

9.21: Net Profit Margin

Learning Objectives

- Calculate the net profit margin of a sample retailer

Net profit margin = operating profit margin – (extraordinary non-recurring expenses + interest payments + taxes + depreciation). Interest payments include interest on business loans. Taxes include taxes paid to the government. Depreciation is how much any equipment has lost value during the period. This is calculated based on the useful life of the equipment, at the time of acquisition.

As you can see, the resulting net profit figure will be much different (smaller) than what is calculated for gross margin. And, that should make sense because of where the inputs are found within the income statement. That is, gross margin uses gross margin dollars. That figure comes early in the income statement **before** additional expenses are applied. In fact, that’s what “gross” refers to in gross margin. Gross means total or “without deductions.”

By comparison, net profit margin comes after all considerations of expenses. And, that is exactly what “net” means—with **all** expenses deducted.

Practice Questions

<https://assessments.lumenlearning.co...essments/9237>

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