Profit Margin Formula Documentation

This document describes the formula, variables, and usage for calculating Profit Margin, a key financial metric that measures how much profit a business makes for every dollar of sales.

Formula

```
Profit Margin = (Net Profit / Revenue) Ã— 100
```

Variables

Variable	Description
Net Profit	Total Revenue minus Total Expenses.
Revenue	Total income generated from sales or services.

Usage Example

Suppose a company reports the following figures for the year:
Net Profit: $50,000
Revenue: $200,000

Applying the formula:

```
Profit Margin = (50,000 / 200,000) Ã— 100 = 25%
```

Interpretation

A profit margin of 25% means that for every dollar of revenue, the company retains $0.25 as profit after all expenses are paid.

Alternative Formulas

- **Gross Profit Margin:** (Gross Profit / Revenue) Ã— 100
- **Operating Profit Margin:** (Operating Profit / Revenue) Ã— 100

References

- Accounting Principles, 13th Edition â€“ Jerry Weygandt
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