3.12 Calculating Gross Profit Margin and Net Profit Margin: 30-minute Pack

AQA 8132 · Calculators not allowed · about 30 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer ALL questions. Show your working where calculations are required. The income statement extract used below is fictional and repeated where needed.

1 Bright Bean Cafes, a small UK coffee shop, reports the following income statement extract for the year: Revenue £50,000; Cost of sales £30,000; Gross profit £20,000; Expenses £10,000; Profit for the year £10,000. Which one of the following best describes the gross profit margin?

- ☐ A) Gross profit divided by revenue, times 100
- ☐ B) Profit for the year divided by gross profit, times 100
- ☐ C) Revenue minus fixed costs
- ☐ D) Expenses divided by revenue, times 100

(Total for Question 1 is 1 mark)

2 Sunny Slice Bakery, a small UK bakery, reports the following income statement extract for the year: Revenue £80,000; Cost of sales £56,000; Gross profit £24,000; Expenses £16,000; Profit for the year £8,000. State the gross profit figure for the year, in pounds.

(Total for Question 2 is 1 mark)

3 From the Bright Bean Cafes income statement extract given earlier, state the expenses figure for the year in £.

(Total for Question 3 is 1 mark)

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4 Using the same Bright Bean Cafes extract (Revenue 50,000; Cost of sales 30,000; Gross profit 20,000; Expenses 10,000; Profit for the year 10,000), which one of the following is the net profit margin formula?

- ☐ A) Profit for the year divided by revenue, times 100
- ☐ B) Gross profit divided by revenue, times 100
- ☐ C) Revenue divided by profit for the year, times 100
- ☐ D) Expenses divided by gross profit, times 100

(Total for Question 4 is 1 mark)

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5 From the Sunny Slice Bakery extract given above, state the expenses figure for the year, in pounds.

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(Total for Question 5 is 1 mark)

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6 From the Sunny Slice Bakery extract given above, state the cost of sales figure for the year, in pounds.

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(Total for Question 6 is 1 mark)

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7 From the Bright Bean Cafes income statement extract given earlier, state the revenue figure for the year in £.

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(Total for Question 7 is 1 mark)

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8 From the same Bright Bean Cafes extract, state the cost of sales figure for the year in £.

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(Total for Question 8 is 1 mark)

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9 From the Bright Bean Cafes income statement extract given earlier, state the gross profit figure for the year in £.

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(Total for Question 9 is 1 mark)

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10 Using the Sunny Slice Bakery extract above (gross profit £24,000; revenue £80,000), calculate the gross profit margin as a percentage to one decimal place. Show your working.

(Total for Question 10 is 2 marks)

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11 Using the Bright Bean Cafes figures (profit for the year £10,000; revenue £50,000), express the net profit margin as a fraction and then as a percentage to one decimal place. Show your working.

(Total for Question 11 is 2 marks)

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12 Using the Sunny Slice Bakery extract above (profit for the year £8,000; revenue £80,000), calculate the net profit margin as a percentage to one decimal place. Show your working.

(Total for Question 12 is 2 marks)

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13 Explain, using the Bright Bean Cafes figures where appropriate, what the calculated gross profit margin tells the business about its cost control or pricing. Your explanation should make clear one specific point and develop it with a consequence for the business. Use figures where helpful.

(Total for Question 13 is 4 marks)

14 Bright Bean Cafes has a gross profit margin of 40.0% and a net profit margin of 20.0%. Sunny Slice Bakery has a gross profit margin of 30.0% and a net profit margin of 10.0%. Analyse what these figures suggest about the cost control and overall financial performance of the two businesses.

(Total for Question 14 is 6 marks)

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Mark scheme · 3.12 Calculating Gross Profit Margin and Net Profit Margin: 30-minute Pack

Question 1

A cao **B1**

Answer: A

Question 2

£24,000 cao **B1**

Answer: £24,000.

Question 3

£10,000 cao **B1**

Answer: £10,000.

Question 4

A cao **B1**

Answer: A

Question 5

£16,000 cao **B1**

Answer: £16,000.

Question 6

£56,000 cao **B1**

Answer: £56,000.

Question 7

£50,000 cao **B1**

Answer: £50,000.

Question 8

£30,000 cao **B1**

Answer: £30,000.

Question 9

£20,000 cao **B1**

Answer: £20,000.

Question 10

(24,000 / 80,000) x 100 seen **M1**

30.0% cao **A1**

Answer: 30.0%.

Question 11

fraction substitution seen, e.g. 10,000/50,000 or 10,000 50,000 **M1**

20.0% cao **A1**

Answer: Fraction = 10,000/50,000 = 1/5, Percentage = 20.0%.

Question 12

(8,000 / 80,000) x 100 seen **M1**

10.0% cao **A1**

Answer: 10.0%.

Question 13

identifies a specific point, e.g. the gross profit margin shows the proportion of revenue remaining after cost of sales, here 40.0% **B1**

develops the point by linking it to pricing or cost control, e.g. 40.0% indicates either that Bright Bean Cafes is applying a healthy markup or that its direct costs (cost of sales) are relatively low compared with revenue **B1**

further development showing a consequence, e.g. this margin gives headroom to cover expenses and still make a net profit, since expenses are 10,000 and profit for year is 10,000 here **B1**

uses figures or clear linkage to outcome, e.g. with revenue 50,000 and gross profit 20,000, the business can cover 10,000 of expenses and still have 10,000 profit, so maintaining or improving gross margin helps protect net profit **B1**

Question 14

Level 1 Makes simple comments about one business with limited use of the figures. **1-3**

Level 2 Provides a developed analysis comparing both businesses' cost control and overall profitability, correctly using the figures, and reaches a substantiated interpretation. **4-6**

Indicative content:

- Bright Bean's higher gross profit margin (40.0% vs 30.0%) suggests it controls its cost of sales more tightly relative to revenue, or charges a bigger mark-up, than Sunny Slice Bakery.
- The gap between each business's own gross and net margin shows how much of gross profit is absorbed by expenses: for both businesses this gap is 20 percentage points (40.0% - 20.0% for Bright Bean; 30.0% - 10.0% for Sunny Slice), so both lose a similar SHARE of revenue to expenses even though their gross performance differs.
- Bright Bean's net profit margin (20.0%) is double Sunny Slice's (10.0%), meaning for every pound of revenue Bright Bean keeps twice as much as profit, which could give it more funds for investment or a bigger buffer against rising costs.
- Limitation: margin percentages alone do not show the actual pound amounts of profit if the two businesses' revenues differ in size, nor do they explain WHY costs differ, for example different suppliers, rent levels or staffing, so a full assessment would need more information.
- A reasoned conclusion is likely to judge Bright Bean Cafes the stronger performer on both cost control and overall profitability based on these margins, while noting that margins alone cannot fully explain the underlying causes.

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