

ACG 2021 Chapter 4

Various Ratios to evaluate results:

Example

$$\text{Gross Margin (Profit) \%} = \frac{\text{Gross Margin}}{\text{Net Sales}} = \frac{\$ 80,000}{\$ 240,000} = 33.3\%$$

Shows what percentage of each sales dollar is left after deducting Cost of Goods Sold (Sales - Cost of Goods Sold = Gross Margin). This amount is then available to cover other operating and non-operating expenses.

$$\text{Net Income \%} = \frac{\text{Net Income}}{\text{Net Sales}} = \frac{\$ 20,000}{\$ 240,000} = 8.3\%$$

Often referred to as "Return on Sales".

Shows how much of each sales dollar flows to Net Income.