

Average Cost Calculation/Example

Quantity on Hand	10
Current Average Cost (ea)	\$ 42.00
Purchased Quantity	5
PO Cost (ea)	\$ 30.00

Calculation

Step ONE

Quantity On Hand	*	Average Cost	=	Value at Average Cost
10		\$ 42.00		\$ 420.00

Step TWO

PO Qty	*	PO Cost	=	Value of PO
5		\$ 30.00		\$ 150.00

Step THREE

Value at Average Cost	+	Value of PO	=	Inventory Value
\$ 420.00		\$ 150.00		\$ 570.00

Step FOUR

Inventory Value	/	Total Quantity	=	New Average Cost
\$ 570.00		\$ 15.00		<u>\$ 38.00</u>

One SKU/ \$ Variance

Average Cost	\$5.00	\$5.15	
Quantity Sold	500	500	
Sell Price	\$10	\$10	
Total Sales	\$ 5,000.00	\$ 5,000.00	Difference
Total Profit	\$ 2,500.00	\$ 2,425.00	\$ 75.00

Number of SKUs an Avg Johnstone sells.....	20,000
IF 1/3 are wrong by.....	\$0.15
Calculated profit is wrong by.....	\$ 500,000

Tax @ 33%	\$ 165,000
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