

Gross Profit Margin Analysis

Company: ABC Manufacturing Ltd.

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Overview

The gross profit margin measures the percentage of revenue that exceeds the cost of goods sold (COGS). It is a key indicator of a business's financial health and operational efficiency.

Gross Profit Margin Calculation

Period	Total Revenue	COGS	Gross Profit	Gross Profit Margin (%)
Q1 2024	\$800,000	\$520,000	\$280,000	35.0
Q2 2024	\$950,000	\$598,000	\$352,000	37.1
YTD 2024	\$1,750,000	\$1,118,000	\$632,000	36.1

Analysis

In Q2 2024, the gross profit margin increased to 37.1% from 35.0% in Q1 2024, primarily due to an increase in sales revenue and improved cost control over raw materials. The year-to-date margin of 36.1% indicates an overall positive trend compared to the same period last year (33.8%). Continuous monitoring of COGS is recommended to maintain and improve profitability.

Important Notes

- Gross profit margin does not account for operating expenses, taxes, or interest.
- Consistent tracking allows for early detection of cost or price issues.
- Comparisons should be made against industry benchmarks for meaningful insights.
- Sudden changes may indicate pricing, supply chain, or product mix changes.
- This analysis should be complemented with net profit and cash flow reviews.