Solution:

In the income statement, the cost of goods sold (COGS) is defined as the total cost that has been spent on acquisition of the goods sold during the fiscal year.

It includes all the costs related to the production of the goods, freights as well as any other expenses that might be related to bringing the goods from the seller to the buyer.

In the accounting perspective, the COGS is calculated by using the following equation:

COGS = Beginning Inventory + Purchase of Goods – Ending Inventory

The above equation is obvious if we see it from a simple perspective; the beginning inventory is the inventory we had before the fiscal year began, and then we added some purchase (Purchase of Goods) for sale and we end up with some goods left at the end of the year (Ending Inventory).

This equation is used often to calculate the COGS in the income statement, as other values are readily available throughout the year.