

For Profit and Not-For-Profit Entities

Profit = Revenue - Costs

Revenue minus costs

$$P = R - C$$

Profits are the life-blood of a business.

Profits are the reward for taking a risk.

Profits are the % return on equity or ownership.

Profits are distributed to stockholders as dividends.

Profits are the motivating factor for starting a business.

Profits may be distributed at various times throughout the year.

Without profits, a business will fail; it is only a question of time.

Profits are a message from the market that you are doing something right.

Profits are extra monies that are left after all expenses, including taxes, are paid.

Profits are in **addition to** salaries and wages, which are paid monthly or bi-weekly.

For-Profit Entities

A **for-profit** entity may do three things with profits:

1. It may put them back into the business.
2. It may distribute them to its owners.
3. It may do some combination of these two.

Who gets profits? The owners receive the profits.

Who are the owners? The owners are sole proprietors, partners, or the stockholders in a corporation.

For-profit corporations have both members of the board of directors and officers (president, vice president, secretary and treasurer), all of whom are presumably stockholders and therefore owners.

Nonprofit Entities

A **nonprofit organization** may make surplus revenues, but they must be used to accomplish the goals of the organization not to bring profit to any members.

Like a for-profit organization, nonprofit/not-for-profit entities also have both members of the board of trustees and officers.

The board of trustees is the governing body of the organization and sets the policy. The officers take on different roles (president, treasurer) in order to provide structure and checks and balances for the board.

Questions:

1. If you do not expect to make a profit, what incentive do you have to start a business?
2. “High” profits are often those above 25 percent. These are called economic profits.
3. What happens if your profits are “too high”? Competition comes in to take some of those “extra” economic profits and all profits are back to “normal.”
4. Normal profits are often somewhere between 0 and 20-25 percent.
5. How much “profit” are you making on your savings account? Is it normal or economic “profit?”
6. For-profit corporations must pay taxes; not-for-profits/nonprofits are tax-exempt.
7. What might be some arguments **against** profit?
8. Do nonprofits ever have any “profits”? They may have extra money at the end of the year, but it is put back in to the business and is not taken as a profit. A nonprofit entity may not distribute any extra monies; it must keep them to run the entity.
9. Where do nonprofits get (most of) their money?
 - Individuals
 - Corporations
 - Foundations
10. If there were no for-profit organizations, would there be any nonprofit organizations?