

2.4 An exercise on the nature of profit in the accounting model

Define profit in terms of the double entry model of a business, and explain why the calculation of profit should be such a difficult problem for accountants.

Response

The double entry model of a business does not really attempt to *define* profit. However, in terms of the double entry model of a business:

1. profit can be described as the result of a process:

PROFIT = value of OUTPUTS CREATED minus value of INPUTS CONSUMED

Or alternatively:

2. the substance of profit can be described as:

**PROFIT = an increase in the overall value
of money, promises and unconsumed inputs inside the business**

The calculation of profit is difficult for accountants because accountants record transactions between the business and the outside world, while profit depends on the processes of consumption and creation of value. These processes take place inside the business. They are not transactions between the business and the outside world, and are not therefore the primary focus of attention for accountants.