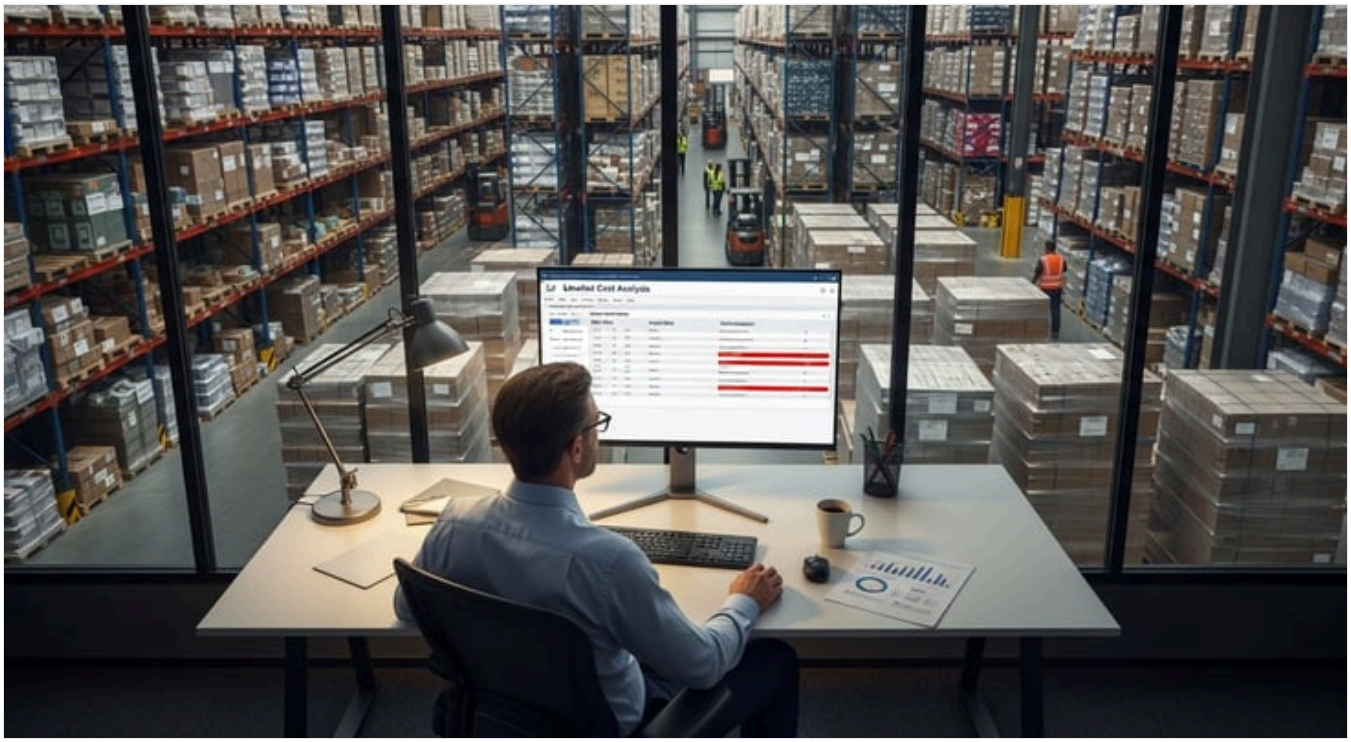
Tariffs and Cost Accounting: Impact on COGS and Pricing

By houseblend.io Published February 12, 2026 29 min read



Executive Summary

Tariffs – taxes on imports – have emerged as a **critical cost driver** for businesses, directly affecting inventory valuation, cost of goods sold (COGS), pricing strategies, and financial disclosures. What was once a peripheral compliance issue has become a strategic concern for CFOs: with recent U.S. tariffs pushing *effective duty rates to 10.1% (the highest since 1946)* and specific duties ranging from 15% to 50% (Source: wiss.com), even modest tariff changes can **erode profit margins**. In practice, research finds that a tariff hike is almost fully reflected in import costs but only partially passed on to final consumers (Source: wiss.com). The result is *margin compression* (estimated at 6–10% on average for import-heavy manufacturers (Source: wiss.com), slower cash flows, and elevated inventory risk.

From a cost-accounting perspective, **both IFRS and US GAAP treat tariffs as part of "landed cost"**. Import duties must be *capitalized* into inventory cost and recognized in COGS when goods are sold (Source: www.eisneramper.com) (Source: ifrscommunity.com). Tariffs do *not* qualify as "abnormal" costs that can be expensed immediately (Source: www.eisneramper.com). As a result, CFOs must ensure their systems layer tariffs into inventory and cost models (for example via part-specific tracking or standard-cost variances (Source: www.eisneramper.com), rather than inadvertently understating margins. At the same time, CFOs need to monitor **inventory valuation**: if higher tariff-augmented costs push carrying values above net realizable value, impairment write-downs are required (Source: kpmg.com) (Source: wiss.com). Likewise, long-lived assets and goodwill may need re-testing if tariffs materially impair future cash flows (Source: kpmg.com) (Source: kpmg.com).

