Last Cost and Average Cost in RetailEdge

Inventory Management · https://retailedge.com/docs/what-is-the-difference-between-last-cost-and-average-cost-in-retailedge

What is Average Cost and What is Last Cost?

This question is one we receive from many people looking at RetailEdge as their point of sale solution and new users to the program.

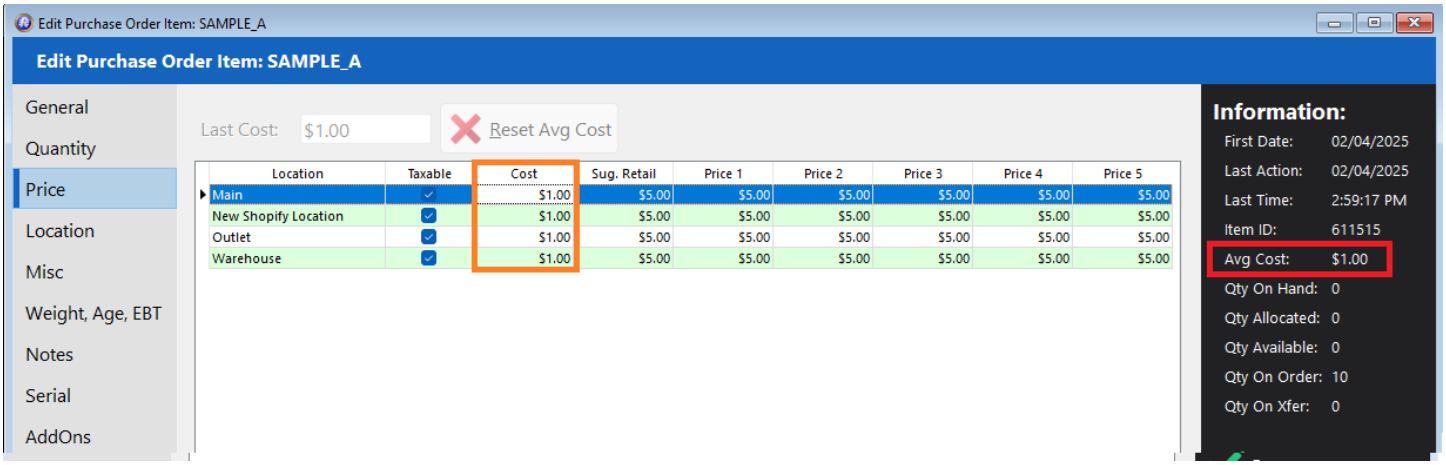
Last Cost and Average Cost Definitions

"Last cost" refers to the most recent purchase price of an item, while "average cost" is the calculated cost per unit by dividing the total cost of all units of an item by the total number of units, essentially averaging out the cost across all purchases (from a vendor) made; meaning "last cost" only considers the price of the latest purchase (from a vendor), whereas "average cost" takes into account the price of all previous purchases as well.

