



How to Price Product

Calculating Cost of goods sold, gross profit and margin

Cost of Goods Sold or Product Cost

- **Cost of Goods Sold or Product Cost is the cost of creating the products that a company sells; the only costs included in the measure are those that are directly tied to the production of the products.**
- **Direct Costs**
 - Labor
 - Materials



Gross Profit/Net Profit

The sales revenues minus the cost of goods sold is gross profit.

Example:

If the product sold for \$40 and we are selling it for \$50, the gross profit is \$10.

Net profit is the money left over after paying all the expenses.



How to Calculate Markup/Margin

- determine your COGS (cost of goods sold or product cost). For example product cost is \$40.
- find your gross profit by subtracting cost from revenue. We're selling for \$50. Deduct the product cost from the selling price. Gross profit is \$10.
- divide profit by product cost $\$10 / \$40 = 0.25$. Expressed as percentages: $0.25 * 100 = 25\%$. We have a 25% markup on this product.
- formula for Gross margin is as follows: $\text{Gross margin} = 100 * \text{profit} / \text{cost}$. In this example the gross margin would be $\$10/\$50*100 = 20\%$.

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