On the pricing front, nearly **95–86% of CFOs** report that tariffs are forcing them to revisit price-setting (Source: fortune.com) (Source: www.deloitte.com). The fundamental dilemma is this: *raising prices* may protect margins but risks lost sales in a price-sensitive market, whereas *absorbing* tariff costs cuts into profits. Deloitte's CFO survey finds that 86% of large-company finance chiefs expect pricing to play a **"much more important"** role in the next 12 months (Source: www.deloitte.com). In line with this, many firms now run detailed product-level profitability analyses before deciding whether to **raise prices** or **cut costs**. In some cases (especially for smaller businesses), a modest price increase is adopted to offload tariffs; larger competitors may eat more of the cost to retain market share (Source: www.balancedbusinessgroup.com) (Source: fortune.com).

CFOs also must **strengthen internal controls and disclosures** around tariffs. This means continuously monitoring tariff-rate changes by product, country of origin and classification under the Harmonized Tariff Schedule (Source: wiss.com) (Source: www.eisneramper.com), and building audit trails (especially if suppliers later reimburse duties). Inadequate control can lead to material misstatements or penalties for misclassification. For public companies, SEC and IFRS guidance suggest assessing when tariff exposure is material enough to warrant MD&A discussion or disclosure controls disclosure (Source: wiss.com) (Source: kpmg.com).

In sum, tariffs have moved front-and-center on the CFO agenda. They **inflate inventory costs** and COGS, **compress margins**, complicate **pricing strategies**, and introduce new disclosure risks. CFOs must integrate tariffs into budgeting and cost-planning models, adapt pricing or sourcing as needed, and ensure accounting treatments comply with standards. A proactive, cross-functional approach – involving accounting, tax, supply chain and strategy teams – is essential to forecast the impact of tariffs, preserve working capital, and maintain transparency in financial reporting.

Introduction and Background

Tariffs – essentially import duties and taxes – are not a new phenomenon in global trade. Historically, governments have used tariffs both as a **source of revenue** and as a tool to **protect domestic industries** (Source: www.wolterskluwer.com). In the eighteenth and nineteenth centuries (and even well into the 20th century), high tariff regimes were common; only after World War II did global trade agreements (GATT/WTO) gradually drive average tariff rates downward. However, in recent years trade policy has become volatile again. In 2025, for example, the U.S. announced *new* "reciprocal tariffs" – a 10% baseline on all imports plus higher rates on goods from certain countries with trade surpluses (e.g. China, Japan, the EU) and key industries like autos and steel (Source: www.wolterskluwer.com). Other nations retaliated with their own levies. These developments marked one of the largest tariff escalations in decades, propelling the U.S. average import duty to **10.1% – the highest since 1946** (Source: wiss.com).

For today's CFO, tariffs are no longer a negligible footnote: they are a **strategic cost factor**. A recent analysis observes that "tariffs are no longer a footnote in 10-K filings; they have become a first-order earnings variable" (Source: www.reutersguide.com). The chatter at earnings calls confirms this – S&P 500 companies mentioned "tariff" or "duty" in **1,400 calls in 2023 alone (triple 2016's count)** (Source: www.reutersguide.com). Tariffs affect much more than taxes paid at the border. They increase **inventory and production costs**, disrupt supply chains (forcing alternative sourcing or stockpiling), reduce operational flexibility, and can squeeze profit margins. As one accounting advisor notes, the magnitude and speed of recent tariffs have turned "simple accounting exercises" into gut-wrenching financial challenges requiring nuanced judgment (Source: www.barnesdennig.com).

The CFO's task is to translate these trade-policy changes into reliable financial plans. Tariffs change the *economic baseline* in budgeting models: raw-material costs rise, selling prices may not keep pace, and working capital requirements climb. This impacts key financial metrics – from COGS and gross margin to EBITDA, cash conversion cycles, and ultimately EPS. In this report, we examine **three core areas** of CFO concern:

- **COGS and Inventory Accounting:** How to properly cost and value inventory when tariffs are in play, including GAAP/IFRS requirements.
- **Pricing and Profit Margins:** How tariff-induced cost shocks should inform pricing strategy and product mix.
- **Financial Controls and Disclosure:** How to control for tariff-related accounting entries, maintain compliance, and communicate material impacts to stakeholders.

Throughout, we draw on current research, expert commentary, industry surveys and case examples to illustrate best practices and pitfalls. We also consider broader macro effects: higher tariffs typically **inflate domestic prices and slow growth** in imposing countries (Source: www.bis.org), which can influence consumer demand and strategic priorities (e.g. reshoring production). A well-prepared CFO will have visibility into the full impact of tariffs on **cost accounting, cash flow, tax obligations, and financial reporting**. The following sections offer a deep dive into each area.

