

## Topic 2.4.1 Business Calculations

### Key Vocabulary

**Revenue** – the money that a business receives from selling its goods and services. Also called Turnover or Income

**Cost of sales** – the name for the costs that are directly involved in the making of a product for a manufacturer or the provision of a service for a service provider

**Gross profit** – the amount left after the cost of buying or making the product has been deducted from revenue

**Expenses** – costs of the business that are not directly involved in the making of the product, e.g. rent, rates

**Net profit** – overall profit made by a business. What is left after deducting all costs.

**Gross profit margin** – expressed gross profit as a percentage of sales revenue

**Net profit margin** – expresses net profit as a percentage of sales revenue

**ARR** – Average Rate of Return. Expresses the average yearly profit as a percentage of the sum invested. Shows profitability and can be compared with interest rates on bank deposits

### Core Knowledge

#### Key formulas:

**Gross profit** = Revenue – cost of sales

**Net Profit** = Gross profit – expenses

**Gross profit margin** = (Gross profit ÷ Sales revenue) x 100

**Net profit margin** = (Net profit ÷ Sales revenue) x 100

**ARR** = (lifetime profit ÷ years the investment will last) ÷ initial investment x 100

In all cases the higher the number the better, BUT these must be compared to other businesses and previous performance

### Wider Business World

**RyanAir** – has a greater Net profit margin than other airlines as it keeps costs down by not offering meals on board



### Synoptic Links

**Revenue & costs** – knowledge of these terms is built on in this topic; fixed costs are expenses; variable costs are cost of sales

### Don't be a "man on the street"



- Remember not all investments will be profitable
- Even if an investment is not profitable, this does not mean a business should dismiss it – it may be needed to maintain a competitive position
- A business can not lose profit – it makes a profit OR a loss
- A loss in one year does not always indicate failure – this may be due to high one-off costs