

Profit Determination

Without even reading a little of the books by Jacobs 1991, 1993, 1996 and 1998, professors and journalists (it's all documented completely), they label *The Profit Formula*[®] i.e. *The Way to Easy Profit Measurement*, in a dismissive manner as "just a simple calculation rule" (very correct, but pay attention to it; 'just' is not bad, but just good), "does not fit within the philosophy and quality criteria of the MAB", "offers a far from adequate basis" for something "academic" is said by prof. dr. A. Oosenbrug RA, AAG who clearly showed that he did not know the difference between calibration and measurement. Journalists were repeatedly in contact and looked at it and gave it still the benefit of their doubt onto the authority, for example in more than one case, of Erasmus University Rotterdam. The department of 'Cost and Profit Determination' of this university acknowledges that *The Profit Formula*[®] is value-free and as such "sterile" and "offers a solution to calculation aspect of the determination of profit." But there was no need for its defense at the *fma* congress, it was said, "because for that calculation aspect no (economic) problem exists." Seeing, yes or no, they in Rotterdam are completely blind. Erasmus would be turning himself in his grave. From the State University of Groningen where they say they are working on the frontiers of knowledge prof. dr. D.W. Feenstra RA wrote: "I note your thought, that the ultimate profit determination system consists, it is totally off." The reason for this note, arguments, nothing to see. Managing Editor of Harvard Business Review, told me: "The subject of calculating profits is an important one, as is your treatment. However, the editors thought that your article is better targeted to readers who are just beginning to consider this subject than to the senior-level managers who are HBR's primary audience."

As if simple is not good.

I think I've tried everything. Everyone informed. I cannot be blamed for putting my light under a bushel. They just wouldn't listen, couldn't see it, or just didn't have the time. Or no place, for example: "the scientific committee could not find room in the program of the 21st Annual Congress of the European Accounting Association" for my paper about profit calculation. Everyone is apparently fixated to old paradigms.

It's a piece of cake; writing down the assignments takes more time, space and effort than the elaboration.

Until the late sixties of the twentieth century, the best economists worldwide sought frantically to any appropriate profit determination system and at the time was also with them in mind, the syntax, the highest attainable matter in science, but the solution of the profit determination question was not found. After that, it became silent, the unravelling of the economic science since then gave many writings and much talk but virtually no results. Tweedie / Whittington concluded: 'they (economists / accountants) are unable or unwilling to deal with the problem of inflation accounting'.

The Profit Formula[®] goes beyond the limit and the orthodoxy of the recognized economy. This formula is forcing economists on the borders of their mind to look beyond existing scientific models and set the principles under discussion. *The Profit Formula*[®] shows how simple something complicated really is. Integration of nominalism (NVD) and substantialism (SVD), general purchasing power enforcement and including pure calculation of the burden of taxation. This all is included into the comparison. No amendments, no ifs and buts, the formula is elementary and coherent as a comparison should be. According to prof. dr. A.M.M.

Blommaert, to determine the profits is like learning horses to play a violin. The same prof. Blommaert has written in his thesis about profit change and profit potential (in the context of so-called 3D accounting), while he does not know profit as such. Change, potential, or whatever, of something that, according to Blommaert, cannot be determined and, according to him, does not even exist.

The truth is a key thing. Sorting out the annual accounts has been made a complete mess. In the current financial reporting the accounting aspect wins over from the economic approach. Science is hard to find. In many places there are leaks in the different overviews that should remain coherent. Opening and closing balance sheet, profit and loss account for the interim period and the SSUF statement; it just has to be right. Not a U.S.-dollar, not a dime and not a cent can disappear unnoticed or just come from somewhere. Some economists really see this and then reject the derailed balance sheet and profit and loss account and want to move to completely new forms of accounting. They throw the baby away with the bath water and shout "accounting is dead."

Profit determination, better said profit measurement, to measure starts with calibration. Without calibration, no measurement. *The Profit Formula*[®] in its simplicity includes everything, interest charges and repayments as well as currency conversions are easy to settle correctly. A debt is to be regarded as a negative property, an asset with a negative value. Interest paid and repayments are counted in CASH and NVD of this asset is easy to be determined. Interest rate changes as well as changes in the quotations of currencies cause changes in capital. The exact conversion of foreign currencies can be done also in a very easy way. Income and expenses expressed in foreign currencies should be translated at exchange rates valid on the dates they occur. Next these amounts are to be added to or subtracted from CASH. If settlement of transactions in foreign currencies has not taken place yet, then one faces assets and liabilities in transit at the balance sheet date, for which the related NVD must be calculated. Of course assets and liabilities expressed in foreign currencies must be translated into the stated currency at exchange rates valid at the balance sheet date. Currency differences are easy to calculate. Simplicity is the hallmark of the truth.