Tariffs and Cost of Goods (COGS)

Accounting Treatment of Tariffs

Under both U.S. GAAP and IFRS, **tariffs on imported goods are treated as part of the product's cost** – they increase inventory carrying values and flow into COGS when goods are sold. Specifically, FASB ASC 330 states that the *"cost of inventory includes all expenditures incurred in bringing an item to its existing condition and location"*, which explicitly **includes tariffs** (Source: www.eisneramper.com). The AICPA's Center for Plain English Accounting confirms that tariffs, no matter how unexpected or volatile, **do not qualify as "abnormal" costs** (which might be expensed immediately); rather they must be capitalized as normal supply-chain costs (Source: www.eisneramper.com). In practice this means that when a CFO adds a new import tariff, the additional duty should be wrapped into the inventory cost base.

Likewise, IFRS IAS 2 on Inventories requires that *"the cost of purchase"* include the purchase price, import duties, and other non-refundable taxes, plus freight-in and handling (Source: ifrscommunity.com). In summary, both frameworks align: **Landed cost = Purchase price + import duties + freight and handling + other direct costs**. CFOs should ensure that their costing systems treat tariffs exactly this way. This might mean, for example, configuring the ERP system so that any tariff paid on procurement transactions automatically increases the inventory asset rather than going through expense accounts.

Practical methods for capturing tariff costs include (as one AICPA advisory notes) using inventory tracking by part or by import batch, or incorporating tariff surcharges via standard-cost variances (Source: www.eisneramper.com). In standard-costing systems, CFOs often handle new tariffs by capitalizing the unfavorable purchase-price variance. This preserves the integrity of inventory valuation while still alerting management via variance reports. In all cases, the **taxable and GAAP inventory bases** will both include the tariff, so failing to capture the tariff in cost accounting can *understate* both COGS and the tax basis of inventory (potentially leading to unanticipated catch-up adjustments later).

Impact on COGS and Margins

Because tariffs raise the denominator in the gross-profit calculation (COGS), their immediate effect is to *compress margins* if selling prices are held constant. The magnitude of this effect depends on the tariff rate and the product's base cost. For illustration, consider an example from the CPG sector: suppose an importer buys bottles of wine from Italy for $10 each and sells them for $17. At a 0% tariff, gross profit is $7 (a 41% margin). Now impose a 20% tariff: the cost jumps to $12, eroding profit to $5. The new gross margin becomes only 29% (Source: www.balancedbusinessgroup.com). This simple example—drawn from industry guidance (Source: www.balancedbusinessgroup.com)—shows how even a moderate tariff can cut margins by a double-digit percentage of revenue. Table 1 below generalizes this effect:

SCENARIO	COGS	SELLING PRICE	GROSS PROFIT	GROSS MARGIN
Without Tariff	$10	$17	$7	41%
With 20% Tariff	$12	$17	$5	29%

Table 1: Example impact of a 20% tariff on per-unit gross margin (adapted from Balanced Business Group example (Source: www.balancedbusinessgroup.com).

In real businesses, CFOs must perform this kind of per-product margin analysis at scale. Many companies maintain an item-by-item COGS model where imported components, subassemblies or finished goods are tagged with their tariff rates. When a new tariff is announced, the CFO's office will run the model to identify which product lines lose profitability and by how much. Industry advisors recommend then deciding – product by product – whether a price increase is feasible or if cost-cutting in other areas is required (Source: wiss.com) (Source: www.balancedbusinessgroup.com). For example, a firm might pass on tariffs by re-negotiating with customers (if contracts allow), or by streamlining operations elsewhere to preserve net margins.

In practice, the **price pass-through rate** (the percentage of a tariff absorbed by higher selling prices) is often well below 100%. Analyses of past tariff wars show that import costs tend to rise almost fully by the new tariff, but consumer prices rise only partially (Source: wiss.com). In other words, input suppliers or manufacturers often must absorb a portion of the tariff themselves, unless market conditions allow higher consumer prices. Balancing these pressures requires strategic pricing decisions.

Pricing Strategy and Competitive Considerations

Faced with higher COGS, CFOs must decide how to adjust prices – a decision with both financial and competitive implications. Should the company raise list prices to fully recover new costs, or should it accept lower margins to hold market share? The answer frequently depends on demand elasticity and competitive positioning. Survey data make clear that pricing has become a front-burner issue: a Deloitte CFO Signals study found **95% of large-company CFOs had adjusted pricing strategies in the past six months**, and 86% expected pricing to be even more critical to financial performance over the next year (Source: fortune.com) (Source: www.deloitte.com). In short, nearly all CFOs are actively reevaluating price vs. cost trade-offs in light of tariffs and broader cost inflation.

