

Financial statements

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Company Google Source: <http://finance.yahoo.com/q/isk?s=GOOG+Income+Statement&annual>
I. Gross profit margin Formula: $\text{gross profit} / \text{total profit} = \text{gross profit margin}$ expressed in percentage

Year 2010 (number in thousands)

Gross profit: 18,904,000

Total Profit: 29,321,000

$18,904,000 / 29,321,000 = .64$

Gross profit margin : 64%

Year 2011

Gross profit: 24,717,000

Total profit: 37,905,000

$24,717,000 / 37,905,000 = .65$

Gross profit margin: 65%

Year 2012

Gross profit: 29,541,000

Total Profit: 50,175,000

$29,541,000 / 50,175,000 = .588$

Gross profit margin = 58%

II. Operating income margin

Formula: $\text{operating income} / \text{revenue}$

Year 2010 (number in thousands)

Operating income: 10,381,000

Revenue: 29,321,000

$10,381,000 / 29,321,000 = .35$

Operating income margin = 35%

Year 2011

<https://assignbuster.com/financial-statements-essay-samples-2/>

Operating income: 11, 742, 000

Revenue: 37, 905, 000

$11, 742, 000 / 37, 905, 000 = . 30$

Operating income margin = 30%

Year 2012

Operating income: 12, 760, 000

Revenue: 50, 175, 000

$12, 760, 000 / 50, 175, 000 = . 25$

Operating income margin = 25%

III. Net income margin

Formula: net income/sales revenue

Year 2010 (number in thousands)

Net income: 8, 505, 000

Revenue : 29, 321, 000

$8, 505, 000 / 29, 321, 000 = . 29$

Net income margin = 29%

Year 2011

Net income: 9, 737, 000

Revenue : 37, 905, 000

$9, 737, 000 / 37, 905, 000 = . 25$

Net income margin = 25%

Year 2012

Net income: 10, 737, 000

Revenue : 50, 175, 000

$10, 737, 000 / 50, 175, 000 = . 21$

Net income margin = 21%

Economic interpretation of results

a. Gross profit margin

Gross profit margin is also known as the percentage mark up or the rate of added profit to the cost of the product service sold or rendered. The gross profit ratio of Google indicates that it is a profitable company because its mark-up ranges from 58% to a high of 64%. In this ratio, 2012 is a conservative year for Google because it has only a margin of 58%

b. Operating income margin

The operating ratio indicates the net profit realized on each dollar of sales. Google fared very well with this ratio registering an operating margin of 25% to 35% indicating that for every dollar of sales, it makes a net profit of \$. 25 to \$. 35 and this is very laudable considering that there is a global recession. This ratio also indicates the efficiency of Google in the use of its resources to realize a profit.

c. Net income margin

Net income margin indicates the ratio of net income compared to gross sales. The higher the ratio, the better because it indicates that its expenses is below the gross sales. Again, Google proved to be profitable making at least 25% net income margin in 2012 despite the global ratio with similar ratio in 2011 and a high of 29% in 2010.