

Accounting

Finance



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Pure profit Dr. Hendley's ment that difference between the opening bank balance and the closing bank balance is pure profit is incorrect. According to Nikolai, Bazley, & Jones (2009), a statement of cash flow indicates the financial position while the income statement indicates the profitability of the organization during an identified period. The difference between opening bank balance and the closing bank balance gives a cash flow statement. Income statement on the other hand is given by the difference between revenues and expense (Gill & Chatton, 1999). A statement of cash flow cannot be used to indicate profitability of an organization since it lacks the aspect of expense.

The statement made by Dr. Hendley lacks the aspect of expenses incurred by the organization in earning the stated amount of money. Therefore, it is a statement of cash flow rather than an income statement. This makes what the statement states to be the financial position of the organization rather than the profit of the organization. Hence, stating that the amount obtained from the opening and closing bank balances as pure profits is very incorrect. However, the differences include profits in addition to other expenses incurred by the organization in generating that stated income.

References

Gill, J. O., & Chatton, M. (1999). *Understanding Financial Statements: A Primer of Useful Information*. Boston, MA: Course Technology Cengage Learning Ltd.

Nikorai, L. A., Bazley, J. D., & Jones, J. P. (2009). *Intermediate Accounting*. Mason, OH: South-Western Cengage Learning Ltd.