TOPIC: INCOME STATEMENT PREPARATION

Inventories and Cost of Goods Sold

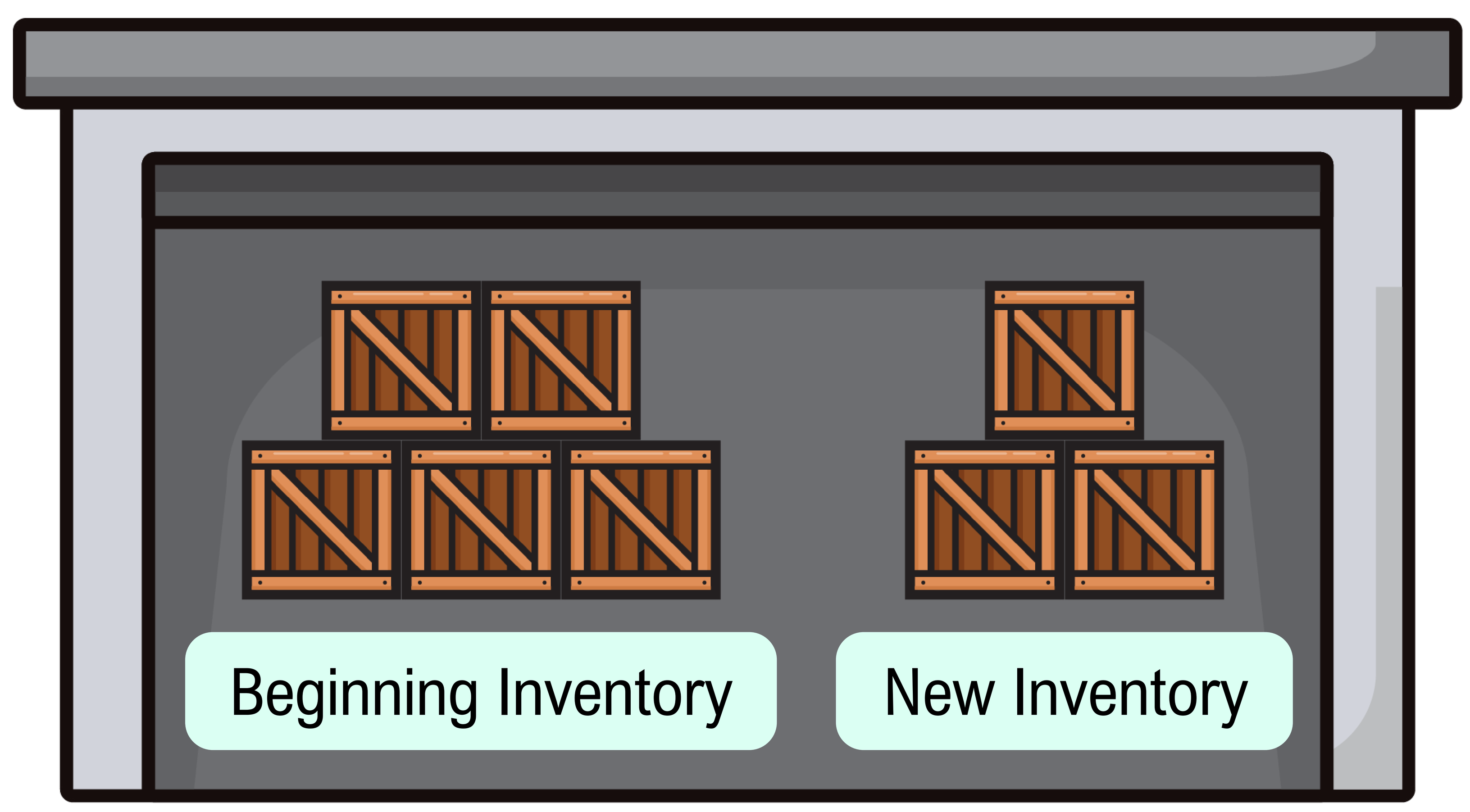
- The **Cost of Goods Sold** is an essential part of a financial document called the ____________ statement.
  - To find the **Cost of Goods Sold**, accountants track the value of _____________.

