

**QUESTION**

The following information is provided for the year ended 31 December 2014:

	£
Revenue	1,000,000
Cost of sales	(400,000)
Operating expenses	(150,000)
Operating profit	450,000
Finance income	20,000
Finance expense	(10,000)
Profit before tax	460,000
Income tax expense	(100,000)
Profit for the year	360,000

The following information is provided for the year ended 31 December 2015:

	£
Revenue	1,100,000
Cost of sales	(450,000)
Operating expenses	(160,000)
Operating profit	490,000
Finance income	25,000
Finance expense	(15,000)
Profit before tax	500,000
Income tax expense	(110,000)
Profit for the year	390,000

Required: Calculate the following ratios for the years ended 31 December 2014 and 2015:

- Operating profit margin
- Operating leverage
- Operating profit to revenue
- Operating profit to operating expenses
- Operating profit to cost of sales
- Operating profit to profit before tax
- Operating profit to profit for the year

**ANSWERS**

Operating profit margin =  $\frac{\text{Operating profit}}{\text{Revenue}}$

Operating leverage =  $\frac{\text{Operating profit}}{\text{Operating expenses}}$

Operating profit to revenue =  $\frac{\text{Operating profit}}{\text{Revenue}}$

Operating profit to operating expenses =  $\frac{\text{Operating profit}}{\text{Operating expenses}}$

Operating profit to cost of sales =  $\frac{\text{Operating profit}}{\text{Cost of sales}}$

Operating profit to profit before tax =  $\frac{\text{Operating profit}}{\text{Profit before tax}}$

Operating profit to profit for the year =  $\frac{\text{Operating profit}}{\text{Profit for the year}}$