





Cost of Goods Sold (COGS)

Breaking it Down!

Calculating COGS



As we watch the following video, think about the following:

- What are 2 key questions an investor would ask when considering a business?
- What does COGS refer to?
- Why is it essential for a business to accurately calculate its COGS?

Remember, if we don't know how much it costs to make or deliver our product/services, we won't know if we're actually making money when we sell them.





Explaining Cost of Goods Sold



Calculating COGS – Product Example



Burger Blast's Classic Burger

We will look at how to calculate the COGS for a single menu item using the example of the Burger Blast Food Truck's Classic Burger.

For the Classic Burger, we will need to know what elements will make up our burger and how we will serve it.

Remember, you only need enough ingredients for ONE hamburger when you're figuring out the COGS of the item.



Calculating COGS – Product Example



Whole Class Activity

The Goal:

Figure out the COGS for a hamburger

The Steps:

1. List all of the ingredients you will need
2. Decide how much of each ingredient you will need for ONE burger
3. Find (or estimate) the price of that amount of each ingredient
4. Add in any additional costs you might need to serve the burger (e.g., container, napkins, etc.)
5. Add all of the individual costs together



Calculating COGS – Product Example



Ingredient	Amount Required	Price
Beef patty	1 per burger	\$1.50
Burger bun	1 per burger	\$0.80
Cheese	1 slice per burger	\$0.35
Tomato	1 serve per burger	\$0.20
Sauce	1 serve per burger	\$0.20
Lettuce	1 serve per burger	\$0.10

Other costs	Amount Required	Price
Open box	1 per burger	\$0.50
Napkin	1 per burger	\$0.05
1 employee time	5min@\$22/hr	\$1.83



Total COGS
= \$5.53

Calculate COGS - Product



Pairs/Small Group Activity

Pick a product – you are going to work out the COGS for that product.

Remember to think about:

- What materials, ingredients, or components are needed to make the product?
- What packaging is required?

With your COGS in mind, how much would you sell your product for? Why?



Remember, COGS
= Cost of Goods Sold

We need to know COGS
before we can accurately
price our items.



Calculating COGS – Service Example

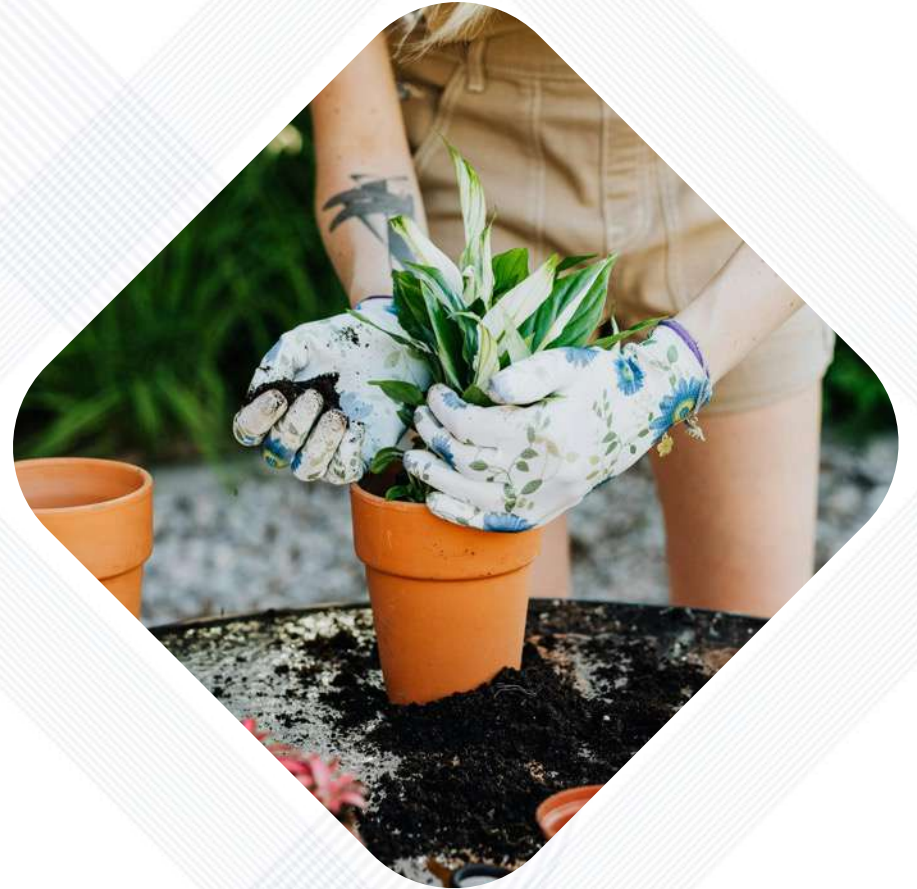


Garden Buddies' Weeding & Mulch Service

We will look at how to calculate the COGS for services using Garden Buddies' Weeding & Mulching Service as an example.

To calculate the COGS of the weeding & mulching service, we will need to know what is required to provide the service.

We will calculate this as a per hour service, and need to know what tools and materials will be required, and how much our labour will cost.



Garden Buddies – Calculating COGS



Whole Class Activity

The Goal:

Figure out the COGS for one hour of weeding and mulching

The Steps:

1. List all of the tools and materials you will need (think about this as how much for 1 hour of the service)
2. Decide on a flat fee for using items like gloves, shovels, rakes, etc. – you don't need to buy new each time
3. Find (or estimate) the price of any materials (soil, mulch)
4. Add in any additional costs you might need to deliver the service (e.g., transport, tool maintenance, etc.)
5. Add all of the individual costs together



Garden Buddies – Calculating COGS



Materials	Amount Required	Price
Mulch	2 x 25L bags @ \$9.98	\$19.96
Trash bags for weeds	2 bags (50 pack @ \$16.29)	\$0.65
Worker time	\$25/hr	\$25.00
Transport	10km round trip @ \$0.80/km	\$8.00
Shovel	\$0.50/hr fee	\$0.50
Rake	\$0.50/hr fee	\$0.50
Gloves & boots	\$0.70/hr fee	\$0.70
Other costs	Amount Required	Price
Tool maintenance	\$1.00 flat fee	\$1.00
Wear & tear on hat, clothing, sunglasses	\$2.00 flat fee	\$2.00

Total COGS
= \$58.31



COGS = Cost of Goods Sold

Whether it's a product or service, we need to know what it costs to make or provide before we can price what we're selling.



Calculate COGS - Service



Pairs/Small Group Activity

You are going to work out the COGS for the service you are providing (per hour service).

Remember to think about:

- What materials or tools will you need to deliver this?
- What labour will you need for this?
- How will you get to the location (if needed)?

With your COGS in mind, how much would you charge per hour for the service you are providing? Why?



Close



Remember, capturing the cost of all elements (raw materials) that go into your finished product or service allows you to figure out how much it costs to make.

You need to know your Cost of Goods Sold (COGS) before you can set the prices of what you are selling – this way you know you're making money.

If prices are too high, customers might not buy the product/service and your business could lose money. If prices are too low, the business might not cover costs and customers might think your product is not good quality.