Price elasticity differs by industry and product. Luxury or differentiated goods can often withstand higher prices, while highly competitive commoditized goods cannot. For example, if demand is relatively inelastic, a 10% tariff might be entirely passed through, maintaining profit dollars. But in price-sensitive retail markets, a full pass-through might trigger demand loss. The CFO must consider these scenarios: even significant tariff hikes may be

absorbed to some degree by cutting rebates, reducing promotions, extending payables, or trimming other expenses. By contrast, smaller companies or non-differentiated products are more likely to need price increases; anecdotal counsel suggests that many small CPG brands “increase prices” as a common response, whereas larger firms may absorb costs to protect volume (Source: www.balancedbusinessgroup.com).

Experienced CFOs thus recommend rigorous **scenario and sensitivity analysis**. For each key product or customer segment, CFOs estimate how various price increases (or cost-absorption strategies) affect volume, revenue and profit. They also monitor competitor actions. A notable example: Amazon’s CEO Andy Jassy reported that third-party sellers on its platform, having over-ordered in anticipation of tariffs, eventually needed to raise seller prices (reflecting tariff impact plus inventory overhang) (Source: cyprus-mail.com). This suggests that even if a company initially absorbs a tariff to stay competitive, delayed adjustments may shift to the end-customer later.

Beyond transactional pricing, CFOs may reconsider **their product and customer mix**. If certain SKUs or channels become unprofitable after tariffs, they might be scaled back or phased out. For example, companies often find that some high-cost, low-margin imports can no longer cover their costs; resources may be reallocated to more profitable lines or to developing domestic-sourced alternatives. In sum, tariffs force CFOs into active pricing management: surveying the pass-through potential, updating pricing models, and communicating trade-offs across the organization.

Inventory Management and Working Capital

Tariffs also impact inventory planning and cash flow. In anticipation of tariffs, firms often choose **to stockpile** imported goods (or materials) ahead of rate increases. While pre-paying duties can lock in lower rates, it *ties up cash* and inventory space. As Wiss Advisory observes, tariff surcharges tend to increase the working capital requirement: companies hold more inventory and money at customs, while longer supplier lead times or “safety stock” buffers further delay liquidity (Source: wiss.com). A CFO must therefore forecast higher inventory investment and possibly delay revenue recognition. For example, an electronics manufacturer may load up components before a tariff war, only to find that couple differences in cash conversion cycle and warehouse usage eat into operating cash.

However, aggressive stockpiling has risks. Accounting standards require inventory to be stated at the lower of cost or net realizable value. If tariffs rise and the company cannot raise selling prices commensurately, stranded inventory (bought at higher tariff-inclusive cost) may exceed its realizable value (Source: wiss.com). In practical terms, this means *inventory write-downs* might be needed. KPMG and industry guides stress that such impairment triggers should be assessed continuously: “if you’re purchasing inventory at higher tariff-inclusive costs but can’t raise customer prices proportionally, you likely have impairment” (Source: wiss.com). Any large, unsellable glut should be flagged as a “firm purchase commitment” loss – a liability that must be recognized immediately if sales contracts are fixed (Source: wiss.com).

CFOs must work closely with supply-chain planners to balance these factors. Techniques include **just-in-time (JIT)** management to limit excessive inventory build-up, while establishing alternative inland or bonded warehouses that delay duty payment until sale. Some firms also negotiate *refundable* agreements or duty drawback mechanisms to mitigate carrying costs. Critically, finance teams keep a close eye on the **age** of imported inventory: if items sit in stock too long, they should be evaluated for obsolescence or markdowns, just like any perishable goods (Source: kpmg.com).

In summary, tariffs typically **increase working capital needs**. Cash must flow earlier (to pay customs duties), and more capital is locked in inventory. CFOs should adjust cash-flow projections accordingly, and if needed secure additional financing or credit lines. They should also re-calculate key liquidity metrics (like inventory turnover) under tariff scenarios. When analyzing **future vs. present costs**, CFOs often use expected cash flow models: for impairment or budgets, include known tariff obligations. Under an IFRS impairment test, announced tariffs are definitely factored into discounted cash-flow forecasts (Source: kpmg.com), and even proposed tariffs may be included if the information is reliable. The goal is to prevent nasty surprises – a CFO who ignores the working-capital impact of tariffs risks violations of debt covenants or credit crunches if payables outpace receivables by an unexpected amount.

Required Controls and Financial Reporting

Internal Controls and Compliance

The complex, evolving nature of tariff regulations demands robust internal controls. CFOs and audit committees should ensure that their companies establish *end-to-end processes* for capturing tariff changes and applying them correctly. This includes:

- **Monitoring Regulatory Changes:** Dedicated trade-compliance personnel (or functionally, the AP and procurement teams) must track tariff announcements by country and product (using Harmonized Tariff Schedule (HTS) codes and country-of-origin rules) (Source: wiss.com). For example, if a new tariff is levied on imports from China effective next month, the system should flag any pending orders or future shipments in scope.

