

CONCEPT: RATIOS – PROFIT MARGIN

- The **Profit Margin** relates the amount of _____ to sales revenue
 - The Profit Margin ratio is a common _____ ratio
 - Profit Margin = Net Income

$$Profit\ Margin = \frac{Net\ Income}{Net\ Sales} * 100$$

Note: This ratio is generally shown as a _____, make sure to multiply by 100!

Analysis: The Profit Margin tells how much net income the company earns for each dollar of sales revenue.

Comparison: Different industries have different reasonable Profit Margins, use **benchmarking**

Red Flag: A negative profit margin only occurs if the company had a net _____

PRACTICE: If XYZ Company has net sales of \$500,000 and net income of \$25,000, the profit margin is:

- a) 5%
- b) 10%
- c) 90%
- d) 95%

PRACTICE: A company has income before taxes of \$100,000. Net sales are \$400,000 and gross profit is \$300,000. What is the profit margin, assuming the company has a 40% tax rate?

- a) 15%
- b) 20%
- c) 25%
- d) 33%