GM, BE, ROI, and PROJECTED PROFIT SHEET

notes

Line 11 – Make sure you include return charges and losses usually a factor of .03 to .05 x total sales (i.e., 3% to 5% of total sales).

Line 22 – To determine your total variable costs accurately, anticipate other costs of doing business including: ◆ future markdowns for goods that do not sell quickly enough ◆ shrinkage (theft or disappearance) ◆ miscellaneous transportation and delivery costs ◆ cost of doing any alterations that may be requested by your customer.

Line 23 – Calculating your total variable costs is pretty much the same as calculating your cost of goods sold except that the former is used to calculate the costs for one individual item while the later is used to calculate the costs of your entire inventory.

Line 28 – Collectively referred to as gross profit, GM (gross margin) is the difference between sales income and the cost of the goods sold before any fixed expenses have been taken out for an individual item. GP (gross profit) is the term used to refer to the total of all gross margins. GP = Sales - Cost of Goods Sold. GM = Total Selling Price - Total Variable Costs.

Line 29 – A list of fixed operating costs can be found on an income projection.

Line 30 – The breakeven point is equal to your overhead or fixed operating costs (O) divided by the difference of your unit sales price (P) minus your unit variable costs (V). B.E. = O/(P - V).

Line 31-32 – ROI refers to your Return on Investment or your Net Income = Revenues - Expenses. In the graph #2 shown on page 224, Jack's Jewelry Warehouse would have to sell 2580 units to have a 100 percent return (net income) on an investment of $12,500.

PROMOTION: **Date:**

Item	Description	Formula	Subtotal	Total
	Variable Costs (per unit) and Fixed Operating Costs			
1	Selling Price of Product or Service (do not include sales tax)			
2	ADD Other Charges (postage and handling, etc.)			
3	**TOTAL PRICE OF PRODUCT OR SERVICE**	1 + 2	$	
4	Owner's Cost of Product or Service			
5	Handling Expense and Order Processing			
6	Package Expenses (mailing carton, tape, etc.)			
7	Shipping (postage or UPS charges)			
8	"Premium" Costs Including Handling (if premium offered)			
9	Special Business Sales, Hidden, or Use Tax, if any	3 x ( ) %		
10	**TOTAL COSTS OF FILLING THE ORDER**	add 4 TO 9	$	
11	Estimated % of Returns (expressed as a decimal)			
12	Postage and Handling of Returns	5 + 7		
13	Refurbishing Returned Merchandise	10% of 3		
14	Total Costs of Handling Returns	12 +13		
15	**CHARGEABLE COSTS OF HANDLING RETURNS**	11 x 13		
16	Estimated % of bad debts (expressed as a decimal)			
17	**CHARGEABLE COSTS OF BAD DEBTS**	3 x 16	$	
18	Estimated % of Sales via Credit Cards (as a decimal)			
19	Credit Card Processing Charge	( ) % of 3		
20	**CHARGEABLE COST OF CREDIT**	18 x 19	$	
21	**ADMINISTRATIVE OVERHEAD PER UNIT**		$	
22	**OTHER COSTS PER UNIT**		$	
23	**TOTAL VARIABLE COSTS**	10 + 15 + 17 + 20 + 21 + 22	$	
24	Unit Profit After Variable Costs	3 - 23		
25	% of Final Sales (expressed as a decimal)	1.0 - (11)		
26	Net Unit Profit	24 x 25		
27	Credit for Returned Merchandise	4 x 11		
28	**GROSS MARGIN (NET PROFIT PER ORDER)**	26 + 27	$	
29	**TOTAL FIXED OPERATING COSTS** (Mailing, Advertising, etc.)		$	
	Profit Calculations			
30	**NUMBER OF ORDERS TO BREAKEVEN**	29 / 28		
31	**NUMBER OF ORDERS TO OBTAIN 50% ROI**	1.5 x 30		
32	**NUMBER OF ORDERS TO OBTAIN 100% ROI**	2.0 x 30		
33	**PROJECTED PROFIT IF ? # OF ORDERS RECEIVED**	(# of orders x 28) - (29)	$	
34	**PROJECTED PROFIT IF [XX] # OF ORDERS RECEIVED**	(# of orders x 28) - (29)	$	

Comments – Describe any assumptions made: