



FD Solutions
The flexible Finance Director service

Financial terminology - Sales Price and Gross Margin

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What I intend to cover

- Sales Price
- Costs of Sales
- Gross Profit/ Margin (sales less costs of sales)

Sales Price for a product or a service

Do you want to establish an image of high value, thus high price?

Are immediate profit margins more important to you than building a customer base.

Do you want to price to set entry barriers?

Do you want to price to attract distributors?

Is it your intent to capture maximum market share?

Sales price = What the market will accept

What you really need to know

Gross margin (or Gross Profit) and
costs of goods sold

Sales

Costs of goods sold (costs of sales)

Gross margin

Gross margin

	PROFIT & LOSS EXTRACT				
A	Sales	1,000			
B	Costs of goods sold	500			
C	Gross Margin	500	A-B		
D	Gross margin %	50%	$(A-B)/A$		

Gross Margin

A	Unit Sales Price (net of sales tax,VAT)	150
	Cost of Sales workings	
	Materials	30
	Import Duty on materials	0
	Labour (direct wages)	40
	Other Direct Costs	20
	Delivery costs (to customer)	5
	Transport Insurance	1
	Duty (e.g export duty)	0
	Bank charges on sales receipts	1
	Commissions to sales agents	3
B	Total Costs of Sales	<u>100</u>
	C=A-B Gross Profit/Margin value	<u>50</u>
	<u>=C/A% Gross Profit/Margin %</u>	<u>33%</u>

The difference between cashflow and profit

PROFIT & LOSS EXTRACT					
A	Sales	1,000			
B	Costs of goods sold	500			
C	Gross Margin	500	A-B		
D	Gross margin %	50.0%	(A-B)/A		
CASHFLOW		Month1	Month2	Month3	Month4
	Cash inflows				
	Customer receipt	0	0	0	1000
	Cash outflows				
	Payment to supplier	-500			
	Net inflow/(outflow)	-500	0	0	1000
	balance b/fwd	0	-500	-500	-500
	balance c/fwd	-500	-500	-500	500

Thank you

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