The Way to Easy Profit Measurement
"Perhaps the search for an ideal accounting system should be
likened to the search for the philosopher's stone or the elixir of life
(Whittington, 1989, p. ix)."

# *The* Profit Formula®
# Ultimate Solution

**Profit measurement at both any value and any standard**

# *The* Profit Formula®

## Profit = (Cash -/- NVD)(1 -/- quota) -/- SVD

Integration of nominalism (NVD) and substantialism (SVD)

# Period Profit Measurement
# EXACTLY, QUICKLY and EASILY

CASH = Sales (including disinvestments) minus purchases as well as out-of-pocket expenses (including investments). This is equal to Zero minus e.g. $NVD_{\text{n.r. monetary}}$ i.e. the total 'nominal value difference' of all monetary assets and liabilities, exclusive of cash flows concerning taxes on profit. In practice, just a few more items (see below). After all shifting between monetary assets and liabilities, not a penny can disappear nor manifest itself without cause.

'*The* Profit Formula®' ISBN 9781086333992 p. 9 "People watch water running down (empiricism is experience). What is happening (pragmatic) can be set out in detail (semantics) and it must be explained thoroughly why and how (syntax). Hard science: laws of nature, unequivocal formulas." There are three separate financial perspectives of an enterprise:
the fiscal reality, the reality according to the published accounts (e.g. IFRS, US-GAAP) and the one and only right internal periodical account.
The last aspect is the main topic, which is a subject of nothing else than pure science.
A responsible manager of an entire enterprise or a single profit-centre has to know what the existing total value is and the added value, in other words the capital together with the profit.
The yield i.e. profit divided by capital, must be reliably known within a known margin of accuracy, under specified conditions, to be able to give guidance.
Interest charges and tax costs and how to deal with foreign currencies are included. Everyone can enter his / her own values and standards. *The* Profit Formula® is value-free. It is a universal profit meter, suitable for measuring real (scientifically correct) as opposed to artificial (defined at will) profit. For instance, inputting fiscal premises will lead to the fiscal profit figure. The one and only real profit can be found exclusively by inputting the real values and standards. Moreover, depreciation and amortisation, interest costs and tax burden are exogenous variables within the old formula – these cost items happen to be outcomes of

separate calculations with several arbitrary choices – whereas they all are endogenous variables within the new formula, ipso facto separate calculations are not needed anymore. A tremendous amount of money can be saved, including for cases of historical cost accounting (measuring fiscal profit). The budgets of many accounts departments can be cut drastically. Fiscally and for both IFRS and US-GAAP, certain cost items are prescribed in the required reports. The fiscal profit figure as well as the profit figure to be published can be calculated easily by means of *The* Profit Formula®, which ignores costs. Subsequently, various cost items – because the required reports naturally need to be complete – can still be determined, in fact now more easily since the figure on the bottom line is already available. Firstly all cost items which are at hand aggregated and secondly the already known profit figure that is measured by *The* Profit Formula®, ending up in one item in between i.e. 'remaining costs all together' that simply is falling from the sky.

| Total Sales | f.i. | 568,000 |
|---|---|---|
| Various cost items at hand, total | | 392,000 |
| Remaining costs altogether **apparently** | | 57,000 |
| | | ----------- |
| Profit figure acquainted by TPF® | | 119,000 |

The same applies for fiscal and published profit figures (f.i. IFRS or US-GAAP).

**Fiscal and Published Results, Financial Accounting (de jure)**
From the outset, SVD does not exist fiscally, and the same applies for both IFRS and US-GAAP until the present day in 2022. So, from the beginning, SVD has to be set simply equal to zero immediately. Regarding fiscal accounts and the accounts to be published e.g. IFRS and US-GAAP (financial accounting, 'de jure') then only NVD has to be mastered presently. The filling in of the value of any asset at the start and end of the period under consideration results in one NVD-figure. The value at start is the value at the end of the previous period. One has to fill in only the new end values i.e. the required fiscal values respectively IFRS or US-GAAP values according the concerning closing balance sheet.

**Internal Results, Management Accounting (de facto)**
Very often many individual NVD-figures do exist which altogether form the NVD, the related term in *The* Profit Formula®. The laws of large numbers apply. The more NVD-figures, the better for how more accurate and how more probable the NVD will be. NVD-figures are swarming in practice.
An item in the balance sheet is often the total of a lot of parts. The value of a single car is of no importance, the issue is the value of a fleet of cars. And almost every balance sheet line is mutually identical in principle.
Even those who do their utmost best to fill in the correct values, then it will be still a bit too high or too low here and there. No problem; this is irrelevant, because there are endless numbers NVD-figures in practice and the pluses against the minuses, they fall away.

