

How to Guide: Average Cost Calculations.

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Introduction

Almost all Point of Sale solutions today works on Average Cost, or weighted cost, which, in simple language, means that if you have old stock at a cheaper price, and you receive new stock at a higher price, then the system will Average the cost to somewhere between these figures, depending on the quantities of old and new stock, this document will explain how it gets calculated.

All costs and profits in Genesis are excluding VAT, and this exclusive amounts are used for calculations, only when it gets to selling prices, Genesis will use inclusive of the products with including VAT figures.

Genesis recalculates Average costs on GRV Authorized and Return to Suppliers transactions. So, if you receive stock at a higher or lower price than before, then the Avg Costs gets recalculated, the same with Supplier return, if you return stock at a higher price, then your Avg Costs gets lowered.

If your onhand traded into a negative, and you GRV new stock at a higher price, and this new GRV move your onhand into a positive figure, then the Avg Cost will be inflated.

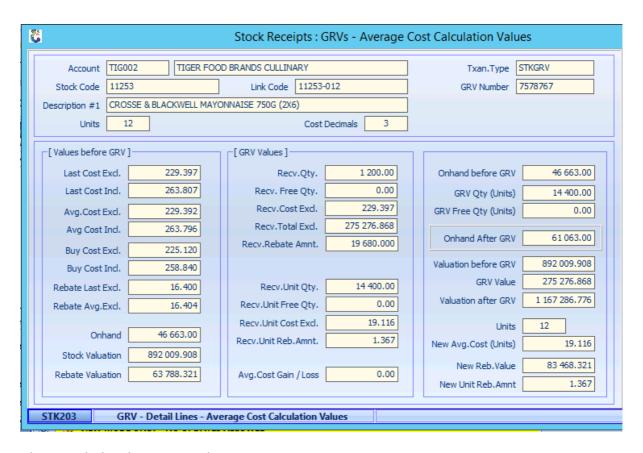
If you traded into a negative onhand figure, and the new GRV is not sufficient to bring your onhand into a positive figure, then the Avg Cost calculation gets ignored and the Avg Cost becomes the GRV Cost.

1. So how does Avg Cost calculation work?

In theory is it very simple, you take the Valuation of the old stock, add to it the new stock received, get a total on value and quantity and divide the value by quantity, this will give you Avg Cost. A quick example, you have 100 items at R50, thus R5,000 valuation. You now receive 100 items at R100, so you receiving R10,000 in value; the Nett effect is that you have R5,000+R10,000=R15,000 of value, and 200 quantity (100+100). To calculate the Avg Cost, R15,000 divide by 200 units = R75.

The example below explains how Genesis displays and calculates Average cost. Let's ignore Rebates for now. The **Value before GRV** are the figure save on the item, before we do the GRV, this includes Last, Avg, Buy and Rebate Last and Rebate Avg; these figures were determined by the previous GRV or Supplier Return. We are only interest in **Avg Cost Excl** and **Rebate Avg Excl**. Below the steps:

- 1. We take the on hand in all warehouses, in this case 46,663 units.
- Then we calculate the Stock Valuation before GRV, 46,663 units divide by 12 Units in this pack size and multiply it by the Avg Cost of R229,392; getting a Value of R892,009.908
- 3. The same calculation for Rebate Valuation, 46,663/12*R16.404 = **R63,788.321**
- 4. The middle column in the actual GRV, we interested in Quantity, which is Receive Qty plus Received Free Qty, in this case 1,200 cases multiplied by 12 Units = **14,400** units.
- 5. The top of the right-hand column, is the total Quantity, in this case **61,063** by adding the calculations above.
- Now to calculate the Stock Value after the GRV, in this case the R892,009.908
 mentioned above, plus the Received Total Excl, in this case R275,275.868, totaling
 R1,167,286.776
- 7. Now for the calculation, Valuation of R1,167,286.776 divided by 61,063 Units, is R19.116 Avg Cost per unit or R229.39 for a case of 12.
- 8. The same calculation gets followed for Rebate to determine the Rebate Avg Excl.
- 9. The Last field not mentioned is Avg Cost Gain/Loss; this is used if the stock was in a negative....



That concludes the User Guide.