UNIT - 5 PROFIT.

Profit is the income received by an organiser. It is the reward for the services of an organiser.

Gross Profit :-

Gross profit is the profit of an organiser. Gross profit refers to the whole of the income earned by organiser. It includes reward for the factors of production supplied by the organiser.

Net profit :-

Net profit is the profit left to the organiser. After deducting the depriciation charges, reward for even factor of production.

Risk Theory of profit :-

Risk theory of profit has been profounded by the American economist F.B. ~~Hawley~~ Hawley. Acc. to this theory profit arises on account of the risk undertaken by the organisers. Every business includes different types of risk. Profit is the price paid for the risk undertaken in business. a producer produce goods without knowing as to whether he can sale all the goods in the market. If all goods are not sold, under such circumstances ~~are~~ she will face a big problem in form of risk.

Criticism :-

Profit may be arise when a risk reduce in the business. Therefore the risk theory of profit has been chritisised on many

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grounds.

Unsertainity theory of profit.

It has been developed by American prof. F.H.R. knight. According to this theory, "Profit is a reward for uncertainity bearing in business. The main function of the organiser is to bear uncertainities.

Prof. F.H. knight classified risk into 2 chategories.

a) Insurable risk :-

Insurable risk are those which can be measured and insured against.

Ex:- Fire, accident, death, defth.

In this case manager can transfer his risk to insurance companies.

b) Non insurable risk :-

Non insurable risk cannot be measure & insured against.

ex:- lack of demand, sharp fall in price, changes in govt policies, changes in consumers demand. etc.

In this case organiser can not transfer his risk to the insurance companies. Non insurable risk is treated as uncertainity.

Prof. knight argued that there is direct relationship between ~~unc~~ uncertainity and profits.

Break Even Analysis

Break even analysis is very important in determining the profitable application of cost functions. Every business firm aims at maximising its profits. It has to minimise the cost of production and maximise the revenue from the sales from the production. The firm is interested in finding out not the minimisation of cost or optimisation of output that happens with the lowest average cost.

Upto certain stage total cost may exceed its total revenue which happens in beginning after that level of output the firm total revenue may go on increasing more than its total cost.

Meaning :-

Break even point [BEP] is the point where there is no profit and loss. It can be measured from the following formula.

$$BEP = \frac{\text{Total Fixed Cost}}{\text{Selling price} - \text{Average variable cost}}$$

Problem :-

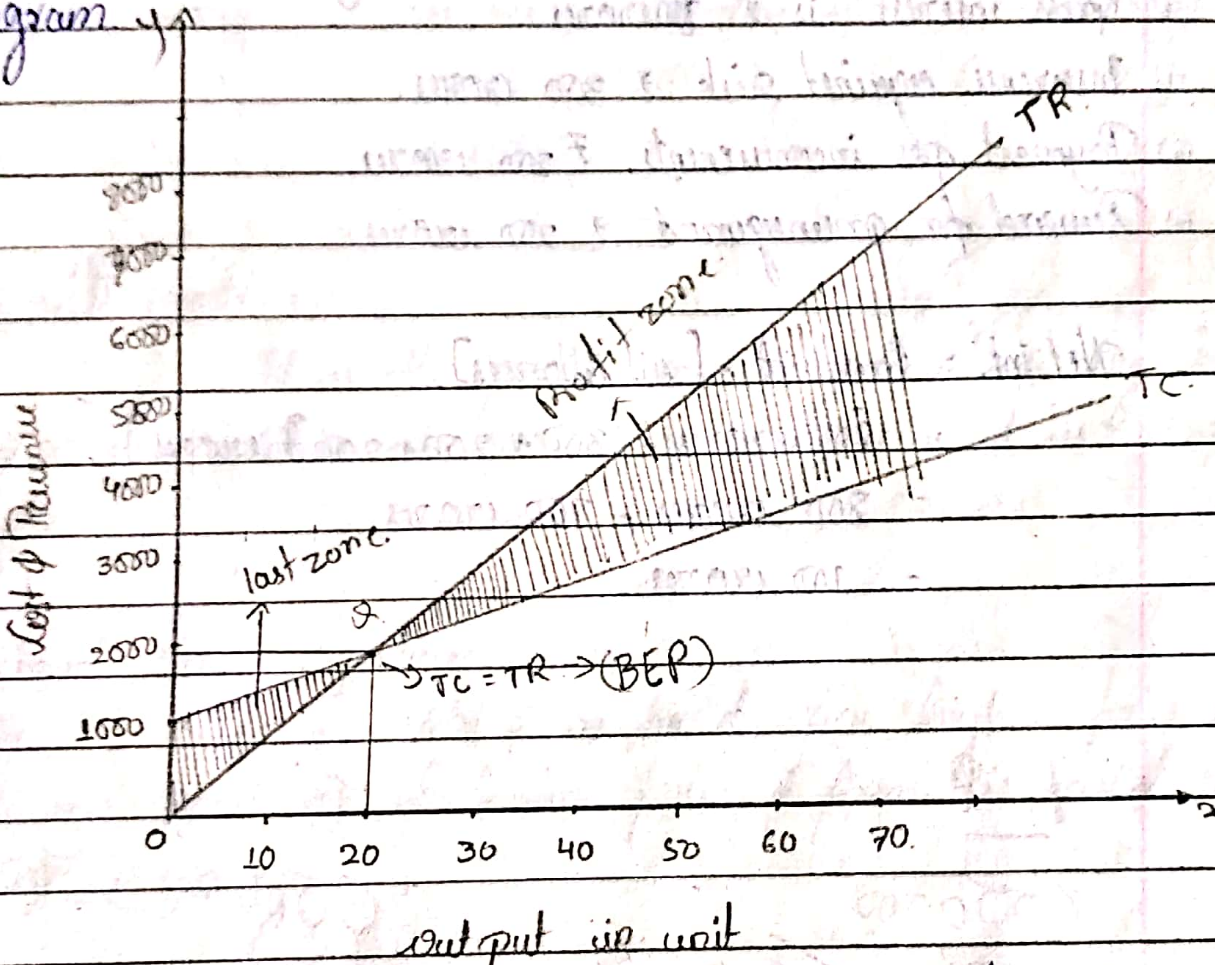
Suppose the Total Fixed cost of a firm is ₹ 10,000 per. The variable cost P.unit is ₹ 6 (AVC). And the selling price is ₹ 10 P.U. The break even point would be.

$$BEP = \frac{TFC}{\text{Selling price} - AVC}$$

$$= \frac{10{,}000}{10 - 6} = \frac{10000}{4} = 2500$$

From the following diagram

Break Even Point is can be explained with help of following diagram



In the above diagram the firm reaches @ the Q point a firm reaches as BEP. BEP indicates that a level where there is no profit and & no loss.