

Measuring business success

Learning Aim C:

Understand how businesses measure success

Making a profit

Cost of sales: the cost of producing a product

This is usually the cost of all the **materials** needed to make a product

Making a profit

Q. Which statement best describes cost of sales?

- ▣ Money spent on advertising a product
- ▣ Budget for sales and marketing department
- ▣ Price paid for items used to make a product
- ▣ Cost of moving goods from the factory to the shop

Making a profit

Q. What items would make up the cost of sales for my biscuit making business?

Q. You sing in a band. You decide to produce a CD to sell at gigs. List the items which would make up the cost of sales for the CD

Making a profit

Q. The total value of parts to make a kids bike is £20 per bike.

The manufacturer makes 1,000 bikes this quarter.

What is the total cost of sales?

Making a profit

Gross profit: the **revenue** made from selling a product after the **costs of sales** has been deducted

- Doesn't include all the costs – e.g. wages

Gross profit = revenue – cost of sales

= Price you sell for – cost of bits

Making a profit

+ve gross profit = revenue greater than cost of sales

- ▣ Costs less to produce than it's sold for
- ▣ Making money

-ve gross profit = revenue less than cost of sales

- ▣ Costs more to produce than it's sold for
- ▣ Losing money before we start
- ▣ Need to **reduce cost of sales**
- ▣ Or **increase revenue**

Making a profit

- Need to **reduce cost of sales**
 - ▣ Cheaper ingredients
 - ▣ Buy in bulk – discount
 - ▣ Change supplier

- Or **increase revenue**
 - ▣ Increase prices
 - ▣ Sell more

Making a profit

Net profit: the money made from selling a product after all other costs (expenditure) have been deducted

- ▣ Includes wages, fixed costs etc...

Net profit = gross profit - expenditure

= gross profit – all other costs (not cost of sales)

Making a profit

Jan makes cupcakes. She has the following information:

- ▣ Income from sales: £900
- ▣ Gross profit: £700
- ▣ Cost of ingredients: £200
- ▣ Expenses: £250

Calculate Jan's net profit

Making a profit

Samir's notes show:

- ▣ Revenue: £6,000
- ▣ Cost of sales: £2,000
- ▣ Other expenses: £3,000

Calculate Samir's gross profit and his net profit

Making a profit

Q. Gross profit is £15,000. All expenses except cost of sales is £11,000. Calculate net profit

Q. Revenue is £3,500. Cost of sales are £1,000. Overheads and other costs are £2,000.

Calculate gross profit and net profit.

Making a profit

+ve net profit = gross profit greater than costs

- ▣ Gross profit also +ve
- ▣ Expenditure within budgeted levels
(assuming a budget has been done)

-ve net profit = gross profit less than costs

- ▣ Making a loss
- ▣ Increase gross profit
- ▣ Reduce overheads