Colleges and universities worldwide, they walk still the traditional road that the costs are set opposite of the sale receipts by which commodities are treated different than sustainable means of production. Depreciations are value differences and a sustainable means of production is nothing else than a decreasing stock of working-units. It's not about the machine or whatever it is, but about its value, the value (decrease) of diminishing working-units. "The value of a stock of anything, working-units as well as goods (Jacobs, 1991, p. 41)." And besides goods also monetary assets, intangible assets as well as those liabilities that can be regarded as negative assets (assets with a negative value).

Aristotle thought that heat would be a primary quality, a basic building block. In addition to heat – up to two centuries ago – light, electricity and magnetism were also seen as separate, divergent phenomena. At that time, no deeper connection was seen between these phenomena. In 1800, Volta constructed the galvanic cell with which a chemical action was converted into an electric one, accompanied by heat and light phenomena. Different manifestations of something that is the same. It took until 1840 before the German physician Julius Robert Mayer and the British brewer James Prescott Joule formulated – what we now know as – the law of preservation of energy. Analogous to the law of preservation of energy in physics, a law of preservation of value can be formulated in business economics.

"Central is this PRESERVATION OF VALUE (Jacobs, 1991, p. 18)."

Land, buildings, and equipment, inventories, goods, cash, etc. are different forms of value. A unit monetary asset, a unit of goods and also a working-unit of a sustainable means of production can be written as, respectively, unit A, unit B and unit C. Each asset has a name and a value (interval) at any balance moment. Economists are doing the wrong thing. The various assets are generally valued and maintained in the same way – this is called 'stable' – but not treated in the same way; tangible fixed assets are depreciated – do not ask how – while other assets are treated differently. Everyone does it. Nobody thinks it is strange that unit A is arithmetically treated differently from unit B when it is just a different name, a different line on the balance sheet. But, however, that housing, that car, and that piece of furniture (for the KLM: the buildings, the fleet of aircraft and inventory) in a rigid manner to be valued and maintain. That is also well established. Nobody is surprised. For KLM, such a Boeing 737 can really be financed NORMALLY differently (that's just one of the standards) than that inventory. The matter is topsy-turvy. For arithmetic discriminatory treatment of assets A, B and C consists there is logically no reason but a good reason to say 'different standards for different assets' an old saying among economists taken to paraphrase.

The quality of the output (the PROFIT FIGURE; the result) is strongly dependent on the quality of the input (STANDARDS and VALUES, the input data). A good measuring instrument does not add or subtract from this. Is completely neutral. Obviously bad standards and values cannot brew good profit figures. In essence, it is not about those standards and values, they are just data. Basically it is about the measurement itself.

When it comes to an entire year, we look back on the annual profit figure, as it were, with our backs to the future. While the company may well be heading straight to the abyss. Seen in this way, profit figures are of little use. But profit is not only consolidated annual profit of a group, but also the extra profits from a specific part, department, activity or business-unit over short periods. Much is needed to steer and to be able to make adjustments.

A company can be compared to a team of skaters, speed skaters. Some for the longer and others for shorter distances. Various products, operations, departments. The team result is the sum of individual performances. One year stage, 13 laps of 4 weeks. Lap times. From round to round, how many fingers of the coach go up, down? Acceleration, deceleration during the ride can be known by measuring the lap times. Without knowing the lap times, there is usually nothing meaningful to say about the course of the ride, accelerations and decelerations. Using *The Profit Formula*[®] is fast and easy to find the answers for requested (gross) economic balance sheet and (gross) profit and loss account as well as fiscal balance sheet and the fiscal taxable amount. In the case of a requested net economic profit, it is not only about the path to the outcome, but especially about the outcome itself. But which teacher and which examination board actually knows what exactly is being asked? Questions about net profits are mostly not clear. For the calculation of the tax burden on the economic profit and loss account, the various different systems do not offer any solution, there is in theory nor in practice a cure. The term 'over burden tax' is not unambiguous; it only exists – see the business economics literature – according to an artificial definition. About which various opinions differ greatly. Don't believe any net profit figure, demand the proof!

EXERCISE 3 Business Economics I Exam SPD dated 07/12/98

The Examination committee SPD i.e. Examination committee of Hogeschool Markus Verbeek was based on a hollowed opening balance sheet at January 1, 1997 and made it next even worse, according officially presented 1997-"profit" figure at f 355,600 for which – it is expressly stated – no proof has been provided. Control count shows that the gap that was already there at the beginning has been made even bigger. The company Blijleven N.V. had been eroded and was further eroded in 1997 under the responsibility of the Examination

