

Name: _____

Class: _____

Date Taken: _____

Total Possible Marks: 26



Gross Profit Basics

Complete the following questions in the time allowed by your teacher

QUICK DEFINITIONS

Write a short, accurate definition for each of the following key terms. (2 marks for each good quality definition)

— 1. Define: sales revenue
2

Sales revenue (or turnover) refers to the total value of sales achieved in a particular period. It is the value of invoiced goods and services to customers.

— 2. Define: cost of sales
2

Cost of sales is the total cost of directly producing or buying the goods and services sold in a period. For example, for a manufacturing business, cost of sales would include raw materials, components, bought-in goods and other direct costs of production including labour and energy.

— 3. Define: Gross profit margin
2

The gross profit margin is a measure of profitability. It is calculated as a percentage, where gross profit is divided by sales revenue.

— 4. What is the formula for the gross profit margin?
2

Gross profit margin (%) = (gross profit / sales revenue) x 100

PRACTICE CALCULATIONS

Monthly Data - March	Product A	Product B	Product C	Product D
Sales revenue	50,000		60,000	36,000
Cost of Sales		60,000	42,000	23,400
Gross profit	12,500	15,000		12,600
Gross profit margin	25.0%	20.0%	30.0%	

— 5. Calculate the missing data in the table above:
4

Product A: Cost of Sales =

Product B: Sales Revenue =

Product C: Gross Profit =

Product D: Gross Profit Margin =

Product A: Cost of Sales = £37,500

Product B: Sales Revenue = £75,000

Product C: Gross Profit = £18,000

Product D: Gross Profit Margin = 35%

Factory	Leeds	Glasgow	Ipswich
Revenue	150,000	260,000	327,500
Cost of Sales	127,500	202,800	268,550
Gross profit	22,500	57,200	58,950
Gross profit margin			

- 6. The table above shows some financial information for three factories from their monthly
3 production.

Which factory made the highest gross profit? (one mark)

Which factory achieved the highest gross profit margin (one mark) and what was the percentage?
(one mark)

Which factory made the highest gross profit? Ipswich

Which factory achieved the highest gross profit margin (one mark) and what was the percentage?

Glasgow (22%)

SHORT ANSWERS

In this section, please outline short answers or lists to the questions provided

- 7. List up to four items that would be likely to be included in cost of sales for a manufacturer of motor
4 vehicles (one mark for each different, valid item listed)

A. Electronic components

B. Steel & aluminum

C. Energy costs (e.g. electricity) used on production line

D. Pay costs of assembly line staff

E. Depreciation of robotic equipment

F. Cost of sub-assembly parts

- 8. Outline three ways in which a business might use the gross profit margin (one mark for each valid
3 use)

A. To compare the gross profit margin with previous years to see if the business has been operating more profitably

B. To see if specific projects or actions to improve profitability (e.g. trying to increase selling prices) have been successful

C. To provide a benchmark for comparison with competitors

D. As the basis for some kind of performance-related bonus (e.g. production staff earning a bonus if a target gross profit margin is achieved in a period)

— 9. List up to four ways in which a business might be able to improve its gross profit margin (one mark
4 for each valid suggestion)

- A. Increasing the achieved selling price without losing demand
- B. Improving productivity on production lines
- C. Negotiating lower prices for raw materials and other supplies
- D. Changing the mix of products sold to include more high margin items
- E. Ending production of loss-making products
- F. Improve production quality to reduce sub-standard or defective output
- G. Increase production output to gain economies of scale