- **Origin and Classification Controls:** Misclassifying a product under an HTS code that carries a lower duty rate can lead to material misstatements and penalties. CFOs should verify that importers maintain documentation justifying each item's country of origin and tariff code (Source: wiss.com) (Source: wiss.com). Trusted vendor communication and audit trails are essential: the company should be able to prove to customs and auditors that products were not more highly taxed than recorded.
- **Valuation and Allocation Controls:** Because tariffs are often a percentage of value, the company must ensure that the *declared value* of imported goods is accurate. Any freight, insurance, or other charges should be correctly allocated to determine the proper base for the duty. Moreover, in multi-stage supply chains (e.g. imported components repackaged into finished goods), the company must decide – consistently – how much of the final product's cost comes from imported inputs (often subject to complex regional trade rules such as USMCA). CFOs should review and approve the methodologies used to allocate duties to products, preventing misallocation between COGS and other expenses (Source: wiss.com).
- **Documentation and Audit Trail:** Any changes in classification, JV agreements, or supplier certificates that affect tariff rates should be documented and reviewed. For example, if a supplier re-designs a part so that it "qualifies" for a lower tariff, the company needs a formal record of that change. Without strong documentation, the risk of customs audits and fines rises sharply.

Wiss Advisory emphasizes that these are not "back-office" tasks but CFO-level issues. Internal control over financial reporting (ICFR) must explicitly incorporate tariff-related checks (Source: wiss.com). For instance, periodic control reviews might include a line-item test of correct duty calculation on a sample of import transactions. If a system upgrade is needed to capture tariff codes by item, the CFO's team should treat it as part of the financial consolidation and reporting process (i.e. with proper change management).

Financial Reporting Impact

Given these changes to costs and inventory, CFOs must also carefully consider their financial statement disclosures and valuation assumptions. Key impacts include:

- **Inventory Valuation (Lower-of-Cost-or-Market):** As discussed, any net realizable value (NRV) write-downs must be recorded in the period when the tariff makes the carrying cost exceed selling price. Under US GAAP, inventory is reported at the lower of cost (including tariffs) or NRV (Source: wiss.com). If a tariff raises costs significantly while market prices lag, an impairment loss on inventory is required. KPMG guidance notes that tariffs can force "higher inventory costs without corresponding increases in selling prices" – necessitating NRV adjustments (Source: kpmg.com). CFOs should coordinate with auditors to ensure that forecast assumptions (future prices, demand) reflect the tariff environment. Any substantial stock impairments must be disclosed as they directly reduce gross profit and net income.

- **Fixed Asset Impairment:** Tariffs can also indirectly affect long-lived assets. If higher costs and weaker demand due to tariffs change cash flow projections for plants, equipment, or even intangible assets, an impairment test may be triggered under ASC 360 (or IAS 36). For example, KPMG IFRS notes that new tariffs may be "external indicators" that a reporting unit's assets could be impaired (Source: kpmg.com). CFOs should thus reassess the carrying values of affected assets. International guidance suggests using updated DCF models that include both announced and expected future tariffs (Source: kpmg.com). If the tariff consequences clearly reduce the recoverable value, the company must write down the asset to its fair value (for PPE) or to zero (for goodwill) and disclose the loss.

- **Profit Margins and EPS Guidance:** As tariffs cut into gross profit margins, this trickles down to operating income and earnings. Many companies have begun signaling to analysts that portion of profit erosion is trade-related. For example, industry press has highlighted bellwethers like Procter & Gamble, Fastenal and 3M explicitly warning in earnings calls that tariff increases are pressuring margins (Source: cyprus-mail.com). A CFO must ensure that any material tariff effects are either forecasted in forward-looking guidance or clearly explained as a headwind to avoid misleading stakeholders. When filing financial reports, tariff impacts may appear in COGS breakout, segment reporting (if a subset of products are affected), or risk-factor/MD&A footnotes. While there is no single "tariff line item," transparency is key: regulators and auditors expect a company to parse out material cost changes, and disclosing tariff impact builds credibility with investors.

- **Tax Bases and Incentives:** Tariffs can also influence tax accounting. Since import duties raise the tax basis of inventory, they alter future COGS deductions. U.S. tax regulations generally require capitalization of tariff costs into inventory under Section 263A, similar to book rules (Source: rsmus.com). CFOs should coordinate with the tax department to align book and tax treatments. Moreover, higher inventory values can produce larger interim tax payments. In some cases, tariffs may create timing mismatches (e.g. if companies accelerate importing for cost state, they might recognize more expense before corresponding revenue). Careful tax planning – including use of available duty-drawback programs – can mitigate some of the adverse cash tax impact.