COGS = Value of Beginning Inventory + Value of New Inventory - Value of Ending Inventory

(Value of Beginning Inventory + Value of New Inventory) = ______________________

Beginning Inventory	$250,000
New Inventory	$150,000
Ending Inventory	$200,000
COGS	

WAREHOUSE



COGS for Different Types of Companies

Manufacturing Companies
- Make goods for sale

COGS = Beginning Inventory + Value of Goods ____________ - Ending Inventory

Merchandising Companies
- Resell existing products

COGS = Beginning Inventory + Value of Inventory ____________ - Ending Inventory

TOPIC: INCOME STATEMENT PREPARATION

EXAMPLE

A) Bryan Clothing began the first quarter with $100,000 in their Work in Process Inventory. During the quarter, the company spent $300,000 on product costs. If Bryan clothing ended the first quarter with $60,000 in Work in Process Inventory, what was the total value of the products manufactured by Bryan Clothing in Q1?

B) If Bryan Clothing began the first quarter with $200,000 of Finished Goods Inventory, and ended the first quarter with $250,000 in Finished Goods Inventory, what was the Cost of Goods Sold for Bryan Clothing in Q1? Use the Cost of Goods Manufactured from the previous example in your solution.

PRACTICE

Jimothy's Preserves began the year with $5,000 of finished jam in inventory. During the year they produced $20,000 of jam and ended the year with $8,000 in Finished Goods Inventory. What is the Cost of Goods Sold for Jimothy's Preserves?

a) $33,000
b) $23,000
c) $17,000
d) $25,000

PRACTICE

Above Average Purchase is an electronics merchandising store. During August they acquire products worth $50,000. If they started the year with $10,000 of electronics in inventory, and finished the period with $30,000 worth of inventory on shelves, what was their Cost of Goods Sold?

a) $25,000
b) $15,000
c) $20,000
d) $30,000

TOPIC: INCOME STATEMENT PREPARATION

Creating the Income Statement

- An **income statement** reports a company's income in a given _________.
  - Managers evaluate a company's income by comparing ________ to costs.

Header

Sales

COGS

Company INCOME STATEMENT Period	
Sales	$500,000
Less: Cost of Goods Sold	
Finished Goods Inventory, beginning	$50,000
Cost of Goods Manufactured	$275,000
Goods Available for Sale	
Less: Finished Goods Inventory, ending	$115,000
Cost of Goods Sold	
Less: Operating Expenses	$85,000

Manufacturing Companies

TOPIC: INCOME STATEMENT PREPARATION

EXAMPLE

Bryan Clothing needs to produce their quarterly income statement. Bryan Clothing reported $600,000 in sales for the quarter. Bryan began the first quarter with $200,000 in Finished Goods Inventory and ended the first quarter with $250,000 in Finished Goods Inventory. Bryan's cost of goods manufactured for the quarter was $340,000. Bryan paid $180,000 in Operating Expenses. Complete the income statement for Bryan Clothing.

Bryan Clothing	
Quarterly Income Statement	

TOPIC: INCOME STATEMENT PREPARATION

PRACTICE

Jamison's Jerseys produces replica sports memorabilia. Their cost and sales data are recorded below. What was Jamison's Jerseys' Gross Profit for the year?

Jamison's Jerseys	
Cost & Sales Data	
Sales	$50,000
End of Year Finished Goods Inventory	$3,000
Cost of Goods Manufactured	$40,000
Beginning of Year Finished Goods Inventory	$1,000

a) $12,000
b) $6,000
c) $8,000
d) $10,000

PRACTICE

Bill's Bobbleheads are preparing their income statement for the year. In the past year Bill's has sold $20,000 worth of bobbleheads. They finished the year with $3,000 in inventory, manufactured $10,000 of products, and began the year with $8,000 in Finished Goods Inventory. If Bill's Bobbleheads spent $1,500 on Operating Expenses during the year, what is their Net Operating Income?

a) $3,500
b) $5,000
c) $6,500
d) $10,000