

ROLE OF PROFIT IN BUSINESS

The Roles and Importance of Profit in Business are as follows:

Profit is a reward for risk-taken in the business. Business is the wealth-creating institution of society. Every business operates in order to earn profit. The main goal of a business is making profit. A business may have other goals but if they do not make profit then they will have to end the business.

The importance of profit can be explained with the help of following points:

1. Employment generation:

Profits lead to an inducement to invest as well as to innovate. As the entrepreneur begins to forecast more profits he undertakes more investment which in turn creates more employment. This will generate more incomes which in turn, will create more demand for the goods in the market.

2. Profit is essential for the survival of business:

Profit is necessary for the survival and growth of business enterprise. If the business does not make enough profit it will not survive in the growing competitive world. Profit means survival. It enables the business to grow, helps employee motivation, eases negotiations with banks, attracts investors, and gives clients and customers a confidence in business. All that adds up to success.

3. Reward for risk taken:

Profit is a reward for risk taken in the business. It is a return on investment. Business expects highest profit as they expect return on their investment. A firm invests money with the expectation of higher returns on their investment. The shareholders expect higher returns in the form of dividend. Banks and financial institutions expect better rate of interest on the loan given to the business enterprise.

4. Profit is an indicator of efficiency:

Profit is a yardstick that tests the efficiency of the business firm. The success of the business can be judged by the extent of profit earning capacity.

5. Reserves to meet future contingencies:

Profit can be used to meet future contingencies. The business is subject to many risk and uncertainties such as changing customer preferences, increasing competition, changing government policies etc. In such cases profit is used to meet those unfavorable business difficulties.

6. Increases volume of business:

Retention of profit is the internal source of funds. This profit can be used for increasing the volume of business through expansion and diversification. The portion of profit is re-invested in the business for further development.