In science there is no choice. No room to assume. There is no reason to adopt nor sustain, whatsoever, without proof. Income measurement is concerned with costs, with providing funds, with replacement requirements and with a lot more (one has to face the whole reality) and all simultaneously. Still, both the balance sheets at the beginning and end of the period under consideration and the profit and loss account have to fit together.

Profit is not just the outcome but also the starting point of the process. Profit measurement and the calculation of yield and the comparison of 'return to capital' with the 'cost of capital' will always be a main focus for attention of many a manager in each and every organization. No controller, nor investor, can disregard these figures. Against 'the profit' i.e. the added value, there is WACC, and free downloadable is my paper 'The One and Only Standard WACC – Cost of Capital versus Return on Capital' https://ssrn.com/abstract=756105

One can compare a company with a gang of skaters in a tournament. Some of them choose longer and others shorter distances. Different products, activities, units, divisions. The total result of the gang in the tournament is the addition sum of individual achievements. A year-ride, 13 rounds of 4 weeks each. Lap times. From lap to lap, how many fingers of the coach go up, down? Acceleration and slowing-down during a race can be calculated by measuring the lap times. Without knowing the lap times, it is difficult to say anything meaningful about accelerations and decelerations during the course of the race. Measuring the lap times, it is for this reason that one is sorely in need of a user-friendly period profit measuring instrument, above all quick and easy.

Example issues in schools usually involve only a few purchase and sales transactions.
In practice, thousands, if not tens of thousands of transactions and countless interim price changes, will soon be involved. For the profit calculation with one of the current profit determination systems, all transactions must be calculated exactly. What a work. Inefficient. A real waste. Not necessary when using *The* Profit Formula®. Count 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 it is ready. *The* Profit Formula® implicitly takes into account all interim price changes and all transactions. You do not have to worry about it anymore. That saves a lot of work. The counting and calculation work has been reduced to an absolute minimum. For that reason alone *The* Profit Formula® is second to none. *The* Profit Formula® works always and everywhere. Effective and efficient.

The problem of profit measurement consists of gauging and measuring. Measuring starts with gauging. Without gauging, there can be no measuring. The gauging part results in the necessary values and standards: data, input-parameters that are needed to measure. The gauging part, establishing all values and standards, is the first part of the problem of profit measurement. What are the data? This question must first be answered fully. Without all the answers to all the gauging questions one just cannot make a start. Measuring is gathering and compiling the data into the measuring result i.e. the ultimate profit figure.
In all systems for determining profit in use so far, pre-arranged values and standards are to be found. Signals are passed on, apart from the object to be measured. These values and standards are artificial things. Consequently the outcome, the officially presented '*profit'*-figure, is artificial. These outcomes are spurious. The measuring instrument itself does not have anything to say, want or choose. A good meter is completely neutral and does what it should do: measuring, nothing more nothing less. A meter, any meter, should measure precisely, i.e. nothing may be added to or detracted from what is being measured.
Starting with any set of values and standards, they should be compiled in the same best way. Everything around the measurement has to be indisputable, resulting in a transparent outcome.

Profit figures should not be blindly accepted, it is always necessary to see test and proof.

How much effort it takes to get through exercises in the traditional way, sales minus costs? And where sustainable means of production are treated differently than units of trade goods.

It costs the students a lot of headaches. Not necessary. Because there is a revolutionary new road. Published already in 1991. *The* Profit Formula®; this basic equation of profit measurement includes each and every *capital maintenance concept* and does not exclude a single *concept of value*. This equation incorporates the integration of nominalism (NVD) and substantialism (SVD), both general and specific, with the exact calculation of the burden of taxation. According to all reasonable profit definitions, anybody can measure profit over a randomly chosen period of any length, quickly and easily. *The* Profit Formula® is exceptionally user-friendly. Working with this profit meter is straightforward and relatively simple.

