Section 3 Managing Finance

Chapter 34 profit

Key terms

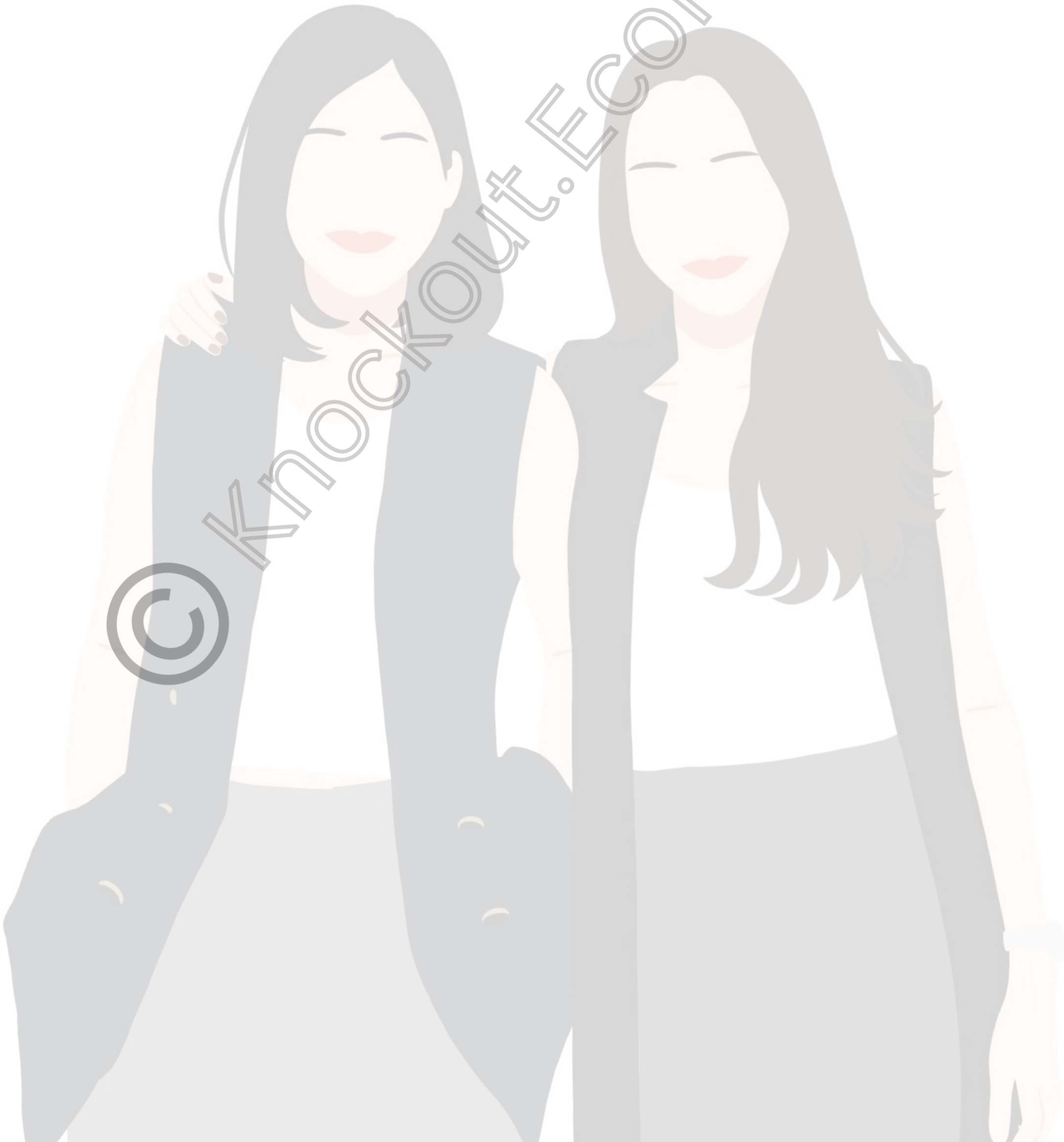
1. Amortisation: the writing off of an intangible asset.
2. Cost of sales: the direct costs of a business.
3. Exceptional cost: a one-off cost, such as a large bad debt.
4. Gross profit: the difference between revenue/turnover and cost of sales.
5. Gross profit margin: gross profit expressed as a percentage of revenue/turnover.
6. Operating profit: the difference between gross profit and business overheads, such as selling and administrative expenses.
7. Operating profit margin: Operating profit expressed as a percentage of revenue/ turnover.
8. Profit for the year(net profit) margin or net profit margin: net profit before tax, expressed as a percentage of revenue/turnover.
9. Profit for the year(net profit) or net profit: the difference between operating profit and finance costs and exceptional items.
10. Revenue or turnover: the total income of a business resulting from sales of goods and services.
11. Statement of comprehensive income: a financial document showing a company's income and expenditure over a particular time period, usually one year.

1. Profit

1) **Gross profit = Revenue (turnover) - cost of sales**

2) **Operating profit = Gross profit - operating expense**

3) **Profit for the year (Net profit) = Operating profit - Financial cost** (interest paid on loans) **and exceptional cost**



2. Ways to increase profit

2.1) Adjust the marketing strategy to increase revenue

2.2) Find new market

2.3) Diversify

2.4) Mergers and takeovers.

2.5) Disposal of non profitable activities

3 Statement of comprehensive income (Profit and loss account)

	2017 (£)	2016 (£)
Revenue/turnover	561,000	498,200
Cost of sales	331,000	322,100
Gross profit	**230,000**	**176,100**
Selling expenses	45,300	38,200
Admin expenses	122,500	102,800
Operating profit	**62,200**	**35,100**
Finance costs	22,100	21,000
Profit for the year (net profit)	**40,100**	**14,100**
Taxation	8000	2800
Profit for the year (net profit) after tax	**32,100**	**11,300**

▲ Table 2 Selected information from the statement of comprehensive income for Forest Way Autotraders Ltd, year ending 31 January 2017

4. Measuring profitability

4.1) Gross profit margin : gross profit made on sales turnover / revenue

$$\text{Gross profit margin} = \frac{\text{Revenue}}{\text{Gross Profit}} \times 100$$

4.2) Operating profit margin : operating profit profit made on sales revenue/turnover

$$\text{Operating profit margin} = \frac{\text{Revenue}}{\text{Operating Profit}} \text{ X } 100$$

- e.g.operating profit margin=20%(sale revenue100$ contributing20$ on operating profit)
- It shows how well a company can control administrative cost.

4.3) Profit for the year(Net profit) margin:

- Net profit takes into account all business costs, include financial costs, other non operating costs and exceptional items.

$$\text{Profit for the year margin} = \frac{\text{Net profit before tax}}{\text{Revenue}} \times 100$$

5. Ways to improve profitability (Profit = Revenue(PXQ) - Cost)

1. Raising price => firms can get higher revenue.

2. lowering cost

2.1) seeking for cheaper raw materials in the country and abroad

2.2) Using existing resources more efficiently