

How ManagerPlus Calculates Last Cost / Avg Cost

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Buy 20 widgets for \$10 each. You now have 20 of those widgets on the shelf, you spent \$200.00 for that inventory (# of units) x (last cost paid), or in this case $10 \times 20 = \$200$. The average cost of each of the widget is \$10.00. Logically the total value is \$200.00. Now we add another 20 widgets to our inventory; except this time they cost \$20.00 each. Hence, we are adding \$400.00 of value to the inventory; we then have 40 widgets on the shelf and have paid \$200.00 for 20 of them, and \$400.00 for the other 20. The total value (cost) of the inventory is now \$600.00, the math is: $(20 \text{ widgets} \times \$10) + (20 \text{ widgets} \times \$20) = \$600.00$. The average cost is then calculated by dividing the total number of units by the total cost, $(\$600 / 40) = \15.00 . So, each widget on the shelf cost an average of \$15.00. Now, let suppose I have my management system set to markup the cost when selling each widget by 100%, basically double the cost to determine the sale price. If I have my system set to determine Sale Price using Average Cost, each time I use Order Item Edit, the cost will be displayed as \$15.00 and the sale price will be \$30.00. With 1 widget sold, the inventory would include 39 widgets, which would have a value of 39×15 , or \$585.00. Now let s suppose the system is set to calculate the sales price by Last Cost. The last cost (the last price paid) as we know is \$20.00; when you enter the widget in Order Item Entry, the cost displayed will be \$20.00 and the sale price will be \$40.00. Assume we didn t do the previous example and after selling one widget we have 39 in inventory. The cost or total valuation of that inventory is still calculated as 39×15 or \$585.00, even though we used a cost basis of \$20.00 to determine the sale price. ManagerPlus also understands the concept of zero on hand inventory. Suppose you purchased the original 20 widgets for \$10.00 each the average cost of each widget of course is \$10.00 for a total inventory valuation of \$200.00, and the last cost would be \$10.00. Suppose you sell all ten widgets, and purchase an additional 20 widgets for \$20.00 each. The inventory valuation would then be 20×20 or \$400.00. The average cost would be updated to \$20.00 each and the last cost will then be updated to \$20.00. Similarly, purchase the original 20 for \$10 each. Sell off 15 of them. Purchase 20 more at \$20.00 each. The inventory value is now $(5 \times 10) + (20 \times 20)$ or \$450. The average cost of each widget now becomes \$18.00 $(450 / 25)$. The last cost is \$20.00 and the average cost is \$18.00. If manager retails one widget based on Average Cost the sale price using a 100% markup would be \$36.00. If manager retails one widget based on Last Cost the sale price would be \$40.00. The total inventory value in either case would still remain \$18.00 times 24 widgets, or \$432.00.

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