

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 in issue, each with a nominal value of £1. The company's financial statements are prepared in accordance with the provisions of the Companies Act 2006.

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

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

ANSWERS

1. Gross profit ratio = $\frac{\text{Gross profit}}{\text{Revenue}} \times 100 = \frac{800,000}{1,200,000} \times 100 = 66.67\%$

2. Operating profit ratio = $\frac{\text{Operating profit}}{\text{Revenue}} \times 100 = \frac{300,000}{1,200,000} \times 100 = 25\%$

3. Profit after tax ratio = $\frac{\text{Profit after tax}}{\text{Revenue}} \times 100 = \frac{200,000}{1,200,000} \times 100 = 16.67\%$

4. Operating profit margin = $\frac{\text{Operating profit}}{\text{Revenue}} = \frac{300,000}{1,200,000} = 0.25$

5. Profit after tax margin = $\frac{\text{Profit after tax}}{\text{Revenue}} = \frac{200,000}{1,200,000} = 0.1667$