

Gross profit margin = Gross profit divided by **net sales**

Calculation of **gross profit margin** includes:

Gross profit (dollar amount) from the income statement for the
year ended _____.

Net sales from the same income statement.

Gross profit (dollar amount)	\$ _____	GP\$	
<i>divided by</i> net sales	\$ _____	S	
= Gross profit margin (%)	<u> </u>	GP%	(GP\$ / S)

Notes:

The gross profit margin is also referred to as the *gross margin*, *gross margin ratio*, or *gross profit percentage*.

GP\$ If the dollars of gross profit are not reported on the income statement, you can compute the gross profit by deducting the cost of goods sold from net sales:

Net sales	\$ _____	S	
<i>minus</i> the cost of goods sold	\$ _____	COGS	
= Gross profit dollars	<u> </u>	GP\$	(S - COGS)

S Net Sales or Total Revenues will appear at the top of the income statement.

GP% The gross profit margin indicates the percentage of sales dollars that remain after deducting the cost of goods sold, but before deducting the selling, general and administrative expenses.