1. Explain what Gross Profit Margin is.

2. Write down the formula for the Gross Profit Margin in the space below.

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| --- |
|  |

3. Explain what Net Profit Margin is.

4. Write down the formula for the Net Profit Margin in the space below.

|  |
| --- |
|  |

5. Explain what Average Rate of Return is.

6. Write down the formula for the Average Rate of Return in the space below.

|  |  |
| --- | --- |
| **Year 1** | £15 000 |
| **Year 2** | £24 000 |
| **Year 3** | £20 000 |
| **Year 4** | £28 000 |
| **Year 5** | £34 000 |

Jonathan is considering investing £56,000 in a new business which sells tennis products. He has completed some market research and estimates that over a 5 year period there will be the following annual net cash flows.

|  |
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|  |

7. On average, how much profit does Jonathan make per annum?

8. Calculate Jonathan’s Average Rate of Return.

9. Jonathan had also researched a business opportunity (B) where the Average Rate of Return was 15% year. Based purely on the Average Rate of Return, which business should he invest in; the tennis equipment business or Business B? Explain your reasoning.

10. Now reflect upon your answer to 7c. Why might Jonathan decide to invest in the business that has the lower Average Rate of Return over 5 years?







