

Start

What is profit?

Profit is the difference between total revenue and total costs.

Used as a reward for the owner/shareholders or reinvested back into the biz.

Definition of Gross Profit

The profit a business makes on its trading activity when the cost of sales (raw materials etc—direct costs) has been taken away from revenue.

Definition of Net Profit

The bottom line profit that a business makes once all direct and indirect costs have been taken away from revenue.

Formula for Gross Profit

Sales Revenue—Cost of sales

Formula for Net Profit

Gross Profit—All other indirect operating costs

Calculation of Gross Profit

$$18,100 - 3218 = 14,882$$

Calculation of Net Profit

$$14,882 - 13,320 = 1562$$

Year	New machinery
0	(£500,000)
1	£200,000
2	£300,000
3	£200,000

Types of data used by businesses to make decisions

financial data to monitor performance

Market data to anticipate needs of customers

Market research data to improve their product

Limitations of financial data

May be historical and out of date

Financial stats don't provide reasons

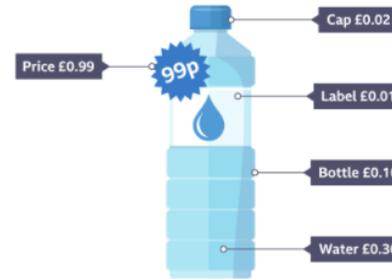
Statistics can be manipulated to show one side

Business success not just judged on financial performance also reputation etc.

Total Sales	£18,100
Cost of sales	£3218
Gross Profit	
Expenses:	
Interest	£240
Rent	£1620
Salaries	£7400
Equipment	£3317
Electricity	£743
Total expenses	£13,320
Net Income	

Sales revenue

Cost of sales



The gross profit on each bottle of water is:

$$£0.99 - £0.49 = £0.50$$

The total gross profit is:

$$£0.50 \times 10,000 \text{ bottles} = £5,000 \text{ per day}$$

Calculation of ARR

$$200,000 + 300,000 + 200,000 = 700,000 / 3 = 233,333 / 500,000 = 0.46 \times 100 = 46.6\%$$

Formula for ARR

$$\text{Average Profit} / \text{Cost of investment} \times 100$$

What is 'Average Rate of Return'?

A statistic used to calculate the average return on an investment over the investments life span. Shown as a percentage of its original cost.

The higher the number, the better!

Calculation of Gross Profit Margin

$$14,882 / 18,100 = 0.822$$

$$0.822 \times 100 = 82\%$$

Calculation of Net Profit Margin

$$1562 / 18,100 = 0.086$$

$$0.086 \times 100 = 8.6\%$$

Formula for Gross Profit Margin

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Revenue}} \times 100$$

What is a 'profit' margin?

The proportion of Sales Revenue that becomes profit

OR

The ratio of profit compared to sales revenue

Formula for Net Profit Margin

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Revenue}} \times 100$$

How to increase Gross Profit

- Reduce the cost of raw materials
- Reduce cost/amount of packaging
- Increase price

How to increase Net Profit

- Move to smaller premises
- Reduce number of staff or hours worked
- Become more energy efficient



Key word	Definition
Cost of sales	The direct costs of purchasing raw materials and manufacturing finished products
Profit margin	A measure of profitability calculated as a percentage of revenue
Inflation	The general increase in prices over time
Variable	A quantity used in calculation or some measurable piece of information
Infographic	A graphic representation of information to make it interesting and easy to understand
Demographic	Relating to the structure of a population
Qualitative data	Concerning the quality of something that cannot be measured in numbers
Gross Profit	Sales Revenue—Cost of sales
Net Profit	Gross Profit—All other in-direct operating costs
Gross Profit Margin	$\text{Gross Profit} / \text{revenue} \times 100$
Net Profit Margin	$\text{Net Profit} / \text{revenue} \times 100$
ARR	$\text{Average Profit} / \text{Cost of investment} \times 100$
Average Profit	$\text{Profit year 1} + \text{Profit year 2} + \text{Profit year 3 etc} / \text{no of years}$

Lesson Sequence
Gross and Net Profit
Gross and Net Profit
Average Rate of Return
Using Financial Data