

2.3 An exercise on the accounting model of a business

Some less obvious cases. For each of the following firms or industries, identify the major inputs and outputs, and outline the process involved.

NOTE these questions are posed in order to generate a critical familiarity with the accounting model. Answers may vary from the suggestions given here without being incorrect. The object is to practise thinking about a business in a particular way, and especially to reinforce the idea that an input is what the business must pay for, and an output is what the business gets paid for.

1. a water company

input(s): reservoirs, pipes, labour

output(s): water

process: collection, purification and distribution

2. a timber-logging company

input(s): labour, use of tools

output(s): timber

process: cutting down and selling

3. a fishing company

input(s): boats, labour

output(s): fish

process: catching and selling fish

Notice the paradox that (in accounting terms) water is not an input to the water company, trees need not be an input to a logging company, and fish are not an input to a fishing company, because the company does not have to pay for them. The same is true in many industries involving the capture or appropriation of natural resources, although the state may intervene and allow such activities only under license – in which case, if the license must be paid for, permission to collect water/chop down trees/catch fish may well become an input to the relevant firm.

4. a scientific research company

input(s): labour

output(s): knowledge

process: organization and selling

5. a coal mining company

input(s): labour, machinery

output(s): coal

process: mining

6. an arable farmer

input(s): use of land, labour, seeds

output(s): crops

process: growing and harvesting crops

7. a cattle farmer

input(s): use of land, labour, animal feed

output(s): cattle

process: raising cattle

8. a television station

input(s): use of equipment and energy, bought-in programmes

output(s): advertising opportunities, permission to view

process: organization and selling

9. an insurance company

input(s): labour, claims (these are what an insurance company must pay for)

output(s): promises to pay claims

process: organization and selling

10. a bank

input(s): labour, permission to use depositors' money

output(s): permission to use bank's money

process: conversion of small deposits into larger loans

11. an estate agency

input(s): labour, advertising

output(s): advice, service to vendors

process: organization and marketing

12. a betting shop

input(s): winning tickets

output(s): tickets with a chance of winning

process: waiting for events

Notice that in a betting shop the normal business processes are inverted, both in time and in terms of prices paid: first the business take bets (it sells the chance to win) then it buys back any winning tickets at a higher price than the price at which it sold them.