

8.3 Exercises on the nature of inputs and outputs in accounting

1.

A firm operates a factory which creates smoke, noise and pollution.

a) Are these inputs or outputs, or neither?

Response

In everyday language, smoke, noise and pollution must be classified as outputs of the firm in question.

However, in accounting an output is a reason or explanation for any movement of money or promises IN to the firm. Thus, in accounting, smoke, noise and pollution cannot be classified as outputs unless the firm is somehow able to sell them, or receive payments for creating them.

b) Under what circumstances might the pollution generated by a firm become one of the firm's inputs?

Response

In accounting an input is a reason or explanation for why money or promises go OUT of the firm. The creation of smoke, noise and pollution could be classified as an input if the firm were made to pay for permission to create and emit them.

2.

‘Water is not an input to the water industry, and fish are not an input to the fishing industry.’ Comment.

Response

The apparent paradox arises from the different meaning of ‘input’ in everyday language and in accounting. In everyday language an input is anything that goes in to a process, and in this sense water must be an input in the water industry and fish must be an input in the fishing industry.

In accounting, an input is a reason or explanation for why money or promises go OUT of the firm. Ordinarily, however, under current social and legal arrangements, water and fish are simply taken from the environment. The water industry does not pay for the water it uses, and the fishing industry does not pay for the fish it catches. Thus in accounting, water cannot be classified as an input to the water industry, and fish cannot be counted as input to the fishing industry.