Disclosure and Controls Over Reporting

Given the above, CFOs may need to update disclosure controls and procedures. For SEC registrants, management must assess whether tariff-related changes are "material." According to SEC guidance (and as reinforced by venture CFO advisories), any change in internal controls affecting financial reporting must be noted if material. One analysis warns that *"if tariff exposure materially affects financial reporting risk, that's disclosure-worthy"* (Source: wiss.com). In practical terms, this could mean:

- **MD&A Disclosures:** If a tariff change drives a significant change in inventory demand, costs or estimated selling prices, mention this in the Management Discussion & Analysis. For example, state that "recent tariff increases on imported components increased inventory costs by X%, attenuating gross margins." This alerts investors to treat observed margin declines in context.
- **Risk Factors:** A company might update its risk-factor section to note the volatility of trade policy as a risk to results.
- **Contingent Liabilities:** If the company had material unrecognized contingent liabilities (e.g. unpaid tariffs on imports that are later overturned by policy), ensure these are evaluated for disclosure.
- **Internal Control Changes:** In some jurisdictions (e.g. Canada's NI 52-109, the U.S. SEC's internal control reporting), if the company significantly revises its ICFR to handle tariff accounting, an explanatory footnote or disclosure of a control change might be required.

Overall, the CFO should treat tariff management like any other significant accounting change. This means coordinating with auditors early, documenting new policies (e.g. how tariffs are capitalized), and periodically validating that tariff-related balances reconcile from inventory down to income statement.

Tax Accounting and Tariffs

Tariffs not only affect financial accounting but also tax reporting. For income tax purposes, rules generally parallel accounting: acquisition costs (including tariffs) are capitalized into inventory cost basis for taxable income (Source: rsmus.com). However, the timing of recognition can diverge. Key considerations include:

- **Capitalization Rules:** U.S. tax law (Section 263A) defines the types of costs that must be capitalized to inventory, explicitly including "freight-in," which courts have interpreted to cover import duties and tariffs. Thus, the tariff paid ultimately increases the COGS when inventory is sold. CFOs should confirm that their tax book (LIFO or FIFO) also incorporates tariffs identical to financial books to prevent deferred tax discrepancies. In most cases, both books will match.
- **LIFO Effects:** Companies using LIFO inventory valuation need to ensure that LIFO layers properly include tariff costs. A sudden spike in import cost could distort LIFO liquidation effects. Tax accountants should be prepared to explain large variances.
- **Standard-Cost Systems:** As noted earlier, firms on standard costing can end up with inventory valued differently for book and tax. Since tariffs often come mid-year or multiple times, actual costs may diverge from standard. Per RSM, if tariffs represent a **material portion of cost**, standard COGS may understate actual COGS at year-end (Source: rsmus.com). CFOs should update standard cost rates more frequently to avoid impairments or tax penalties.
- **Tax Credits/Duty Drawbacks:** In some jurisdictions, companies may recover duties through drawback programs (claiming credit or refund). CFOs should track these separately – they effectively reduce the net tariff expense. If certificates of drawback exist, they may need to be disclosed as receivables.
- **Indirect Taxes:** Note that tariffs are different from sales taxes or VAT (which are typically refunded to the buyer). Tariffs are permanently borne by the importer and cannot be passed through to tax authorities. Hence, they firmly increase product cost.
- **Section 9802 (Special Tariff Provision):** In rare cases, a country may have special tax provisions or relief (for example, reduced duties on certain domestically produced inputs). If applicable, CFOs and tax teams must structure transactions to maximize legal relief.

The bottom line is that tariffs will generally *increase taxable income* in the short term (higher COGS basis) but could reduce future taxable margins if duties are higher. CFOs should coordinate any financial-book/tax-book discrepancies with treasury and auditors to ensure that deferred tax effects are correctly calculated and that the effective tax rate reflects any expanded cost basis. Failure to integrate tariffs into tax accounting could trigger IRS inquiries or adjustments at audit.

Case Studies and Real-World Examples

Retail & Consumer Goods: A 2025 analysis by Reuters found widespread corporate acknowledgment of tariff effects. Many consumer-goods firms publicly discussed tariff impacts in recent earnings reports (Source: cyprus-mail.com). For instance, Amazon's CEO noted higher prices on its platform as sellers ran down advance stockpiles built before tariffs (Source: cyprus-mail.com). Packaged-goods giants including Procter & Gamble, 3M and

Kimberly-Clark cautioned that tariffs could pressure profit margins (requiring cost cuts and possibly price hikes) (Source: cyprus-mail.com). This shows how tariff effects trickle from manufacturing into retail – CFOs of consumer firms must watch for both cost and demand changes.

Manufacturing & Heavy Industry: Heavy industry often feels tariffs acutely because of large direct material inputs. For example, U.S. tariffs on steel and aluminum (imposed in 2018 and thereafter) sharply raised input costs for construction and machinery companies. Although some of these costs were offset by government rebates or supplier reforms, many manufacturers reported higher COGS. In some cases, capital investment plans were delayed as companies waited for tariff clarity (Source: wiss.com). CFOs of multi-nationals have also had to re-evaluate supply chains: for instance, automotive and electronics firms shifted sourcing out of high-tariff countries to alternative suppliers or toward local production to mitigate new import duties.

Small Businesses: Smaller importers can experience outsized pain. Consider a small winery importing French or Italian bottles. Even a modest tariff (say 7.5%) on a thin-margin product can eliminate profit for distributors. Balanced Business Group notes that many small CPG brands calculate tariff impact per SKU before deciding whether a price increase is sustainable; often, they find they must raise retail prices or reduce product size (Source: www.balancedbusinessgroup.com) (Source: www.balancedbusinessgroup.com). If the market resists price hikes, these importers might have to source domestically (if available) or exit the product line entirely.

