

**73.1 A drill to practise profit ratios**

Below are extracts from the published accounts of three listed companies. Two are pharmaceutical companies, and the other is a supermarket.

- Calculate the following ratios for each company: gross profit ratio, net profit ratio (use the profit before tax), activity ratio (sales/equity) and activity ratio (sales/capital employed).
- Identify the odd one out and state whether, in your opinion, the sample consists of two supermarkets and one pharmaceutical company, or two pharmaceutical companies and one supermarket.
- Explain your opinion and comment on your findings.

**Data**

	<b>A</b>	<b>B</b>	<b>C</b>
Sales	26 475	39 454	23 225
Cost of Sales	(5 559)	(36 426)	(5 010)
Gross Profit	<u>20 916</u>	<u>3 028</u>	<u>18 215</u>
profit before tax	<u>8 543</u>	<u>2 235</u>	<u>7 799</u>
equity	<u>15 416</u>	<u>9 444</u>	<u>9 648</u>
current debt	136	1 646	718
long-term debt	<u>1 087</u>	<u>3 742</u>	<u>4 772</u>
total debt	<u>1 223</u>	<u>5 388</u>	<u>5 490</u>
capital employed	<u>16 639</u>	<u>14 832</u>	<u>15 138</u>

**Response**

	<b>A</b>	<b>B</b>	<b>C</b>
<b>Gross Profit Ratio</b>	$\frac{20\,916}{26\,475}$ = <b>79.0%</b>	$\frac{3\,028}{39\,454}$ = <b>7.7%</b>	$\frac{18\,215}{23\,225}$ = <b>78.4%</b>
<b>Net Profit Ratio</b>	$\frac{8\,543}{26\,475}$ = <b>32.3%</b>	$\frac{2\,235}{39\,454}$ = <b>5.7%</b>	$\frac{7\,799}{23\,225}$ = <b>33.6%</b>
<b>activity ratio sales/equity</b>	$\frac{26\,475}{15\,416}$ = <b>1.72</b>	$\frac{39\,454}{9\,444}$ = <b>4.18</b>	$\frac{23\,225}{9\,648}$ = <b>2.41</b>
<b>activity ratio sales/capital employed</b>	$\frac{26\,475}{16\,639}$ = <b>1.59</b>	$\frac{39\,454}{14\,832}$ = <b>2.66</b>	$\frac{23\,225}{15\,138}$ = <b>1.53</b>

**B** is clearly the odd one out (and is almost certainly the supermarket). It has very low profit margins and high activity ratios (both consistent with the high product throughput commonly associated with supermarket trading).

**A** and **C** (the pharmaceutical companies) evidently go together, with almost identical and very high profit margins, and very similar activity ratios, which are significantly lower than **B**'s activity ratios. These ratios are consistent with the profile of the pharmaceutical industry as one enjoying very high margins, coupled with a long product development cycle.