

CONCEPT: RATIOS – GROSS PROFIT PERCENTAGE

- The **Gross Profit Percentage** relates the amount of gross profit to sales revenue

- ☐ The Gross Profit Percentage ratio is a common _____ ratio
- ☐ Gross Profit = Gross Margin

$$\text{Gross Profit Percentage} = \frac{\text{Net Sales} - \text{COGS}}{\text{Net Sales}} * 100 = \frac{\text{Gross Profit}}{\text{Net Sales}} * 100$$

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

Analysis: The Gross Profit Percentage tells how much gross profit the company earns for each dollar of sales revenue.

Comparison: Different industries have different reasonable gross profit percentages, use **benchmarking**

PRACTICE: If XYZ Company has net sales of \$500,000 and cost of goods sold of \$320,000, the gross profit percentage is:

- a) 18%
- b) 36%
- c) 48%
- d) 64%

PRACTICE: A company has sales of \$300,000 and gross profit of \$135,000. What is the company's cost of goods sold?

- a) \$135,000
- b) \$165,000
- c) \$435,000
- d) Not enough information.

PRACTICE: A company has sales of \$300,000 and gross profit of \$135,000. What is the gross profit percentage?

- a) 40%
- b) 45%
- c) 55%
- d) 60%