Tech and Electronics: High-tech products have seen their own tariff dramas. For instance, tariffs on imported smartphones or components may bypass consumers in some cases (the market there is very price-sensitive), forcing manufacturers to cut margins or look for tariff-free components. One study found that in the U.S.-China trade war, certain tech assemblers had to absorb tariffs on parts because passing on costs price-sensitively would crater sales. CFOs in this sector apply very granular modeling, sometimes tracking tariffs at the bill-of-materials level for each electronic device.

Sector-wide Surveys: Surveys of CFOs echo these anecdotes. A June 2025 KPMG report notes that **57% of companies** had already seen lower gross margins due to tariffs (as of mid-2025) (Source: www.axios.com). (Even though this was a survey of U.S. executives, the pattern is global.) Another PwC survey indicated that a majority of large companies were “actively responding to tariff impacts,” with tactics ranging from cost-cutting and re-sourcing to modest price increases (Source: www.axios.com). In sum, across industries, CFOs are uniformly treating tariffs as a significant operational headwind.

Implications and Future Directions

Strategic Implications for CFOs

Tariffs add a new dimension to corporate strategy. CFOs must now weigh trade policy risks when planning capital allocation. For example, expansion projects or new factory investments may be delayed if future input costs are unpredictable. Long-term supplier contracts might be re-negotiated to include price-adjustment clauses for tariffs. Tax-and-tariff optimization could expand: some companies have even revisited inter-company transfer prices to shift value across borders strategically (though this carries its own transfer-pricing compliance risk).

Another key implication is **supply-chain diversification**. Large CFOs now closely monitor country-of-origin for their supplies. If a supplier in a high-tariff country charges more, CFOs may shift orders to alternate vendors or to plants in tariff-free regions. The trend toward “near-shoring” is partly driven by this calculus. CFOs often quantify the ROIC (return on invested capital) trade-offs: higher domestic labor costs vs. lower tariff exposure. The finance team must model these scenarios, possibly justifying higher fixed costs in exchange for protected margins.

A further consideration is currency and commodity exposure. Tariffs can be thought of as an added “tax” on trade. In some cases, currency movements or commodity hedges might offset or exacerbate these effects. For example, a stronger domestic currency reduces the local-currency impact of import price (though recent trends have often moved the opposite way). CFOs may therefore adjust their hedging policies; a typical approach is to include tariff costs in the forecasted purchase price of hedged items.

Future Outlook

Looking ahead, trade policy remains uncertain. CFOs must stay agile. If current high tariffs unwind (e.g. through new trade agreements or policy reversals), then inventory built up at tariff-inclusive costs might actually become advantageous (lower cost goods). Conversely, new tariffs can be imposed with little notice, so CFOs often maintain “early-warning” analyses.

Macroically, economic research indicates that high tariffs tend to slow growth and raise inflation in the imposing country (Source: www.bis.org). For finance chiefs, this means potential headwinds to demand in the medium term. Central banks may also respond (higher inflation might tighten monetary policy), which could raise interest costs for companies. On the other hand, tariffs can protect some domestic industries, potentially improving

cash flows there (as indicated by Nucor's windfall under U.S. steel tariffs (Source: www.reutersguide.com). CFOs of exporters must also watch for **retaliatory tariffs**: a U.S. tariff may trigger higher costs for U.S. exports in other markets, affecting foreign revenues.

In light of evolving trade landscapes, best-practice CFOs are building **scenario-based financial models** that include bracketing for trade costs. Rather than a single "base case" budget, they run sensitivity analyses applying different tariff levels and durations. They also push for transparency with boards and investors: when material, many now present "with/without tariff" splits on COGS and gross profit.

Lastly, digitalization and data analytics offer tools to manage this complexity. CFOs are increasingly adopting ERP modules that automatically update duty rates and flag exposure by product line. Machine learning is being explored to predict which tariff changes might occur based on political signals. In any case, the trend is clear: trade policy risk is now part of enterprise risk management, and the CFO is at the center of that effort.

Conclusion

Tariffs have graduated from a distant policy lever into a **financial reality** for business executives. They directly inflate cost of goods and necessitate changes across budgeting, pricing, and reporting. For CFOs, the mandate is clear: incorporate tariffs into every stage of cost planning and risk management. Accurate cost accounting requires capitalizing all import duties into inventory (Source: www.eisneramper.com) (Source: ifrscommunity.com). Pricing strategies must be reevaluated in light of where the tariff burden can be borne (Source: www.deloitte.com) (Source: www.balancedbusinessgroup.com). Inventory and working-capital models need adjustment to account for higher cash requirements and potential stock write-downs (Source: wiss.com) (Source: wiss.com). Meanwhile, financial controls should be tightened—tracking HTS codes, country of origin, and duty changes—to avoid misstatement and to ensure correct disclosures (Source: wiss.com) (Source: wiss.com).