A debt in fact is a negative possession, an asset with a negative value. Paid interest and repayments must be fully counted into the CASH and the NVD of this asset is the true value of the debt at the beginning of the period of which the profit has to be measured minus the true value at the end of that same period. The true value at any moment, at least one of the possible valuations of a debt, is the present value of all future payments, interest to be paid as well as repayments. Fiscal values lead to the fiscal profit figure; the best (value-) input will give the best (profit-) output. The same holds true for converting foreign currencies. That also can be done, correctly and easily.

# 8 *The* Profit Formula®: Test and Proof

See how complicated the elaborations are through the old ways, and how wonderfully simple with the help of *The* Profit Formula®. It's simple, see this whole Chapter 8.
Appendix 10.2  The 'Go/No Go' Decision Regarding Strategic Investments is also not to be missed.

At www.amazon.com and other amazon websites fill in: ISBN 9781086333992  and here the content of the book is given: https://www.youtube.com/watch?v=oDjQSUwqJ4Y&t=9s

| Nedap NV 2020 in thousand € | NVD | End | Start |
|---|---|---|---|
| Tanglible fixed assets | 590 | 38,031 | 38,621 |
| Intangible fixed assets | 617 | 2,211 | 2,828 |
| Assets to sell | -/- 907 | 907 | |
| Inventories | 5,439 | 23,062 | 28,501 |
| | -------- | | |
| NVD | 5,739 | | |

| Nedap NV 2020 in thousand € | NVD n.r. mon. | End | Start |
|---|---|---|---|
| Trade accounts receivable | 2,350 | 28,176 | 30,526 |
| Cash & cash equivalents | -/- 7,002 | 25,689 | 18,687 |
| Trade creditors | -/- 390 | -/- 23,263 | -/- 23,653 |
| Provisions long-term | 370 | -/- 1,074 | -/- 704 |
| Lease liabilities long-term | -/- 523 | -/- 1,315 | -/- 1,838 |
| Employee benefits long-term | -/- 4 | -/- 997 | -/- 1,001 |
| Employee benefits short-term | 37 | -/- 82 | -/- 45 |
| VAT & s.s. contributions | -/- 388 | -/- 1,986 | -/- 2,374 |
| Lease liabilities short-term | 22 | -/- 1,009 | -/- 987 |
| Provisions short-term | 279 | -/- 1,515 | -/- 1,236 |
| | ------------ | | |
| NVD n.r. mon. excl. tax items | -/- 5,249 | | |

| From scratch Nedap NV 2020 in thousand € | 0 |
|---|---|
| NVD n.r. mon. assets & liabilities excl. tax items | -/- 5,249 |
| Profit tax paid | -/- 3,215 |
| FCF corrected | -/- 13,773 |
| | ------------ |
| CASH | 22,237 |
| NVD | 5,739 |
| | ------------ |
| | 16,498 |
| Income tax expense | 3,129 |
| | ------------ |
| Net Comprehensive Income (published) excl. SVD | 13,369 |

0 minus -/- 5,249 -/- 3,215 -/- 13,773 = 22,237 CASH
minus 5,739 = 16,498 next minus 3,129 = 13,369
and Nedap NV is listed Amsterdam Stock Exchange.

On [www.jbadatabank.com](www.jbadatabank.com): 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 *ƒ*ma 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. Read more at [https://www.jbadatabank.com/wp-content/uploads/2021/02/Article-7-Profit-Determination.pdf](https://www.jbadatabank.com/wp-content/uploads/2021/02/Article-7-Profit-Determination.pdf)

*The* Profit Formula® is Ultimate Solution, a scientific breakthrough.
The scientific substantiation of *Th*e Profit Formula® is explained in this book.
Scientific evidence as well as practical application.

**You will be <u>very poorly trained</u> in Business Economics,**
**all Schools / Universities that still ignore *The* Profit Formula®.**

CEO and CFO of all companies worldwide, are also in need of this book!
Not knowing the net period profit as well as the burden of tax, then you are still in the fog!

Can be ordered directly: go to your nearest Amazon website, for example [www.amazon.nl](www.amazon.nl)

| All |
|---|

In this general search screen, enter your desired ISBN number, for *The* Profit Formula®
Paperback

| All   ISBN 9781086333992 |
|---|

And then you will immediately see this book.

e-book
Can be ordered directly: go to your nearest Amazon website, for example [www.amazon.nl](www.amazon.nl)

| All |
|---|

In this general search screen, enter your desired ASIN number, for *The* Profit Formula®

| All   ASIN B07VTP7P7Z |
|---|

And then you will immediately see this e-book.