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# The Founder's Guide to Accurate COGS

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How e-commerce sellers lose thousands to bad COGS tracking  
— and the exact method to fix it.

A free resource from ReynFinancial — E-Commerce Bookkeeping

## The Profit Illusion

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Most Amazon and Shopify sellers think they know their profit. They look at their bank balance, subtract what they remember spending, and call it a number. But that number is almost always wrong — and the biggest reason is COGS.

Cost of Goods Sold is the direct cost of the products you actually sold during a period. Not the cost of everything you bought. Not the cost of everything sitting in your warehouse or FBA center. Only the cost of units that left as completed sales.

Get COGS wrong, and your entire P&L is fiction. Your gross margin is fiction. Your net profit is fiction. Every decision you make based on those numbers is built on sand.

*"I thought I was making 35% margins. When we fixed COGS, my real margin was 19%. I had been scaling a product that was barely breaking even." — Common founder realization*

## The Three COGS Mistakes That Cost You Money

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### Mistake 1: Expensing inventory on purchase

You buy \$20,000 of inventory in July. You sell it through September and October. If you expense the full \$20,000 in July, your July P&L shows a massive loss and your September looks like a windfall. Neither is real. The inventory should sit on your balance sheet as an asset until units are actually sold — then the cost of those specific units moves to COGS.

### Mistake 2: Using the bank deposit as revenue

An Amazon settlement hits your bank for \$14,200. That is not revenue. That deposit is a bundle: gross sales minus refunds, minus referral fees, minus FBA fees, minus shipping credits, minus advertising charges. If you record \$14,200 as income, you have understated revenue, hidden your fees, and made your margins look completely different than reality.

### Mistake 3: Ignoring landed costs

Your product costs \$8 per unit from the manufacturer. But after freight (\$1.20), customs duties (\$0.60), and inspection fees (\$0.15), your real cost is \$9.95 per unit. That is a 24% difference. If you are calculating COGS on \$8 per unit, your margins are overstated by almost a quarter. Landed cost — the total cost to get inventory to your warehouse — is what belongs in your COGS calculation.

## The Weighted Average Cost Method

There are several ways to calculate COGS. For Amazon and Shopify sellers, one method stands above the rest: weighted average cost.

Every time you purchase new inventory, the cost per unit is recalculated as a weighted average of all units on hand — old stock plus new stock. When units are sold, COGS is based on this average cost. Simple, defensible, and accurate.

### A Real Example

	Units	Cost/Unit	Total Value
Starting inventory	100	\$10.00	\$1,000
New purchase	200	\$12.00	\$2,400
<b>Combined</b>	<b>300</b>	<b>\$11.33</b>	<b>\$3,400</b>

New weighted average cost:  $(\$1,000 + \$2,400) / (100 + 200) = \$11.33$  per unit.

If 150 units sell this month, your COGS =  $150 \times \$11.33 = \$1,700$ . The remaining 150 units stay on the balance sheet at \$1,700.

*Why not FIFO? For most Amazon sellers, inventory is commingled in FBA warehouses. You cannot track which specific unit shipped. FIFO requires assumptions about which units sold first, adding complexity without accuracy. Weighted average is the cleanest, most defensible method for commingled inventory.*

### The Monthly COGS Formula

$$\text{COGS} = \text{Beginning Inventory} + \text{Purchases} - \text{Ending Inventory}$$

Every month, you need three numbers: the value of inventory at the start of the month, the total cost of purchases received during the month (at landed cost), and the value of inventory remaining at the end of the month. The difference is what you sold.

## What You Need to Track

Accurate COGS requires accurate inventory records. Every purchase must be recorded with:

- **Date of purchase** — when the order was placed
- **Supplier name** — who you bought from
- **Number of units** — exact quantity received
- **Cost per unit** — manufacturer price
- **Freight and shipping** — inbound shipping to your warehouse or FBA
- **Customs and duties** — import fees if sourcing internationally
- **Total landed cost** — all of the above combined, divided by units

At month-end, you also need an accurate inventory count. For FBA sellers, Amazon provides inventory reports. For Shopify sellers with a 3PL, request a month-end inventory snapshot. Multiply units on hand by the current weighted average cost — that is your ending inventory value.

## The Connection to Your P&L;

COGS sits directly below revenue on your Profit & Loss statement. It is the single largest deduction before you reach gross profit. If COGS is wrong, gross profit is wrong. If gross profit is wrong, you cannot answer the most fundamental question in your business:

<i>"Am I actually making money on the products I sell?"</i>		
<b>P&amp;L Line Item</b>	<b>Example</b>	<b>What It Tells You</b>
Revenue (Gross Sales)	\$85,000	Total sales before any deductions
Less: Refunds & Returns	(\$4,200)	Money returned to customers
Net Revenue	\$80,800	Actual recognized revenue
Less: COGS	(\$44,400)	Direct cost of products sold
Gross Profit	\$36,400	Revenue minus product cost
<b>Gross Margin</b>	<b>45%</b>	<b>Is the product economics viable?</b>

## Your COGS Action Checklist

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- 1. Gather every supplier invoice from the last 12 months
- 2. Record landed cost for each purchase (product + freight + duties)
- 3. Calculate weighted average cost per SKU
- 4. Get your current inventory count from Amazon or your 3PL
- 5. Multiply units on hand by weighted average cost = ending inventory
- 6. Run the COGS formula: Beginning Inventory + Purchases – Ending Inventory
- 7. Compare your calculated COGS to what is currently on your P&L;
- 8. If there is a gap, your profit number has been wrong

*If you got to step 8 and found a gap — you are not alone. Most e-commerce sellers discover their books have been misstating profit, sometimes by tens of thousands of dollars per year. The good news: it is fixable.*

## Ready to Know Your Real Numbers?

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ReynFinancial specializes in e-commerce bookkeeping for Amazon and Shopify sellers. We use accrual-basis accounting, weighted average COGS, and A2X integration to give you financial clarity you can actually trust.

Book a free 30-minute Clarity Call. We will review your current books, identify where the gaps are, and tell you honestly whether we can help.

**Book Your Clarity Call → [reynfinancial.net](https://reynfinancial.net)**