**23. Profitability Mark: /21**

1. Fine Kitchens has sales revenue of £1.2m a year. The gross profit margin is 62% and total expenses £50 400 per annum.
	1. What is Fine Kitchen’s operating profit? /2 marks

Operating Profit = Gross Profit – Expenses
Gross Profit = Sales Revenue – Cost of Sales

Gross Profit = £1.2m x 0.62 = £744 000

Operating Profit = Gross Profit – Expenses
Operating Profit = £744 000 - £50 400 = **£693 600**

* 1. The marketing manager suggests that the business spends an additional £5 000 on advertising in the local paper. He believes this would increase revenue by 1%, the GPM remains unchanged. What would be the new operating profit? /3 marks

New Sales Revenue = £1.2m x 1.01 = £1 212 000

Gross Profit = £1 212 000 x 0.62 = £751 440

Operating Profit = £751 440 – (£50 400 + £5 000)
Operating Profit = £751 440 - £55 400 = **£696 040**

* 1. The operations manager suggests a better way to improve profit would be to change suppliers. She has found a cheaper supplier that would reduce cost of sales to 40% of revenue. However wages would need to be increased by £10 000 per year as an additional process would be required. What would be the new operating profit? /3 marks

Gross Profit = £1 200 000 – (40% of £1.2m)
Cost of Sales = £1 200 000 x 0.6 = £720 000

Operating Profit = £720 000 – (£50 400 + £10 000 wages)
Operating Profit = £720 000 - £60 400
Operating Profit = **£659 600**

1. Complete the table below to show TD Ltd's profit and profitability /4 marks

|  |  |
| --- | --- |
|  | Current year (£m) |
| Sales revenue | 21.7 |
| Cost of sales | **17.36** |
| Gross profit | 4.34 |
| Gross profit margin | **20%** |
| Expenses | 2.14 |
| Operating profit | **2.2** |
| Operating profit margin | **10.1%** |