

QUESTION

The following information is taken from the financial statements of a company for the year ended 31 December 2018:

	£
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 ordinary shares of £1 each in issue.

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Income tax	(100,000)	
Profit after tax	200,000	

Required: Calculate the following ratios for the year ended 31 December 2018:

ANSWER



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

Gross profit margin: $\frac{800,000}{1,200,000} = 66.7\%$
Operating profit margin: $\frac{300,000}{1,200,000} = 25\%$
Net profit margin: $\frac{200,000}{1,200,000} = 16.7\%$