

SaaS Gross Margin Calculation & COGS Audit Checklist

Here is a detailed, step-by-step checklist to help you audit your financials, categorize expenses correctly, and accurately calculate your SaaS gross margin:

Phase 1: Revenue Separation and Recognition

- ☐ Gather all income streams earned during the target accounting period from your billing system.
- ☐ Separate recurring subscription revenue, usage-based fees, and recurring add-ons from non-recurring charges.
- ☐ Isolate professional services revenue, such as custom onboarding, consulting, and manual setup fees, into a dedicated line item.
- ☐ Apply GAAP revenue recognition rules so annual contract payments are recognized month-by-month as services are delivered rather than all at once.
- ☐ Exclude upfront setup fees or non-recurring development work from your recurring subscription revenue calculations to keep product metrics clean.

Phase 2: COGS Identification and Audit

- ☐ Collect all invoices for production cloud infrastructure, including compute, database storage, bandwidth, and content delivery networks.
- ☐ Audit cloud infrastructure accounts to separate live customer production environments from internal developer staging and testing environments.
- ☐ List all third-party software licenses and embedded APIs directly required for your product to deliver its core functions to customers.
- ☐ Gather payroll data for customer support specialists, technical onboarding staff, and DevOps engineers who maintain platform uptime.

- ☐ Apply the "App Access Test" to questionable expenses: verify if paying the invoice is mandatory for current users to continue using the software.
- ☐ Calculate fully burdened employee costs for direct delivery teams by adding benefits, payroll taxes, software tools, and facilities allocations to base salaries.

Phase 3: Operating Expense (OpEx) Exclusion

- ☐ Remove all sales commissions, account executive salaries, and sales development representative expenses from COGS.
- ☐ Exclude marketing campaign spend, advertising fees, and customer acquisition tool costs from direct delivery expenses.
- ☐ Verify that R&D salaries for engineers building new features or working on future product roadmaps remain strictly in operating expenses.
- ☐ Exclude general executive salaries, HR costs, legal fees, and standard administrative software tools from the COGS bucket.

Phase 4: Multi-Stream Calculation and Analysis

- ☐ Sum all validated direct delivery costs to establish your final Cost of Goods Sold figure for the period.
- ☐ Calculate your overall gross margin using the formula: $((\text{Total Revenue} - \text{Total COGS}) / \text{Total Revenue}) * 100$.
- ☐ Calculate pure subscription gross margin separately using only subscription revenue and subscription-related COGS.
- ☐ Calculate professional services gross margin using professional services revenue and direct implementation labor costs.
- ☐ Compare your resulting subscription gross margin against industry benchmarks (70%–85%+) to evaluate product delivery efficiency.
- ☐ Review customer success team time logs quarterly to adjust payroll allocations between COGS retention duties and sales expansion duties.