

Markup in dollars is an item's sales price minus its cost. For example, an item that sells for \$20.00 and costs \$15.00 has a markup of \$5.00. **Markup can also be expressed in percentages.** Sometimes the percentage amount is based upon sales price but in other instances it is based upon cost. These two percentage amounts are always different for the same exact item. Using the same example as above, a \$5.00 markup is 25% of sales price ($\$5.00 / \20.00) but is also 33.33% of cost ($\$5.00 / \15.00).

It is most common for *external parties* (people who don't work for the company under consideration, don't have access to the accounting records, and don't make decisions for the company) to think of the markup percentage in terms of (based upon) sales price. This markup percentage is called the Gross Margin Percentage or the Gross Profit Percentage. The above example has a Gross Margin percentage of 25% of sales price.

On the other hand, it is most common for *internal parties* (people who work for the company and make the decisions regarding the markup amount) to think of the markup percentage in terms of (based upon) cost. Again, using the above example, the markup percentage based upon cost is 33.33%.

Sometimes it is necessary to convert a markup percentage from one based upon sales price to one based upon cost, or vice-versa. The formulas below show how to do this.

1. Percentage markup on selling price =

$$\text{percentage markup on cost} / (100\% + \text{percentage markup on cost})$$

$$33.33\% / (100\% + 33.33\%) = 33.33\% / 133.33\% = 25\%$$

2. Percentage markup on cost =

$$\text{percentage markup on selling price} / (100\% - \text{percentage markup on selling price})$$

$$25\% / (100\% - 25\%) = 25\% / 75\% = 33.33\%$$

Note the following about the markup percentages:

1. *markup on sales* is always less than *markup on cost*.
2. *markup on sales* is always less than 100%.
3. *markup on cost* could exceed 100%.

An item costing \$2.00 could be sold for \$9.00, which is a *markup on cost* of 350%. ($\$9.00 - \$7.00 / \$2.00 = 350\%$).