How to Calculate Profit

The full way to calculate profit, i.e. all the different types of profit (e.g. gross profit, operating profit, net profit etc) is to draw up a trading, profit and loss account.

However, if a question asks you to “calculate profit”, a quick profit calculation is all that’s required.

To do this, use either of the following formulae:

PROFIT = TOTAL SALES REVENUE – TOTAL COSTS

Whereby SALES REVENUE = selling price x total units sold or ‘output’

And TOTAL COSTS = fixed costs + variable costs

Or

PROFIT = TOTAL CONTRIBUTION – FIXED COSTS

Whereby,

TOTAL CONTRIBUTION = (Selling price per unit – variable cost per unit) x total units sold or ‘output’

Practice questions

Use one of the methods to calculate profit for these questions, and the other method to check your answers.

1. Fixed Costs are £100,000 per year
Variable costs per unit are £19
Selling price per unit are £30
Output is 20,000 units per year

Calculate the profit for the year.

1. Selling price = £5
Variable costs per unit = £2.75
Fixed costs are £5,500
Output = 2,300 units
Calculate the profit for the year.
2. A market stall that sells CDs buys them from their supplier for £2.50 each. They sell them to their customers for £6 each. Fixed costs for the market stall come to £200 per month, which is rental for the stall. Last month, the market stall sold 600 CDs. How much profit did they make?
3. APAX plc sells its products for £100 each, on average. Its fixed costs for the year are £20,000,000, and each product costs an average of £30 to make. If APAX plc makes and sells 600,000 units per year, how much profit will it make?