

## Topic: Gross and net profit margin (1) - Answers

**Q1**

Flying Carpets buy and sell quality oriental rugs. The business has been trading for over 40 years and has an excellent reputation for customer service. All rugs are imported, so fluctuations in exchange rates can affect profit levels. This results in the business regularly monitoring profit margins.

Sales revenue	£250,000
Cost of sales	£100,000
Gross profit	£150,000

**Table 1**

**Activity: Using table 1, calculate the firm's gross profit margin**

$$\text{Gross profit margin (\%)} = \frac{\text{gross profit}}{\text{sales revenue}} \times 100 = \frac{150,000}{250,000} \times 100 = 60\%$$

**Q2**

Over the last year, Flying Carpets has seen demand for its products increase significantly. In response to this, the business has moved to larger premises and, as a result, has experienced a rise in its operating expenses. The business is eager to see the effect of this change on its profit margins.

Sales revenue	£250,000
Cost of sales	£100,000
Gross profit	£150,000
Other operating expenses & interest	£80,000
Net profit	£70,000

**Table 2**

**Activity: Using table 2, calculate the firm's net profit margin**

$$\text{Net profit margin (\%)} = \frac{\text{net profit}}{\text{sales revenue}} \times 100 = \frac{70,000}{250,000} \times 100 = 28\%$$

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**Q3**

Cisterns Are Doing It For Themselves Ltd is owned and operated by two female plumbers. After retraining at their local college, they decided to set up their own business. In order to get the business off the ground, they spent a significant amount of their start-up funds on promotion. The business is now starting to receive favourable reviews from customers, who have welcomed the business's reliable and efficient service.

Table 3 contains financial information about the business.

Sales revenue	£5,930
Cost of sales	£1,120
Other operating expenses & interest	£3,675

**Table 3**

**Activity: Using the information in table 3, calculate the firm's:**

**a) gross profit and gross profit margin** (give your answer to **two** decimal places)

**b) net profit and net profit margin** (give your answer to **two** decimal places)

**a) Gross profit** = sales revenue – cost of sales = £5,930 - £1,120 = **£4,810**

**Gross profit margin (%)** =  $\frac{4,810}{5,930} \times 100 = 81.11\%$

**b) Net profit** = gross profit – other operating expenses & interest = £4,810 - £3,675 = **£1,135**

**Net profit margin (%)** =  $\frac{1,135}{5,930} \times 100 = 19.14\%$

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**Q4**

Throw It My Way is a recycling firm, which runs a large fleet of disposal lorries. Increased demand for its services in recent years, has enabled the business to expand. However, with high costs of recycling, rising storage and fuel prices, the business has seen its costs increase significantly. The firm's cost of sales is currently 75% of its sales revenue.

Table 4 contains financial information about the business.

	(000s)
Sales revenue	£3,456
Other operating expenses & interest	£956

**Table 4**

**Activity: Calculate the firm's:**

**a) gross profit margin** (give your answer to **two** decimal places)

**b) net profit margin** (give your answer to **two** decimal places)

**a)** Cost of sales = £3,456,000 x 75% = £2,592,000

Gross profit = £3,456,000 - £2,306,000 = £1,150,000

**Gross profit margin (%)** =  $\frac{1,150,000}{3,456,000} \times 100 = 33.28\%$

**b)** Net profit = £1,150,000 - £956,000 = £194,000

**Net profit margin (%)** =  $\frac{194,000}{3,456,000} \times 100 = 5.61\%$