PROFIT

Profit is the amount of money a company has left over from the sale of its products after it has paid for all the expenses of production. These expenses include costs of such things as raw materials, workers' salaries, and machinery. They also include a reasonable return on the owner's investment, a salary for the labor the owner supplies to the firm, and other costs that are hard to calculate. A main task of accounting is to define and measure profits accurately.

Profits are vital to the economic system of the United States, Canada, and other countries where private enterprise is encouraged. In such countries, profits belong to the owners of companies or the stockholders of corporations. One of the chief reasons for operating a business is to make a profit.

The desire for profits motivates companies to produce their goods efficiently. This is because the

lower a company's costs are, the greater its profits can be.

A business can earn a profit only by producing goods and services whose selling price is greater than the cost of producing them. Therefore, business executives seek to use labor and raw materials to produce and sell things for which customers will pay a price that is greater than the cost of

production. Thus, the search for profits is also the search for the uses of a country's labor and raw materials that will satisfy consumers most completely.

Some business executives constantly lower prices to capture sales and profits from their competitors. However, there are several reasons why competition does not eliminate profits. For one thing, at any one time, there will be many firms that have discovered profitable opportunities their competitors

cannot yet match. Sometimes, new firms cannot duplicate a profitable product because of patents or trademarks, or for other reasons. Sometimes, new firms cannot produce goods as cheaply as established ones. The bother and risk of entering an unfamiliar industry also keeps some new firms from competing with a product that is not especially profitable. The established firms can then enjoy reasonable profits without fear of new competition.