Standard Profit Margin Calculation Document

1. Purpose

This document provides the standard method for calculating the profit margin for a product or service, ensuring consistency and accuracy in financial reporting.

2. Calculation Formula

> ```
> Profit Margin (%) = [(Revenue - Cost of Goods Sold) / Revenue] × 100
> ```

3. Sample Calculation

Item	Amount (USD)
Revenue	10,000
Cost of Goods Sold (COGS)	6,000
Gross Profit	4,000

> ```
> Profit Margin (%) = [(10,000 - 6,000) / 10,000] × 100 = 40%
> ```

4. Interpretation

A profit margin of 40% means that for every dollar earned in sales, the company retains 40 cents as profit after covering direct costs.

Important Notes

- Always use accurate and up-to-date financial data when calculating profit margins.
- This calculation does not account for indirect costs (e.g., administrative expenses) unless explicitly included in COGS.
- The formula applies to both individual products and overall business performance.
- Profit margins may vary by industry and product type; comparative analysis is recommended.
- Consistency in the definition and classification of costs is crucial for reliable comparability.