

Profit

Profit is the surplus from revenue after paying all costs. That is, profit is what you have left over, when you have taken your total costs from the total of money that you have coming in.

$$\text{Profit} = \text{Total revenue} - \text{Total costs}$$

If total costs exceed total revenue, the company has made a loss.

Example

Company	Company Annual Profit (£000s)	Number of Employees
ABC Ltd	200	505
DEF Plc	155	820
XYZ Co	180.8	486

(i) Which company has the highest annual profit per employee?

We divide the annual profit by the number of employees for each company

$$\text{ABC Ltd} \quad 200000 \div 505 = \text{£}396$$

$$\text{DEF Plc} \quad 155000 \div 820 = \text{£}189$$

$$\text{XYZ Co} \quad 180800 \div 486 = \text{£}372$$

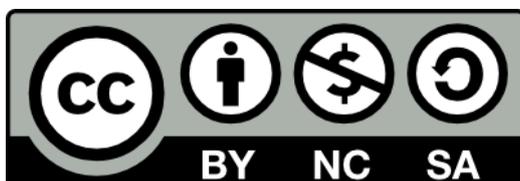
The answer is ABC Ltd.

Speed Tip!

1. We could have ignored the fact that the company profits are in thousands as pounds, since we are comparing like with like.
2. Also, it is clear that DEF Plc could not be the answer, as it has less profit and more employees – and therefore could be left out of our calculations.

(ii) If the profit per employee remains the same, how many more employees would DEF Plc need to recruit, to achieve profits exceeding £200,000?

To exceed £200,000 DEF Plc needs to make £45,000 more profit. Each employee makes £189 profit. Therefore we have $45000 \div 189 = 238.09$
Thus the answer is DEF Plc needs to recruit an extra 239 employees.



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Example

January Sales Turnover and Profit for Fitzroy Ltd in the UK

	Actual (£)	Target (£)
Sales Turnover	265,490	310,000
Sales Tax (17.0%)	45,133	52,700
Net Turnover	220,357	257,300
Labour Costs	180,000	195,000
Other Costs	11,000	16,000
Gross Profit	29,357	46,300

- (i) *If sales tax decreased to 15%, what would the actual gross profit be?*

We calculate the new sales tax figure $265490 \times 15\% = 39823.50$
Next we calculate Net turnover $265490 - 39823.50 = 225666.50$
When we subtract total costs ($180000 + 11000 = 191000$) we have
 $225666.50 - 191000 = 34666.50$

Therefore the new actual gross profit is £34,666.50

Speed Tip!

Since Net Turnover = Sales Turnover – Sales Tax, it is 85% of Sales Turnover, which we could calculate directly $265490 \times 85\% = 225666.50$

- (i) *If actual labour costs were to increase so as to halve the difference with target labour costs, what would be the effect on actual gross profit?*

The difference between actual labour costs (£180000) and target labour costs (£195000) is £15000.

If actual labour costs increase to halve this difference, then they would increase by $15000 \div 2 = 7500$.

If costs increase by £7,500 then profit decreases by £7,500.

Therefore the answer is that actual gross profit would decrease by £7,500.



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