BUS.FI12 Calculating Gross Profit Margin and Net Profit Margin

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 pounds; Cost of sales 30,000 pounds; Gross profit 20,000 pounds; Expenses 10,000 pounds; Profit for the year 10,000 pounds. 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)

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2 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 2 is 1 mark)

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3 From the Bright Bean Cafes income statement extract given earlier, state the revenue figure for the year in pounds sterling.

(Total for Question 3 is 1 mark)

4 From the same Bright Bean Cafes extract, state the cost of sales figure for the year in pounds sterling.

(Total for Question 4 is 1 mark)

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5 Bright Bean Cafes' extract shows revenue 50,000 pounds and cost of sales 30,000 pounds, giving a gross profit figure. Calculate the gross profit in pounds. Show your working.

(Total for Question 5 is 2 marks)

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6 Using Bright Bean Cafes figures (gross profit 20,000 pounds; revenue 50,000 pounds), calculate the gross profit margin as a percentage to one decimal place. Show your working.

(Total for Question 6 is 2 marks)

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7 From the Bright Bean Cafes extract (gross profit 20,000 pounds; expenses 10,000 pounds), calculate the profit for the year in pounds. Show your working.

(Total for Question 7 is 2 marks)

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8 Using Bright Bean Cafes figures (profit for the year 10,000 pounds; revenue 50,000 pounds), calculate the net profit margin as a percentage to one decimal place. Show your working.

(Total for Question 8 is 2 marks)

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

(Total for Question 9 is 1 mark)

10 From the Bright Bean Cafes income statement extract given earlier, state the expenses figure for the year in pounds sterling.

(Total for Question 10 is 1 mark)

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11 Using the Bright Bean Cafes figures (gross profit 20,000 pounds; revenue 50,000 pounds), express the gross 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 Bright Bean Cafes figures (profit for the year 10,000 pounds; revenue 50,000 pounds), express the net profit margin as a fraction and then as a percentage to one decimal place. Show your working.

(Total for Question 12 is 2 marks)

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13 Which one of the following best explains what a higher gross profit margin indicates about a business's pricing and direct cost control?

- [ ] A) The business either charges higher markups or has lower cost of sales per unit
- [ ] B) The business has lower overhead expenses
- [ ] C) The business's profit for the year is higher than its gross profit
- [ ] D) The business has a higher net profit margin than gross profit margin

(Total for Question 13 is 1 mark)

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14 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 14 is 4 marks)

Mark scheme · BUS.FI12 Calculating Gross Profit Margin and Net Profit Margin

Question 1

- **B1** A cao
- **Answer: A**

Question 2

- **B1** A cao
- **Answer: A**

Question 3

- **B1** 50,000 pounds cao
- **Answer: 50,000 pounds.**

Question 4

- **B1** 30,000 pounds cao
- **Answer: 30,000 pounds.**

Question 5

- **M1** revenue - cost of sales seen, e.g. 50,000 - 30,000
- **A1** 20,000 pounds cao
- **Answer: 20,000 pounds.**

Question 6

- **M1** formula or substitution seen: (20,000 / 50,000) x 100
- **A1** 40.0% cao
- **Answer: 40.0%.**

Question 7

- **M1** gross profit - expenses seen, e.g. 20,000 - 10,000
- **A1** 10,000 pounds cao
- **Answer: 10,000 pounds.**

Question 8

- **M1** formula or substitution seen: (10,000 / 50,000) x 100
- **A1** 20.0% cao
- **Answer: 20.0%.**

Question 9

- **B1** 20,000 pounds cao
- **Answer: 20,000 pounds.**

Question 10

- **B1** 10,000 pounds cao
- **Answer: 10,000 pounds.**

Question 11

- **M1** fraction substitution seen, e.g. 20,000/50,000 or 20,000 ÷ 50,000
- **A1** 40.0% cao
- **Answer: Fraction = 20,000/50,000 = 2/5, Percentage = 40.0%.**

Question 12

- **M1** fraction substitution seen, e.g. 10,000/50,000 or 10,000 ÷ 50,000
- **A1** 20.0% cao
- **Answer: Fraction = 10,000/50,000 = 1/5, Percentage = 20.0%.**

Question 13

- **B1** A cao
- **Answer: A**

Question 14

- **B1** 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