

Hes·SO // VALAIS  
WALLIS



# Module finance

**Sale price**

**How to calculate it?**



## Reminder

+ Gross purchase/cost price without VAT  
- Discounts  
= Net purchase/cost price  
+ Delivery costs  
= Cost of goods sold  
+ Operating & Admin expenses / Overheads  
= Cost price  
+ Profit Margin  
= Selling Price (Net selling price)

Gross selling price without VAT  
- Discounts  
= Net selling price without VAT

*If discounts given to customer, make sure your profit margin remains the same or profitable.*

## Markup Percentage Method

When you calculate a sales price, you must allow for the cost of the product, overhead and profit. Overhead costs include staff salaries, rent, utilities, taxes, insurance, advertising and administrative costs. The traditional method of calculating a sales price is to add a markup percentage to the cost of the product. This approach has the virtue of simplicity, but it may be difficult to determine if the price will cover costs.

## Gross Margin Method

An alternative approach is to plug the cost of a product into a formula that yields the gross margin and gross margin percentage. Because gross margin is the figure commonly used when determining if a business is making enough to cover all costs and also to produce a profit, it may be more useful. Whichever approach you use, it is important not to confuse the two approaches. The dollar amount added to the cost of a product may be the same, but a traditional markup percentage is a different number than a gross margin percentage.

- **There are 2 approaches in calculating a sales price.**

While both are accounting ratios, margin looks at cost while markup looks at pricing.

Margins provide information on how much revenue is kept by your business after you deduct the cost of purchasing or producing the product, while markup looks at the cost of goods sold to determine how much above cost a product or service should be marked up.



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## Margin vs. markup: What's the difference?

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### SEE HOW IT WORKS

Check out the example below:

*Item Cost: \$12   Selling Price: \$15   Gross Profit: \$3*

#### MARK-UP %

The percentage difference between the **gross profit and cost**.

$$\frac{\text{Price} - \text{Cost}}{\text{Cost}} = \frac{\$3}{\$12} = \mathbf{\$25 \text{ Markup}}$$

#### MARGIN %

The percentage difference between **gross profit and selling price**.

$$\frac{\text{Price} - \text{Cost}}{\text{Price}} = \frac{\$3}{\$15} = \mathbf{20\% \text{ Margin}}$$

## How to calculate it?

### Markup vs Margin

Selling price	
Cost price	Gross profit

$$\text{Markup} = \text{Gross profit} / \text{Cost price}$$

$$\text{Margin} = \text{Gross profit} / \text{Selling price}$$

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## How to calculate margin: example

Profit margin formula is:

$$\text{Revenue} - \text{Cost of Goods Sold} \div \text{Revenue}$$

For example, your business sells electric scooters for CHF1,000 each, purchasing each scooter for CHF450 from your current supplier. In June, you sold seven scooters for a total of CHF7,000, with your cost of goods sold totaling CHF3,150. To calculate your margin on the scooters, you would do the following calculation:

$$(\text{CHF7,000} - \text{CHF3,150}) \div \text{CHF7,000} = 0.55$$

To then obtain your margin as a percentage, simply multiply by 100:

$$0.55 \times 100 = 55\%$$

The result indicates that your gross margin percentage for selling the electric scooters is 55%, meaning that your business is able to retain 55% of the revenue it earns from selling the scooters, with the other 45% used to pay for the scooters.

*When determining management efficiency, gross profit margin is one of the more useful metrics a business owner can use.*

*The higher your margin, the more revenue your company can make on the products and services it sells, while a low margin indicates your business may be losing money on sales or needs to reevaluate product and supplier costs.*

## How to calculate markup: example

1.

Using the electric scooter example from before, we'll calculate markup using the markup formula:

$$\text{CHF7,000} - \text{CHF3,150} = \text{CHF3,850 gross profit}$$

Next, we'll take the gross profit and divide it by the cost of the scooters:

$$\text{CHF3,850} \div \text{CHF3,150} = 1.22 \text{ markup}$$

Finally, to determine the markup percentage, we'll multiply the markup results by 100:

$$1.22 \times 100 = 122\%$$

This means that you marked up the price of the electric scooters 122% from their original cost. Like margin, the higher the result, the more profit your business is earning.

2.

Calculate the selling price if the markup is 120%:

Cost price is 1500:

$$1500 * (1+120\%) = 1500 * (1+1.2) = 3300$$

Or

$$1500*120\%+1500 = 1500*120/100 + 1500 = 1800 + 1500 = 3300$$

## Example:

Let's assume that your business sells leather-bound journals. Your company purchases the journals for CHF15 each and sells them for CHF30 each.

The margin for the journals would be:

$$(CHF30 - CHF15) \div CHF30 = 0.5$$

You can then multiply the result by 100 to obtain the margin percentage:

$$0.5 \times 100 = 50\%$$

Currently, your margin on the journals is 50%, which means that 50% of the revenue received from the sale of a journal is retained by your company, while the other 50% is used to cover the cost of purchasing the journal from the supplier.

Next, we'll calculate markup using the same information:

$$(CHF30 - CHF15) \div 15 = 1 \text{ markup}$$

Next, we'll multiply the markup result by 100:

$$1 \times 100 = 100\% \text{ markup}$$

This means that you sold the journals for 100% more than what it cost to purchase them. Markup is also a useful metric for determining how much you should sell a product for.

Both margin and markup provide useful information for your business, with each calculation offering a different perspective, which is why it's useful to calculate both.

## When should you use margin over markup?

- ❑ If you're interested in calculating business profits, it's best to use margin over markup.
- ❑ Margin also provides a better overall view of the profitability of your products.
  
- ❖ Markup is extremely useful when looking to determine initial product pricing.
- ❖ Markup can also signal potential issues and allow you to re-examine the current markup to determine if pricing levels need to be addressed.

## Credit card fees / bank fees that need to be taken into consideration

A % is taken by the bank when you allow your customers to pay by credit/debit card. This % is calculated on your Selling Price VAT included.

Formula to find the **Selling price without VAT =**

$$\frac{\text{Selling price with VAT} - \text{Selling price with VAT} * \% \text{ of card fees} - \text{Selling price with VAT} * \text{VAT rate}}{100 + \text{VAT rate}}$$