

Calculating Cost of Goods Sold



With Homer Simpson

“Cost of Goods Sold” refers to the cost of goods which we have purchased for resale, yet no longer have in stock.

Cost of Goods Sold is *not* always an account. Some businesses must calculate this figure based on other information which they collect.

Let's hire Homer to calculate our Cost of Goods Sold.



Let's say we start out the fiscal period with 3 units of inventory...



Then, let's assume we purchase 2 more units..



Finally, let's assume our ending inventory equals just 1 unit...



O.k. Homer, how many units did we sell?



3 units + 2 units - 1 unit = 4 units!



So then, what is the basic formula for cost of goods sold?



Starting inventory + Purchases - Ending Inventory = Cost of Goods Sold!



Good Homer! Let's put cost of goods sold on an Income Statement...



Good Homer! Let's put cost of goods sold on an Income Statement...



Cost of Goods Sold

Start Inventory: **3 units**

Purchases: **2 units**

Goods Available: **5 units**

End Inventory: **1 unit**

Cost of Goods Sold: **4 units**



So if each unit costs \$100.00...



Cost of Goods Sold

Start Inventory: **\$300.00**

Purchases: **200.00**

Goods Available: **500.00**

End Inventory: **100.00**

Cost of Goods Sold: **\$400.00**

See ya in accounting class!

