

Case Link

Question (1)

Directions: Click the case link above and use the information provided in **Revolutionary Designs, Part B**, to answer this question:

After declining in 20Y2, all of Revolutionary Designs profit margins recovered to some extent in 20Y3. How sustainable are 20Y3s margins and why?

- Revolutionary Designs' narrow gross profit margin makes sustaining its operating, pretax, and net profit margins very challenging.
- Despite a substantial increase in its 20Y3 gross margin, none of the other margins was able to keep pace. Until the company can better control these costs, it is questionable whether it can sustain even 20Y3's margins.
- Although the company's operating profit margin improved by only a fraction of the growth in gross margin, the steady decline of income tax and other expenses as a percentage of sales suggests the company should be able to sustain its 20Y3 margins.
- The substantial improvement in Revolutionary Designs' gross margin should enable it to comfortably sustain its 20Y3 profit margins.

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