



Profitability

Measure of financial performance – compares profit to the procial impreservenue

Profit margin

Ratio showing business's profit as a personal tage of the same and the

Analysing profits

A profit of £10 million for compared to £5 h. Company B might suggest that company A is more successful, but this might be to considered:

1. What was the of szanneeded by the anat profit?

w mu vest did it achieve that profit?

Note: Note:

Profit margin

Profit margin allows comparison of a business's profit to its sales revenue Profit margin = profit /revenue x 100







Which business is the better performing co siness is the better performing company based on profit margin?

based

rofit?



Gross profit margin

Includes: Revenue minus direct costs (costs of sale) Useful: crude overview can compare previous years

BUT: Not includes all the costs of the business (indicated streets experience).

A negative gross profit - a loss = negative profit to gin

Formula: Gross profit margin = gr serverity x x 100

Operating profit margin

Includes: Revenue significant and irect

Useful: assess and course performnce in real in to sales revenue. A negative containing program rigin whose series are profit margin.

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hula: rating profit margin = operating profit/sales revenue x 100

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Include venue minus direct and indirect costs + taxation, interest payments (loans) etc.
Seful: assess and compare performance in relation to all costs

BUT: some costs may be one-off costs for that particular year

Formula: Profit for the year = profit for the year/ revenue x 100





A-Level-Business: Profitability Disadvantages Advantages



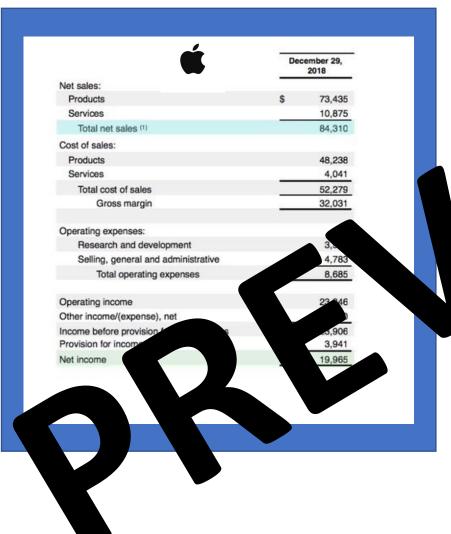
Operating profit margin

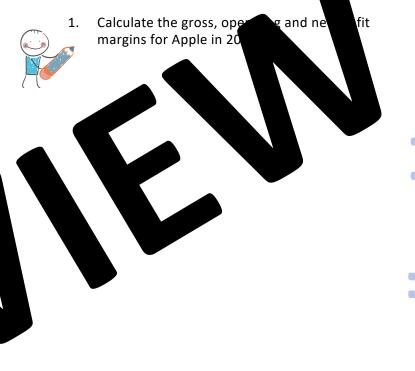
Gross profit margin













| Jewellery Company | |
|-----------------------|---------|
| Revenue | \$5,000 |
| Cost of Goods Sold | \$800 |
| Gross Profit | \$4,200 |
| Operating Expenses | \$500 |
| Operating Profit | \$3,700 |
| Interest Expense | \$185 |
| Earnings Before Taxes | \$3,515 |
| Tax Expense | \$1,750 |
| Net Income | \$1,765 |

Grocery Store Company

| Revenue | 40,00 |
|--------------|---------|
| Cost of Good | 2,000 |
| Gross Profit | \$8,000 |
| c (pen. | 20 |
| peratin | \$4, |
| rest E | \$200 |
| rore Taxes | \$3,800 |
| Ta ense | \$1,900 |
| Net | \$1,900 |
| | |

1. Calculate the gross, operating and net profit margin whoth concerns.



2. Given sible it can show the company has a higher net profit than the grown recompany

