Gross and Net profit
During the last year, two businesses have made the following amounts of profits

- Business A £250,000
- Business B £150,000

Which is more successful?
Judging business success

- Business A has more profit so it would seem it is more successful but
- Business A may be 3 times the size of B – if we take the size of the business and its sales revenue into account then Business B may generate more profit per pound.
- It is important to not just look at profit figures alone but consider other factors such as sales revenue.
- Ratios/Margins allows us to do this.
Gross Profit Margin = \[
\frac{\text{GROSS PROFIT}}{\text{SALES REVENUE}} \times 100
\]

* It is a % figure
* It shows the business for every £ of Sales Revenue how much is Gross Profit.
* For example a GP Margin of 25% means that for every £ of sales revenue 25p is gross profit.
Gross Profit Margin

- Is 25% a good figure??
- It needs to be compared with other factors to judge this
Gross Profit Margin – good or bad

- The business’s target for GP
- GP Margin in earlier years
- The gross profit of similar businesses
To improve GP margin

- Increase Selling Price
- Decrease costs of sales
Net Profit Margin

- Net Profit Margin

\[
\frac{\text{NET PROFIT}}{\text{SALES REVENUE}} \times 100
\]

- This shows for every £ of Sales Revenue what amount is profit.
- Again comparisons to earlier years, targets and competitors will help to judge whether it is a good figure.
How can net profit be improved?

- Increase selling price
- Decrease cost of sales
- Decrease overheads/expenses
Detailed below is a simplified profit and loss account for the 6 months ending 27/7/08 for JJB Sports.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Revenue</td>
<td>£344.7m</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>£166.49m</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>£</td>
</tr>
<tr>
<td>Overheads</td>
<td>£177.21m</td>
</tr>
<tr>
<td>Net Profit</td>
<td>£</td>
</tr>
</tbody>
</table>

1) Complete the P&L account.
2) Calculate JJB’s Gross profit margin and net profit margin.
3) In the 6 months to August 2008, its closest competitor increased sales to £300m and net profit by 54% to £12.4M. Which company performed more successfully? Fully explain your answer.
These are the profit and loss figures for Acme Builders Ltd for 2008.

Sales revenue £115,000
Cost of goods sold £90,000
Overheads including rent and interest £15,000

1) Calculate gross and net profit.
2) Calculate gross and net profit margins.
3) In 2008 Redgate Builders Ltd’s gross profit margin was 20% and its net profit margin was 10%. Compare the profitability of this company with Acme Builders Ltd.
4) Suggest three ways in which Acme Builders Ltd could increase its profitability.