Management Disciplines

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Cost of Goods Sold Analysis

Teachable Moments

"One of the major issues with tracking one's departmental Cost of Goods Sold is extreme variation from month to month. Often, a department will have an extraordinarily high Cost of Goods Sold % one month, followed by a low one the following month. The problem with such fluctuation is that it lulls the manager into a habit of waiting to see if out-of-line Cost of Goods Sold will come back in line the next period. The danger in this is that if the problem is related to pilferage or theft, the manager allows it to continue for some time before investigating or taking action.

What this means is that managers must take great pains to con...
inventories and thoroughly investigate any ... pen.
There are several tool... ting
Policy ... out-
of-line ... ed as
a check ... ar
amoun... on
the Cos...

Lastly, ...,
A-4501 ... give helpful tips to
better ... more accurate inventories."

- Ed Rehkopf, Basic Accounting and Financial Management for Managers

Discussion Points: Discuss the importance of retail managers understanding variations in their Cost of Goods Sold. What are some of the reasons a Cost of Goods Sold may be out-of-line? Review each of the policies and forms mentioned above so that managers understand the detail of Cost of Goods Sold Analysis.

Take Away: Timely investigation and analysis of out-of-line Cost of Goods Sold will allow the manager to pinpoint the problem ... possible theft or pilferage.