

## **SECTION 2: Manipulating Profit Variables: Merchandising for a Profit**

### **Part 3: Expanded Profit and Loss Statement: Calculating the P & L Components**

#### ***Part 3: 3-1 Gross Sales***

As stated in *Part 1: 1-2 Terminology*, the definition for **Gross sales** is expressed as the total retail prices, both cash and charge, paid by the end consumer to the retailer for all merchandise and services before any deductions in retail price. And, in *Part 2: 2-2*, **net sales** is defined as gross sales minus customer returns and allowances. Gross sales are used for determining the customer return rate. A high customer return rate might indicate a problem in the retailer's merchandise selection (e.g., fashion level, assortment mix), poor or lower quality merchandise than expected by the customer, or merchandise prices that are higher than the competition or more expensive than what the customer perceives as the value of the product.

The formula for calculating customer return rate percent is:

$$\text{Customer Return Rate \%} = \text{Customer Returns} + \text{Allowances \$} \div \text{Gross Sales \$}$$

(Note: As stated above, the customer return rate is based on gross sales dollars while all other percents on the P & L Statement are based on net sales dollars.)

For the expanded P & L Statement, an all-inclusive definition for gross sales expands upon the various types of reductions (e.g., customer returns and allowance), providing detailed information on all reductions needed for operating a retail establishment. In *Part 3: Expanded Profit and Loss Statement*, **gross sales** are expressed as the total retail prices, both charge and cash, paid by the end consumer to the retailer for all merchandise and services before any reductions or customer returns and allowances, employee discounts, markdowns, shrinkage or shortages in stock/inventory. Reductions will be explained in *Part 3: 3-2* of this Section. Thus, for the expanded P & L Statement, net sales are gross sales minus all or total reductions.

The following formulas are needed to calculate gross sales dollars and percent:

$$\text{Gross Sales \$} = \text{Net Sales \$} + \text{Reduction \$}$$

$$\text{Gross Sales \$} = \text{Net Sales \$} \times \text{Gross Sales \%}$$

$$\text{Gross Sales \%} = \text{Net Sales \%} + \text{Reduction \%}$$

**For all examples in Part 3, the following numerical values are utilized for calculations.**

**Example Figures for Calculating the Expanded P & L Statement**

|   |                                      |
|---|--------------------------------------|
| Customer Returns & Allowances = \$15,000.00 | Gross Sales = \$372,000.00           |
| Employee Discounts = \$3,000.00             | Net Sales = \$300,000.00             |
| Markdowns = \$45,000.00                     | Gross Margin = \$139,500.00          |
| Shrinkage = \$9,000.00                      | Contribution Margin = \$111,000.00   |
| Invoice Cost of Goods = \$161,500.00        | Maintained Markup = \$133,500.00     |
| Transportation = \$5,000.00                 | Alterations \$3,000.00               |
| Direct Operating Expenses = \$28,500.00     | Cash Discounts = \$9,000.00          |
| Indirect Operating Expenses = \$87,000.00   | (Net) Operating Profit = \$24,000.00 |

**Problem:**      **Gross Sales \$ = Net Sales \$ + Reduction \$**  
                      **Gross Sales \$ = \$300,000.00 + \$72,000.00**  
                      **Gross Sales \$ = \$372,000.00**

**Gross Sales \$ = Net Sales \$ × Gross Sales %**  
**Gross Sales \$ = \$300,000.00 × 124.00% (1.24)**  
**Gross Sales \$ = \$372,000.00**

**Gross Sales % = Net Sales % + Reduction %**  
**Gross Sales % = 100.00 % + 24.00 %**  
**Gross Sales % = 124.00%**