

### 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)
Operating expenses	(200,000)
Operating profit	600,000
Finance income	50,000
Finance expense	(20,000)
Profit before tax	630,000
Income tax expense	(157,500)
Profit for the year	472,500

The company has 1,000,000 ordinary shares in issue, each with a nominal value of 100p. The company's financial statements are prepared in accordance with the provisions of the Companies Act 2006.

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Profit for the year	472,500	

REQUIRED: Calculate the company's operating profit margin and operating leverage ratio for the year ended 31 December 2018.

### ANSWER



	£
Revenue	1,200,000
Operating profit	600,000
Operating profit margin	50%
Profit before tax	630,000
Operating leverage ratio	0.95

Operating profit margin = 50% (600,000 / 1,200,000)