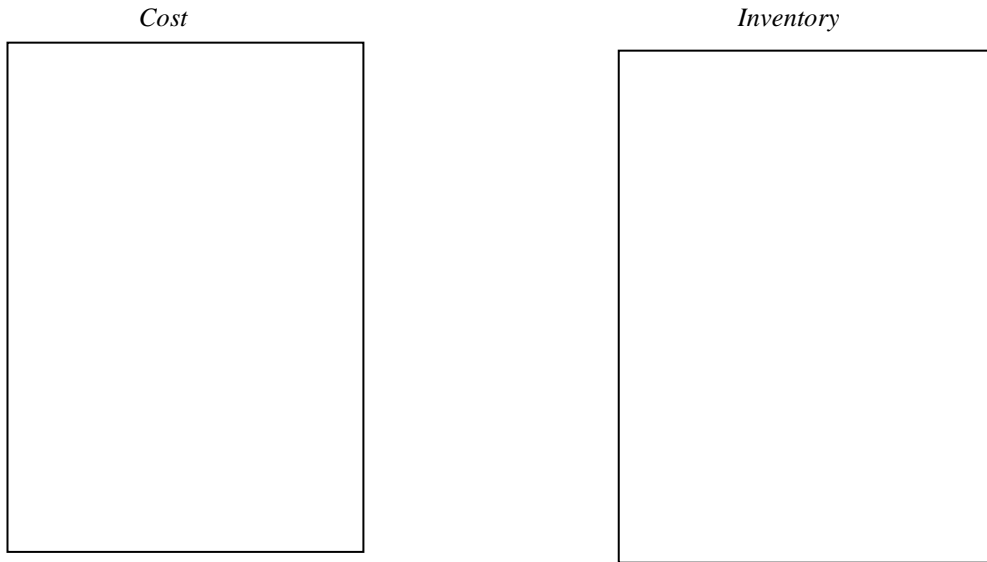


COST OF GOODS SOLD

Cost of goods sold (CGS) includes the costs attributable to the production of the goods sold by company. This amount includes the materials cost used in creating the goods along with the direct labor costs used to produce the good and also includes Factory Overhead (FOH) which are all indirect costs. CGS appears on the income statement and can be deducted from net revenue to calculate a company's gross profit.

Six elements for CGS



2.1 Format of Cost of Goods Sold

Name of Company

Cost of Goods Sold Statement

For the year Ended

Opening Inventory		*****
Purchases	*****	
Purchase Return/Discount/Allowances	(*****)	
Net Purchase		*****
Direct Expenses		*****
Material Available for use		*****
Closing Inventory		(*****)
Direct Material used		*****
Direct Labor		*****
Prime Cost		*****
Factory Overhead Cost		*****
Total Factory Cost		*****
Opening Work in Process		*****
Cost of Goods to be Manufactured		*****
Closing Work in Process		(*****)
Cost of Goods Manufactured		*****
Opening Finished Goods		*****
Cost of Goods to be Sold		*****
Closing Finished Goods		(*****)
Cost of Goods Sold		*****

2.2 Some Important Equation

1. Direct Material Used = Opening Inventory + Net Purchases (Purchases - all contra purchases) + Direct Expenses - Ending Inventory
2. Prime Cost = Direct Material Cost + Direct Expenses Cost + Direct Labor Cost
3. Total Factory Cost = Direct Material Cost + Direct Expenses + Direct Labor Cost + Factory Overhead Cost (All indirect expense of factory are called FOH)
4. Conversion Cost = Direct Labor Cost + FOH Cost
5. Cost of Goods Manufactured = Total Factory Cost + Opening Work in Process - Ending Work in Process
6. Cost of Goods Sold = Cost of Goods Manufactured + Opening Finished Goods - Ending Finished Goods
7. Gross Profit/Loss = Net Sales (Sales - all contra sales) - Cost of Goods Sold
8. Operating Profit/Loss = Gross Profit - Commercial Expenses
9. Net Profit/Loss = Operating Profit - Financial Charges - Taxes - Other Expenses + other income
10. Per Unit Cost = Cost of Goods Manufactured / No. of Units Produced

Example # 2.1: The following are the figures relating to the YYY Commodity Production for the month of March, 2010.

Description	Amount	Description	Amount
Stock on 1.03.2010_ Raw Material	Rs. 75,000	Stock on 31.03.2010_ Raw Material	Rs. 50,000
Factory overheads	8,000	Sales	270,000
Purchases of Raw Material	100,000	Carriage on Purchases	5,000
Stock on 1.03.2010_ Finished Goods	48,000	Stock on 31.03.2010_ Finished Goods	25,000
Direct Labor	12,000	Office & Admin Overhead	3,000
Return inward	10,000	Marketing Expenses	15,000
Work in process on 1.03.2010	5,000	Work in process on 31.03.2010	3,000

Requirement: Prepare statement showing Prime Cost; Conversion Cost; Total Cost; Cost of Goods Manufactured; Cost of Goods Sold. Calculate Gross Profit; Net Profit and per unit cost by assuming that 38,000 units were produced during March.

Further Study and Practice of Cost of Goods Sold

Video Lecture (Cost of Goods Sold)

<https://youtu.be/yV-rKH3fDxE>

Workbook Solution (Cost of Goods Sold)

<https://www.accountancyknowledge.com/cost-of-goods-sold/>

Practice MCQs (Cost of Goods Sold)

<https://www.accountancyknowledge.com/cost-of-goods-sold-mcqs/>

Practice Problems with Solutions (Cost of Goods Sold)

<https://www.accountancyknowledge.com/cost-of-goods-sold-problems-and-solutions/>



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