

Figure 10.10 is a simplified representation of the full purpose of accounting given an individual business's financial performance. The primary focus is on the flow of funds from the point of sale to the point of purchase. The flow of funds is then broken down into its constituent parts: revenue, expenses, and profit.

- 1. Revenue
  - a. Revenue from sales of finished goods: Sales revenue (100% of sales)
  - b. Revenue from sales of raw materials: Sales revenue (100% of sales)
  - c. Revenue from sales of services: Sales revenue (100% of sales)
- 2. Expenses
  - a. Direct expenses: Direct expenses (100% of sales)
  - b. Indirect expenses: Indirect expenses (100% of sales)
  - c. Overhead expenses: Overhead expenses (100% of sales)
  - d. Other expenses: Other expenses (100% of sales)
- 3. Profit
  - a. Profit before taxes: Profit before taxes (100% of sales)
  - b. Profit after taxes: Profit after taxes (100% of sales)

| Account | Flow of funds for individual business |          |        |       |       | Total flow of funds | Flow of funds from individual business to other businesses | Flow of funds from other businesses to individual business |
|---------|---------------------------------------|----------|--------|-------|-------|---------------------|------------------------------------------------------------|------------------------------------------------------------|
|         | Revenue                               | Expenses | Profit | Other | Total |                     |                                                            |                                                            |
|         |                                       |          |        |       |       |                     |                                                            |                                                            |

The flow of funds for an individual business is shown in Figure 10.10. The flow of funds from an individual business to other businesses is shown in Figure 10.11. The flow of funds from other businesses to an individual business is shown in Figure 10.12.

Flow of funds from individual business to other businesses

| Account                 | Flow of funds |          |        | Total flow of funds | Flow of funds from individual business to other businesses |
|-------------------------|---------------|----------|--------|---------------------|------------------------------------------------------------|
|                         | Revenue       | Expenses | Profit |                     |                                                            |
| 1                       | 100           | 100      | 0      | 0                   | Revenue - 100%                                             |
| 2                       | 100           | 100      | 0      | 0                   | Revenue - 100%                                             |
| Total flow of funds = 0 |               |          |        |                     | Revenue - 100%                                             |