

Attached in this PowerPoint are the tasks for the next seven days in the subject listed above.

Present New Information:

- Year 10 Business will be examining Profit and Loss Accounts. Please use to help you with your learning - <https://www.bbc.co.uk/bitesize/guides/zkwnnrd/revision/1>

Calculating the gross profit margin

In order to calculate the gross profit margin, a business will use the following formula:

$$\text{Gross profit margin (\%)} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$$

Comparing gross profit margins over time can be useful for businesses.

Calculating the net profit margin

In order to calculate the net profit margin, a business will use the following formula:

business that knows its net profit and sales revenue can calculate its net profit margin as follows:

$$\text{Net profit margin (\%)} = \frac{\text{Net profit}}{\text{Sales revenue}} \times 100$$

The **net profit margin** is the proportion of **sales revenue** that is left over once all costs have been paid. It tells a business how much **net profit** is made for every pound of sales revenue received

Please date your work and title with “Year 10 Profit and Loss Week Four” – this will help you to keep your work organised!

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How to improve a business' profits or reduce its costs

- Changing prices

One way a business can improve its profits is to try and make more revenue. They can do this by increasing their selling price: if they can maintain the same level of demand after this they will make more profit.

This is more likely if they don't have many competitors.

In some cases, reducing prices could lead to an increase in demand that is big enough to increase profits overall.

For example, if a business is selling 10,000 products at £10 each, their revenue is £100,000. If they reduce prices to £9 and demand increases to 12,000 units, their revenue will be £108,000.

- Reducing costs

Another way to increase profits is to reduce costs. This could include:

Reducing the cost of raw materials – this would reduce the cost of sales but could have an impact on the quality of the product.

Reducing labour costs – some businesses have introduced technology to reduce their wage costs. An example of this is self-service tills in supermarkets and online check-in for flights. However, the initial set up of technology can be costly and it could be unpopular with customers.

Reducing expenses – this could reduce costs such as insurance costs or finding lower interest rates without impacting the quality of the product or service.

Please date your work and title with “Year 10 Profit and Loss Week Four” – this will help you to keep your work organised!

Year 10 Business Week Four – Complete All Tasks

Task	Task	Support	How long should I take?
1	<p>Check your answers from last week from slides 3-6 https://www.bbc.co.uk/bitesize/guides/zkwnnrd/revision/1 If any of these are incorrect go back to and recap any core knowledge.</p>	<p>Use an online dictionary to find the meaning of any unfamiliar words. Use your revision guide to support.</p>	25 minutes
2	<p>https://www.bbc.co.uk/bitesize/guides/zkwnnrd/revision/3 Watch the video clip on profit margins. Read the information on Gross and Net Profit Margins.</p>	<p>Use your revision guide to support.</p>	20 minutes
3	<p>Go back to slides 4 and 6. Work on the Gross and Net Profit Margin for each business.</p>	<p>Use your revision guide to support.</p>	20 Minutes
4	<p>Analyse the performance of a business using Gross and Net Profit. Complete Task Two. Complete Task Three (try to do this without looking at any information in silence).</p>	<p>Use your revision guide to support.</p>	40 minutes

Task One – Ian's Fish and Chip shop

Here is a list of transactions, put these into the income statement to calculate Ian's profit for the year.

- Bought vehicle £750;
- Sold 2000 small portions of fish & chips at £3 each;
- Advertising £5,000;
- Car insurance £1,500;
- Rent £15,000;
- Purchased 750kgs of fish at £7.50 a kg;
- Sold 10,000 medium portions of fish & chips at £5;
- Purchased 100 bottles of vinegar at £2 each;
- Sold 4,500 large portions of fish and chips at £6.50 each;
- Purchased 2,500 packs of frozen chips at £1 each;
- Wages £5,000;
- Telephone bill £2,000.

