

- Return on Capital =

$$\text{Return on Capital} = \frac{\text{net profit}}{\text{capital invested (the cost of all the machinery they invested in)}} \times 100 \text{ The businesses ROI.}$$

NOTE: When the operating profit margin is very low, a business might set an objective of reducing variable or fixed costs.

When ROI margins/ ROC is very low they might look at both the sales rev and the costs to see if one or both is causing the decline of ROI.

Objectives for Revenue and Costs

A business will analyse its revenue, costs and profits before setting an objective. The overall aim is to increase revenue and keep costs down which will in turn lead to maximising profit. A business also has to consider the quality of its products and their elasticity in demand. No point in increasing prices to increase revenue when fewer people will want to buy the product.

Key Q's:

- What is the value of setting finance objectives?
- Difference between cash flow and profit.
- Difference between gross profit, operating profit and profit of the year.
- What are the objectives for:
- Capital investment, revenue, costs, profit, cash flow, and capital structure.
- What are the internal and external influences on financial objectives and decisions?

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