COST OF GOODS SOLD (COGS)

How inventory cost flows to cost of sales and is corrected by actual cost variances.

COGS BASICS

1 What is COGS?

COGS is the inventory cost of items sold, captured at order picking. Each item's cost comes from average inventory cost built from job receipts.

- Material costs from job issues
- Absorbed labor costs
- Absorbed manufacturing overhead
- Subcontract PO Receipt costs

2 Inventory Cost Is Approximate

Inventory cost is an average cost, not true actual job cost. Job receipt costs are approximate because supplier invoices, labor, and overhead can differ from earlier transaction costs.

3 Inventory Costs Self-Correct

Inventory value and COGS are self-correcting through actual cost variances that wash out prior over- or under-absorption.

4 Total Cost of Sales

COGS alone is not your full cost of sales. Total cost of sales is a blend of COGS plus actual cost variances. When variances stay within normal ranges, COGS remains a useful and realistic indicator.

ACTUAL COST VARIANCES

1 RNI Adjustments

At PO invoice matching, the variance between PO receipt cost and supplier price is posted to RNI Adjustments.

2 WIP Adjustments

At job close, the variance between total job input costs and total job receipt costs is posted to WIP Adjustments.

3 Inventory Adjustments / Adjustments COGS

Stock count changes, stock adjustments, or inventory cost changes update inventory value through Inventory Adjustments.

4 Absorbed Labor vs Direct Labor Costs

Absorbed Labor offsets direct payroll labor costs for your production workers.
Any variance washes out prior over- or under- absorption into work in process.

5 Absorbed Overhead vs Direct Costs

Absorbed Mfg Overhead offsets direct overhead costs. Any variance washes out prior over- or under-absorption into work in process.

Best Practice: Costing errors do not distort net income because any error absorbed into inventory is offset by an equal error absorbed into cost of sales.