

Calculating the Cost of Goods Manufactured and Sold

Accounting presentation created by
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Calculating the Cost of Goods Manufactured and Sold

- There is a formula you will find in many places in accounting answering many questions.

$$\begin{array}{r} A \\ + B \\ \hline = C \\ - D \\ \hline = \underline{\underline{E}} \end{array}$$

Calculating the Cost of Goods Manufactured and Sold

- For a simple cost of raw materials used the formula looks like this:

A	Beginning balance	\$200
<u>+ B</u>	<u>Plus purchases</u>	<u>1,750</u>
= C	Available	1,950
<u>- D</u>	<u>Ending inventory</u>	<u>150</u>
<u>= E</u>	<u>Direct materials used</u>	<u>\$1,800</u>

Calculating the Cost of Goods Manufactured and Sold

- The formula populated with values in a worksheet.

A	Beginning balance	\$200.00
+ B	Plus purchases	1,750.00
= C	Available	1,950.00
- D	Ending inventory	150.00
= E	Direct materials used	\$1,800.00

Calculating the Cost of Goods Manufactured and Sold

- You will occasionally see this formula as:

A	Beginning balance	\$200
+ B	<u>Plus purchases</u>	<u>1,750</u>
= C	Available	1,950
- E	Direct materials used	<u>1,800</u>
= D	Ending inventory	<u><u>\$150</u></u>

Calculating the Cost of Goods Manufactured and Sold

- While this $A + B = C - E = D$ is mathematically correct, I have a tough time seeing what is missing. I know what is missing by knowing what should be there and seeing what is there.

Calculating the Cost of Goods Manufactured and Sold

- The formula is expanded slightly here to detail the cost of the period manufacturing effort – Direct materials + Direct labor + Factory / manufacturing overhead.
- However, the formula remains the same.

$$A + B = C - D = E$$

Beginning balance - Work in process	A		\$475.00
Plus manufacturing costs incurred			
Direct materials used	+ B	\$1,800.00	
Direct labor		2,275.00	
Factory / manufacturing overhead		2,850.00	6,925.00
Total manufacturing costs to account for	= C		7,400.00
Less ending balance - Work in process	- D		385.00
Cost of goods manufactured	= E		\$7,015.00

Calculating the Cost of Goods Manufactured and Sold

- The next step is how much did you sell?
- The formula remains the same.

$$A + B = C - D = E$$

Beginning balance - Finished goods	A	\$185.00
Plus cost of goods manufactured	B	7,015.00
Cost of goods available for sale	= C	7,200.00
Less ending balance - Finished goods	- D	170.00
Cost of goods sold	= E	\$7,030.00

Calculating the Cost of Goods Manufactured and Sold

- This formula, $A + B = C - D = E$ can be solved is numerous pieces are missing since:
 - $A + B = C - D = E$
 - $5 + 7 = 12 - 4 = 8$
 - $A? + 7 = B? - 4 = 8$, the $B?$ is $8 + 4 = 12$, the $A?$ is $12 - 7 = 5$.
 - $5 + C? = D? - 4 = 8$, the $D?$ is $8 + 4 = 12$, the $C?$ is $12 - 5 = 7$.

Calculating the Cost of Goods Manufactured and Sold

- Accounting is based on math, you must understand addition, subtraction, multiplication, division, and percentages.
- Additionally you must remember those laws of math from fourth grade.

Calculating the Cost of Goods Manufactured and Sold

The end.