

QUESTION

The following information is taken from the financial statements of a company for the year ended 31 December 2019:

	£
Revenue	1,200,000
Cost of sales	(400,000)
Gross profit	800,000
Administrative expenses	(200,000)
Selling expenses	(100,000)
Finance charges	(50,000)
Income tax	(100,000)
Profit before tax	300,000
Income tax	(100,000)
Profit after tax	200,000

The company has 1,000,000 shares in issue. The directors are considering a share repurchase programme of 100,000 shares. The company has sufficient cash resources to fund the repurchase.

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REQUIRED: Calculate the following ratios for the year ended 31 December 2019:

ANSWERS



Gross Profit Margin

$$\frac{\text{Gross Profit}}{\text{Revenue}} = \frac{800,000}{1,200,000} = 66.7\%$$

Operating Profit Margin

$$\frac{\text{Operating Profit}}{\text{Revenue}} = \frac{500,000}{1,200,000} = 41.7\%$$