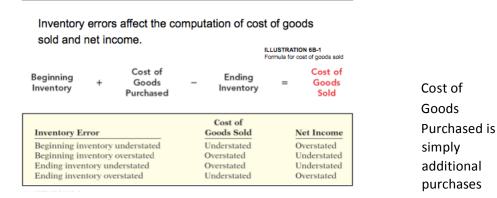
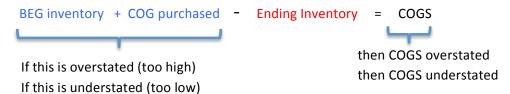
There will be an overstatement or understatement of beginning or ending inventory. You can memorize the table below OR just memorize the Cost of Goods Sold formula and figure it out, which is probably easier. Simple formula, simple math

## **INCOME STATEMENT EFFECTS**



It is easier to remember formula then above chart Its basic math, think about it...



## Example:

Lets say COGS is 300:

400 - 200 = 100 but by error you either:

Now you can clearly see that when beg inventory is overstated COGS is understated or when Beginning inventory in understated that COGS is overstated.

How does this effect Net Income?

Go to Net Income Statement

PROFIT & LOSS		
REVENUE	Dr	Cr
Sales		
Sales Rtn Allow		
Cost of Goods Sold	too high	
Other Revenue& Gains		
Gain on disposal of asset		
EXPENSE		
Advertising		
Depreciation		
Other Expense&Losses		
Loss on disposl of asset		
= NET	LOSS	GAIN

## Why?

Because COGS falls under the Revenue Account on the Net Income Statement.

Remember what you are really ULTIMATELY CALCULATING is your PROFIT

How much did you make after you paid for you inventory?

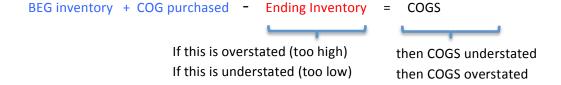
Sales Revenue – COGS = Gross Profit

Again,

basic math iF the COGS number is high then you make less Profit

so your NET INCOME IS UNDERSTATED

## Or focusing on ENDING INVENTORY



PROFIT & LOSS		
REVENUE	Dr	Cr
Sales		
Sales Rtn Allow		
Cost of Goods Sold	too low	
Other Revenue& Gains		ļ
Gain on disposal of asset		
EXPENSE		
Advertising		
Depreciation		
Other Expense&Losses		
Loss on disposl of asset		
= NET	LOSS	GAIN

Notice COGS iNCREASES on the debit side

If COGS is understated then Revenue will actually be higher than it should be

If Revenue is higher then Net Income is overstated

COGS is not really a Debit or Credit Balance. It is merely subtracted out from Sales to get your profit.

Sales is a Credit balance If you add stuff up in the CREDIT column you get a Net Gain