SECTION 2: Manipulating Profit Variables: Merchandising for a Profit

Part 2: 2-3 Cost of Goods Sold

The **cost of goods sold** is also known as the **invoiced cost of merchandise**, the **wholesale cost of goods** or the **billed gross wholesale cost of goods**.

The **total cost of goods sold** includes the following components:

- Invoiced, wholesale or billed gross wholesale cost of merchandise or goods
- Transportation or shipping costs (including insurance when applicable)
- Discounts and
- Alterations (when applicable)

For the skeletal P & L Statement, the cost of goods sold is a one line entry and is all inclusive of the above subcomponents. The total cost of goods sold subcomponents will be elaborated upon in detail in *Part 3: 3-3 Total Cost of Goods Sold*.

As previously illustrated, the formulas for calculating cost of goods sold dollars and cost of goods percentage are as follows:

Cost of Goods Sold $ = Net Sales $ - Gross Margin $

Cost of Goods Sold % = Net Sales % - Gross Margin %
Cost of Goods Sold % = Cost of Goods Sold $ ÷ Net Sales $

Problems: **Calculate cost of goods sold dollars and percentage with figures provided on page 5 of this section.**

Profit and Loss Statement Form

Component	Dollars ($)	Percent (%)
Net Sales	**$200,000.00**	**100.00%**
- Cost of Goods Sold		
= Gross Margin	**$84,000.00**	
- Operating Expenses		
= (Net) Operating Profit		

1. Calculate cost of goods sold dollars.

Cost of Goods Sold $ = ?
Cost of Goods Sold $ = Net Sales $ - Gross Margin $
Cost of Goods Sold $ = $200,000.00 - $84,000.00
Cost of Goods Sold $ = $ 116,000.00

2. Calculate cost of goods sold percent.

Cost of Goods Sold % = ?
Cost of Goods Sold % = Cost of Goods Sold $ ÷ Net Sales $
Cost of Goods Sold % = $116,000.00 ÷ $200,000.00

Cost of Goods Sold % = 58.00 %

OR

Cost of Goods Sold % = Net Sales % - Gross Margin %
Cost of Goods Sold % = 100.00 % - 42.00 %
Cost of Goods Sold % = 58.00 %

Profit and Loss Statement Form

Component	Dollars ($)	Percent (%)
Net Sales	**$200,000.00**	**100.00%**
- Cost of Goods Sold	**$116,000.00**	**58.00%**
= Gross Margin	**$84,000.00**	**42.00%**
- Operating Expenses		
= (Net) Operating Profit		

Cost of goods sold is a most important component of the skeletal P & L Statement. It is imperative for the retailer to constantly monitor and evaluate cost of goods throughout the retail year, since the cost of goods sold impacts gross margin and ultimately the bottom line of the store. Astute retailers negotiate for the best wholesale cost for merchandise, keep close vigilance on shipping costs and many times reward the retail buyer for obtaining the best discounts and dating available on goods purchased in order to maintain a manageable cost of merchandise.

In *Part 2: 2-7* of this section, the interrelationship among components will be discussed and another formula for calculating cost of goods sold will be investigated.