committee SPD i.e. Examination committee of Hogeschool Markus Verbeek. In the official elaboration, the logical relationship between opening and closing balance sheet and profit and loss account was lost. The unproven net "profit" figure f 355,600 officially approved. It was on the Internet. This was also stated in the magazine TBA. Institutes like Praehap also spread nonsense. At colleges and universities, people were dominated by confusion. Poor students. Prof. mr. N.E. Algra, chair Examination Board SPD, drs. W.A. Tijhaar at the time director of Hogeschool Markus Verbeek and prof. J. Dijksma (Nijmegen Business School and member of the Examination Board SPD) were informed years ago about what was already wrong with the SPD Exams and in the book 'Bedrijfseconomie' by Tijhaar as well as in the book 'Management Accounting' written by Bulte, Dijksma, Van der Wal. There was never a decent substantive answer to given criticism. To be seen a lot including the 'Handleiding Winstbepaling – Het Ultieme Winstbepalingsstelsel' ISBN 9073397057 explaining criticism about the 1991 Exam SPD. It was demonstrated by the Exam SPD in 1991 that there is no dispute about the gross profit as well as about the fiscal profit in terms of outcomes, the answers to the questions posed. At least if there is no discussion about the question. My students found with the help of *The Profit Formula*[®] at the time fast and easily, indeed the same answers for the requested gross profit and also the fiscal profit. It goes thereby normally not about the questions nor the answers but only the way to the answer. The answer is depending on the data and if the data has multiple interpretations, we obviously get different results. Proof of net profit can only be done through *The Profit Formula*[®]. Students earn bonus points if they arrive in Rome by a new route. These students do not need to be abused. Not to be bothered. It is really crazy that it is impossible, they are not allowed to follow a new path. I could not believe it and finally in December 1998 sat down with my students in that exam hall. Now I myself experienced how students are treated badly, a great shame for teachers, examiners. When it is about the net economic balance sheet and net profit and loss account, then the Examination committee SPD (and the Examination committee of Hogeschool Markus Verbeek) "they indeed cannot make correct counts (Jacobs, 1998, p. 208)" with uncontested criticism about the 1997 Exam SPD. How many candidates are the victims? When net profit is requested, then it goes not only about the way to the outcome, but the proven profit figure. As long as *The Profit Formula*[®] is not recognized, it will put the business economics literature and all colleges and universities on a blame course. And who is not completely aware of the correct burden of taxes in companies accounts, he / she is at risk of threatening the survival of it.

Examination assignments usually only refer to a few transactions. In practice it soon goes about thousands if not tens of thousands of transactions, and numerous interim price changes. For profit calculation using one of the old existing profit determination systems, then all those transactions have to be calculated. What a job. Inefficient. A straight line waste. Not necessary when using *The Profit Formula*[®].

Simply add everything together: the total sales minus the total purchases is CASH. Furthermore, it only concerns a few initial and final values (filling in NVD and SVD) and that's it. *The Profit Formula*[®] implicitly takes into account all those interim price changes and all those transactions. You don't have to worry about it anymore. That saves a lot of work. Counting and calculating work has been reduced to an absolute minimum. For that reason alone, *The Profit Formula*[®] is second to none. *The Profit Formula*[®] works anytime, anywhere. Effective and efficient.

It takes much effort to get through exercises in the traditional way, sales minus costs, where sustainable means of production are treated differently than units of trade goods. It causes a lot of headaches for students. *The Profit Formula*[®] deserves to be introduced not only in all

schools but also in companies, WORLD NEWS, a scientific breakthrough of the first order.
<https://ceoworld.biz/2020/06/15/period-profit-measurement-new-formula/>

The scientific substantiation of *The Profit Formula*[®] is explained in the book *The Profit Formula*[®] The Way to Easy Profit Measurement ISBN 9781086333992 available at www.amazon.com Scientific evidence as well as practical application.

<https://www.youtube.com/watch?v=7p98M6UKOJk&t=87s> The Way to Easy Profit Measurement_2 EXAMPLES (fully elaborated).

Profit determination is a main subject in the field of business economics, so everyone can immediately see that your institute does not provide good education without *The Profit Formula*[®] one of 8 Scientific Perfections described in Business Economics VI Groundbreaking ISBN 9781086355635 at www.amazon.com (Paperback) and Kindle edition e-book.

Business Economics VI Groundbreaking ISBN 9789464026405 at

www.boekengilde.nl/boekenshop and www.managementboek.nl (Hardcover).

En hier idem Nederlandstalig, met de titel Bedrijfseconomie VI Grensverlegend ISBN 9789463236409 Gebonden.

The book Profit Calculus, subtitle Undertaking profit calculus is simple, the method is easy to learn and to put into practice ISBN 9789042304451 available at

<http://www.shaker.de/de/content/catalogue/index.asp?ID=7&AID=8754&SHV=yes>

In 2021 and beyond it will be published on many websites worldwide. Students and their parents will protest against your lecturers and trainers if they neglect *The Profit Formula*[®] and continue with badly taught Business Economics.