Failure to do so risks distorted financial statements. Many CFO advisors note that treating tariffs incorrectly (for example, expensing them immediately) can once temporarily inflate profits but ultimately lead to greater mismatches and misstated margins. In contrast, treating tariffs as part of true product cost provides visibility and comparability. As one analyst quipped, tariffs are "a small but powerful indicator" of whether a finance function is equipped to handle complexity (Source: www.linkedin.com).

In the broader context, tariffs are likely to remain part of the economic landscape for the foreseeable future. CFOs should therefore build the *long-term* capability: real-time tracking of duties in procurement systems, flexible pricing tools, and scenario-based forecasts that include trade-policy shocks. Such preparedness will allow businesses not only to defend their margins, but also to highlight new opportunities (for example, domestic production incentives or new sourcing networks) that arise in a tariff-laden world.

Key Takeaway: Tariffs must **increase COGS** and **suppress gross profit** if not offset by pricing. CFOs should anticipate and model this effect, ensuring proper capitalization in inventory, adjusting pricing strategies responsibly, and communicating transparently to stakeholders. By doing so, they turn tariff volatility from a hidden risk into a quantifiable financial driver – an essential step for steering the company's bottom line and safeguarding investor confidence.

References

- Wiss & Company, *"Preparing for New Tariffs: CFO's Guide to Manufacturing Cost Planning,"* Feb. 10, 2026 (Source: wiss.com) (Source: wiss.com) (Source: wiss.com) (Source: wiss.com) (Source: wiss.com).
- Barnes Dennig LLP, *"The Hidden Balance Sheet Impact: How Tariffs Are Reshaping Financial Reporting,"* Feb. 9, 2026 (Source: www.barnesdennig.com) (Source: www.barnesdennig.com).
- Wolters Kluwer (CCH AnswerConnect), *"Discussion and analysis of current accounting and reporting issues related to tariffs,"* May 12, 2025 (Source: www.wolterskluwer.com) (Source: www.wolterskluwer.com).
- EI/AMAC, *"Tariffs & Capitalization,"* LinkedIn article by F. Siddiqi, Apr. 25, 2025 (Source: www.linkedin.com) (Source: www.linkedin.com).
- KPMG FRV (Financial Reporting), *"Effects of tariffs on financial reporting,"* June 2025 (Source: kpmg.com) (Source: kpmg.com).
- EisnerAmper Insights, *"Accounting Implications of Tariffs: What Manufacturing and Distribution Organizations Need to Know,"* Dec. 12, 2025 (Source: www.eisneramper.com) (Source: www.eisneramper.com).
- RSM US LLP, *"Tariffs and Tax Accounting: How to Manage Costs,"* Business Tax section (Source: rsmus.com) (Source: rsmus.com).
- Deloitte LLP, *"North American CFO Signals survey,"* Aug.–Oct. 2025 (Source: www.deloitte.com) (Source: fortune.com).
- Balanced Business Group (Pedro Noyola), *"How to Measure the Impact of Tariffs on Your Cost of Goods Sold,"* June 12, 2023 (Source: www.balancedbusinessgroup.com) (Source: www.balancedbusinessgroup.com) (Source: www.balancedbusinessgroup.com).
- Cyprus Mail (AP/Reuters), *"US firms warn profit margins are at risk as tariff costs rise,"* Jan. 27, 2026 (Source: cyprus-mail.com) (Source: cyprus-mail.com).

- Bank for International Settlements (BIS), *“A multi-sector assessment of the macroeconomic effects of tariffs,”* Qtr. Rev., Sep. 2025 (Source: www.bis.org).
- Reuters Guide, *“The Earnings Impact of Tariffs,”* Feb. 7, 2026 (Source: www.reutersguide.com) (Source: www.reutersguide.com).
- IFRS Community (Bernhard) – *“Cost of Inventories (IAS 2),”* Apr. 12, 2024 (Source: ifrscommunity.com).
- KPMG (Belgium) IFRS, *“How will new import tariffs affect impairment testing of non-current assets?”* Mar. 26, 2025 (Source: kpmg.com) (Source: kpmg.com).

Tags: cost accounting, tariffs, cogs, inventory valuation, landed cost, pricing strategy, financial reporting, gaap, ifrs, supply chain finance

---

DISCLAIMER

This document is provided for informational purposes only. No representations or warranties are made regarding the accuracy, completeness, or reliability of its contents. Any use of this information is at your own risk. Houseblend shall not be liable for any damages arising from the use of this document. This content may include material generated with assistance from artificial intelligence tools, which may contain errors or inaccuracies. Readers should verify critical information independently. All product names, trademarks, and registered trademarks mentioned are property of their respective owners and are used for identification purposes only. Use of these names does not imply endorsement. This document does not constitute professional or legal advice. For specific guidance related to your needs, please consult qualified professionals.