

XACC/290

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### Cost of Goods Sold

The cost of goods sold is the total expense related to units sold in a given reporting period. Since organizations vary calculation factors will also vary. For example, McDonald's would not calculate its cost of goods sold using the same factors as Macy's. Their respective markets call for different variables to calculate. McDonald's would account for things such as purchase of buns, whereas Macy's would account for import expenses for various garments of clothing. With that said, factors that account for cost of goods sold include materials, labor expenses, overhead expenses, and ending inventory.

There are two methods to calculate costs of goods sold. At the end of a given reporting period an organization will process the data associated with units sold and ending inventory. The second method is the periodic inventory method. This method computes beginning inventory and purchases, you would then deduct ending inventory data to determine the cost of goods sold.

While the above methods seem simple for calculating purposes, the number of variables that play into this total create a daunting task of calculating the costs of goods sold. "All of the following factors must also be taken into account:

- Charging to expense any inventory items that have been designated as obsolete
- Altering the cost of materials when a different FIFO or LIFO cost layer is used. Alternatively, an average costing method may be used to derive the cost of materials.
- Charging to expense any scrap that is considered abnormal, rather than charging it to overhead

- Charging to expense the difference between standard and actual costs for materials, labor, and overhead” (Bragg).

Closing, costs of goods sold (COGS) is one of the more difficult accounting tasks. Variables allow for variations between organizations and how they calculate COGS. There are two methods to calculate this total. The first adds all components correlated to items sold and expenses related to their sale. Also, ending inventory is added to this data for a complete COGS at the end of a reporting period. The second method adds beginning inventory and purchases then deducts ending inventory for a total COGS. All factors must be considered in both methods to achieve an accurate total. This makes for a challenging accounting perspective of an organization's financial statement reporting.

### References

Bragg, Steven. "Accounting Tools." 9 April 2012. <http://www.accountingtools.com/questions-and-answers/how-to-calculate-the-cost-of-goods-sold.html>. 7 Jan 2016.