**Finance Test on profitability**

|  |  |  |
| --- | --- | --- |
|  | 2010  £000 | 2009  £000 |
| Sales revenue | 14,000 | 11,500 |
| Less cost of sales | 6,000 | 4,500 |
| Gross profit |  |  |
| Less expenses | 2,000 | 1,500 |
| Net profit |  |  |
|  |  |  |
| Retained profit | 3,500 | 2,750 |

Questions:

Define cost of sales? ………………………………………………………………………………………………………………………………………………….. ……………………………………………………………………………………………………………………………………………………………(2marks)

Define expenses?.... ……………………………………………………………………………………………………………………………………….. …………………………………………………………………………………………………………………………………………………………… (2marks)

Using the formula (Net profit/Sales revenue) x 100, calculate the net profit for:

2010 ……………………………………………………………………………………………………………………………………………….………………………

………………………………………………………………………………………………………………………………………………………………………(2 marks)

2011……………………………………………………………………………………………………………………………………………………………………………

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What does the financial information tell you about the profits?

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The company is thinking of expanding its stores and requires £4 million to do so. It is considering either using its retained profits or by obtaining a loan from a bank. Which method do you think they should use? Justify your answer. (9 marks)