditure for the period." The efficiency of a business is measured by the amount of profit earned. The greater the profit the more efficient is the business considered to be. The business should earn profit to survive and growth over a long period of time.

There are three measurable concepts of profit.

- 1) Accounting Profit
- 2) Economic Profit
- 3) Social Profit

Business is conducted primarily to earn profit. The terms 'Profit', 'Income' and 'Earning' are similar and they are used interchangeable. Gross profit, operating profit and net profit are the types of Accounting profit.

The difference between accounting profit and economic profit can also be presented diagrammatically as follow.

Total Revenue	Accounting profit	Total Revenue	Economic profit
			Implicit costs
	Explicit cost		Explicit costs

: Accounting Profit

: Economic Profit

Thus the basic difference between accounting profit and economic profit is due to implicit costs-

The implicit costs include remuneration to the owner, interest on owners, capital and rent for owners land and building etc.

While explicit costs include payment to the factors of production viz, manufacturing, administration and general, selling and distribution expenses, depreciation, interest on borrowed capital or loans and provisions etc.

#### **Distribution of Profit**

This applies only to divisible profits, that is to profit remaining after all charges against the current income have been taken into Account. The directors may decide to retain a certain amount to strengthen the firms finance. The amount retained may take the form of transfer to various reserves or just a balance left.

### **Different forms of Appropriation**.

#### 1) Transfer to General Reserve

A portion of profit in a particular year may be transferred to a reserve designed to meet any unforeseen contingency in future such as trading losses or financial stringency or for expansion of business, such reserve are General reserve and 'Contingency Reserve' practically mean the same thing.

#### 2) Transfer to Specific Reserve

Specific reserves, as the term signifies, are meant for certain specific purposes. An example of specific reserves is Dividend Equalisation Reserve the purpose of which is to see that dividends Paid by the company in future are as far as possible uniform.



### 3) Transfer to Revenue Reserve

If a company decides that part of the profits shall not be available for dividend, the profit will be called capital reserve, capital reserves are built out of capital profits as against ordinary trading or revenue profits.

#### 4) Dividends

It is the general meeting of the shareholders that declares a dividend but the rate of dividend can not exceed the one recommended by the directors. However, an interim dividend the rate applies to the paid-up capital.

#### **Analysis of Profit**

The Principal motivating force behind conducting business is profit perhaps the most important reason for keeping accounts, as far as the management of a business is concerned, is that the information contained in them provides the means of measuring the progress of the business of testing its pulse and indicating when and where remedial action if necessary, shall be taken.

In the Co-operation achieving profit is not main objective. Main objective of Co-operation is the provide services to members.

#### **Analysis of Profit**

Year	Amount	Increase/	%
		Decrease	
1999-2000	38.110		60 169-
2000-2001	54.328	16.218	42.55%
2001-2002	43.321	11.007	20.26%
2003-2004	4.624	- 38.697	89.32%
	Loss	\$	
2002-2003	56.673		***

#### Interpretation

In the year 1999-2000 was a base year absolute figures showed in the table. In the year 2000-2001 amount of profit was Rs. 54.328, it was increased Rs. 16.218 percentage was 42.55%, In the year 2001-2001 the amount of profit was Rs. 43.321 it was increased Rs. 11.007 and percentage was 20.26%. In the year 2002-2003, it was loss and amount of loss Rs. 56,673. In the year 2003-2004 the amount of profit Rs. 4.624 it was decreed and percentage was Rs. 89.32 %.

Analysis of overall profit in the year 2000-2001 it was highest amount of profit I.e. Rs. 54.328. In the year 2003-2004 the lowest amount of profit Rs. 4.624. In the year 2002-2003 loss occurred, amount of loss Rs. 56,673. In all analysis years only one year loss occurred, otherwise all year got profit.



The above pie-chart present the position of profit / loss. Year wise analysis of profit showed.

## **Conclusion** :

Analysis of five year profit, no Dividend were to be paid from the profits of a members of Pathsanstha, but the profits were to be carried on at the end of the year to the Balance Sheet of liabilities side. In the year 2002-2003 Patsantha suffered loss. **Progressive Chart of Patsanstha** 

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Particulars	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Investment	117.332	225.439	629.193	850.455	10.55.051
Deposit	606.897	1237.979	1600.728	2094.163	2122.227
Loan	612.141	1078.031	1405.184	1648.867	1947.521
Available Capital	376.015	521.146	703.623	995.36	1238.661

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Source - Annual Report

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# **Progressive Chart**



The above graph present the position of Investment, Deposit, Loan and Available Capital.