

GROSS PROFIT MARGIN

Gross Profit is the amount of money that you make on your product or service after direct costs of sales but before overheads.

While gross profit is expressed in dollars, the gross profit margin is expressed as a percentage. It's important because it can be used to track trends in profitability.

Gross Profit

Gross Profit = Sales - Cost of Goods Sold (CoGS)

Gross Profit Margin

Gross Profit Margin = Gross Profit / Sales x 100

Gross Profit Margin is the key measure of your businesses profitability.

You can set this figure out as either:

1. **Overall Gross Profit Margin** - showing overall business performance.
2. **Profit margin for each item** - whereby you calculate the margin for each product line, item or activity, which shows how profitable that particular business activity is.

CALCULATION STEPS

1. Input your gross profit for the year (e.g. \$27,000)
2. Input your total sales for the year (e.g. \$90,000)
3. The calculator divides these figures and multiplies by 100

RESULT — YOUR GROSS PROFIT MARGIN IS

In the calculator we have defined 'Direct cost of sales' to include the material and labour involved in preparing your item for sale. While 'Overheads' include costs that cannot be directly attributable to a sale but are incurred to keep the business running, eg Accounting costs, Advertising, Insurance, Rates.

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