Hint:
Cost of sale
= (Opening
Stock +
Purchases) -
Closing
Stock

	£
Revenue	
Total revenue =	
Cost of Sales	
Opening stock	
All Purchases	
Less Closing stock	()
Cost of sales =	
Gross Profit =	
Expenses	
Total expenses =	
Profit for the year =	

Solutions

	£
<u>Revenue</u>	
Small fish and chips	6000
Medium fish and chips	50000
Large fish and chips	29250
Total revenue =	85250
<u>Cost of Sales</u>	
Bottles of Vinegar	£200
Fish	5625
Frozen chips	2500
Cost of sales =	8325
Gross Profit =	76925
<u>Expenses</u>	
Wages	5000
Telephone	2000
Advertising	5000
Vehicle	750
Car Insurance	1500
Rent	15000
Total expenses =	29250
Profit for the year =	47675

Task Two

Complete the income statement using the following figures for a new Indian restaurant/takeaway;

- Stock that will be sold next year (2021) worth £1,500;
- Purchased 250 kg's of rice at £1 a kg;
- Sold 265 portions of lentil curry at £10.50 each;
- Vehicle £5,000;
- Purchased 50kg of lentils at £2.50 a kg;
- Car insurance £750;
- Rent £30000;
- Sold 650 portions of rice at £4.25 each;
- Stock left over from last year (2019) worth £2,000;
- Advertising £7000;
- Purchased ingredients for pakoras for £1,500;
- Wages £30,000;
- New cooker £2,000;
- Telephone £500;
- Sold 150,000 pakoras at £0.50p each.

Hint:

$$\text{Cost of sale} = (\text{Opening Stock} + \text{Purchases}) - \text{Closing Stock}$$

	£
Revenue	
Total revenue =	
Cost of Sales	
Opening stock	
All Purchases	
Less Closing stock	()
Cost of sales =	
Gross Profit =	
Expenses	
Total expenses =	
Profit for the year =	

Solutions

	£
<u>Revenue</u>	
Lentil curry	2782.50
Pakorras	75000
Rice	2762.50
Total revenue =	80545
<u>Cost of Sales</u>	
Opening stock	2000
Purchases	1875
<u>Less Closing stock</u>	(1500)
Cost of sales =	2375
Gross Profit =	78170
<u>Expenses</u>	
Wages	30000
Telephone	500
Advertising	7000
Vehicle	5000
New cooker	2000
Car insurance	750
Rent	30000
Total expenses =	55250
Profit for the year =	2920

Task Two

4 Finance

Business insight: Profits ratios in the pharmaceutical industry

Table 4.6 earlier in this section showed the profits and revenues for AstraZeneca plc and GlaxoSmithKline plc for 2015. These are reproduced below.

	AstraZeneca plc	GlaxoSmithKline plc
Year	2015 £m	2015 £m
Revenue from sales	20,252	23,923
Net profits	2,316	8,372

Table 4.8 Financial information for AstraZeneca plc and GlaxoSmithKline plc, 2015

In 2014 AstraZeneca's net profit margin was $\text{£1,012m} \div \text{£21,760m} \times 100 = 4.65\%$. In 2014 GSK's net profit margin was $\text{£2,831m} \div \text{£23,006m} \times 100 = 12.31\%$.

- 1 Calculate the net profit margins for AstraZeneca plc and GlaxoSmithKline plc for 2015. (6 marks)
- 2 Explain which company might be more satisfied with its financial performance on the basis on these net profit margin results. (4 marks)

Task Three

7. Fry's is a fish and chip shop business with five shops located across Devon. It is owned by brothers Mark and Clive Fry as a partnership. They aim to further expand the business and open a large fish and chip shop in a new location. The cost of opening the new fish and chip shop is estimated to be £400 000. The brothers have also, very recently, bought expensive new homes.

The table below shows financial data for 2013 to 2018.

	2013	2014	2015	2016	2017	2018
Sales Revenue (£)	900 000	950 000	1 000 000	1 100 000	1 400 000	1 600 000
Gross Profit (£)	318 000	380 000	480 000	510 000	560 000	650 000
Net Profit (£)	110 000	172 000	200 000	220 000	225 000	340 000
Gross Profit Margin (GPM)	35%	40%	48%	46%	?	40%
Net Profit Margin (NPM)	12%	18%	20%	20%	16%	21%

- (a) (i) State the formula for calculating gross profit margin (GPM). [1]

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- (ii) Using the formula calculate the GPM for 2017. [1]

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- (b) Explain how Fry's could be affected by the following external factors:

- (i) A competing fish and chip shop opens in the local area. [3]

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Examiner
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