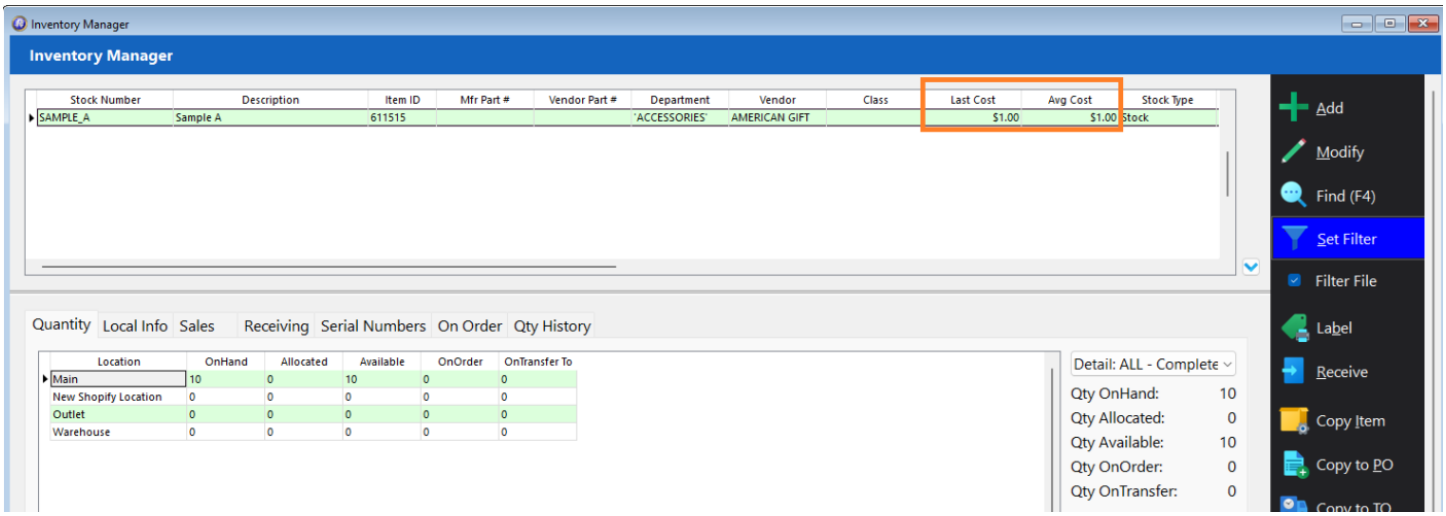
Example 1 - Ordering Items for the First Time

Lets Start with an example. On a Purchase Order (PO) I am ordering an new item, the cost to me to order this Product from the Vendor is $1.00 and I am ordering 10.

On the Edit Purchase Order Item Screen the Cost column is highlighted in the orange box. In the information Panel displays my Average Cost, Highlighted in the red box.



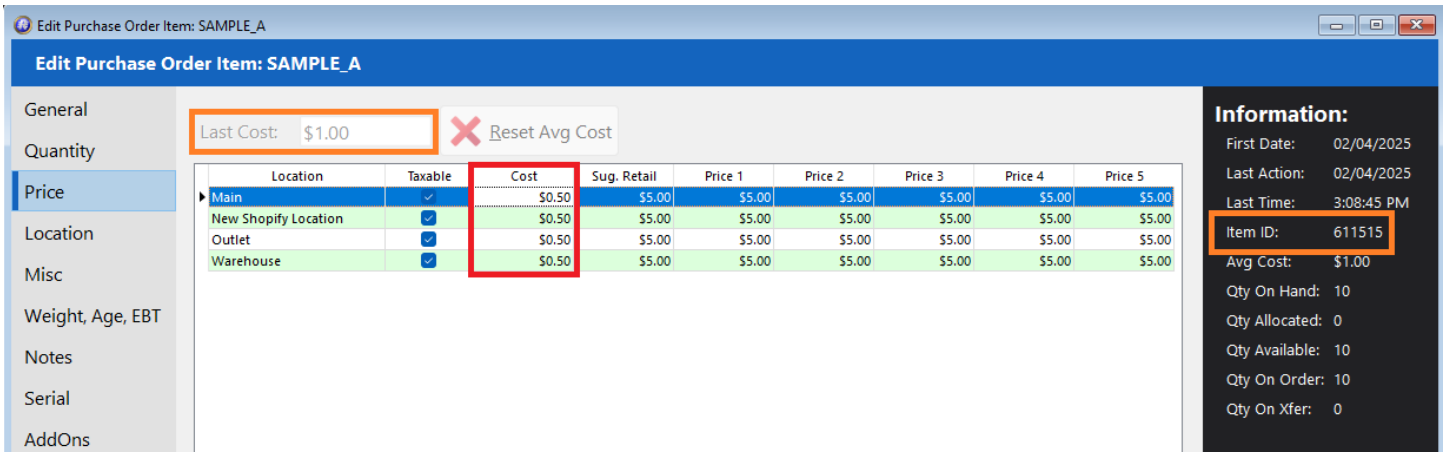
In this example, I have received and updated into my Inventory the Purchase Order. Now my RetailEdge Inventory quantity is 10 and The Last Cost of this Item and the Average Cost match because this is first time I am carrying this item:



Example 2 - Ordering and Receiving With A New Cost

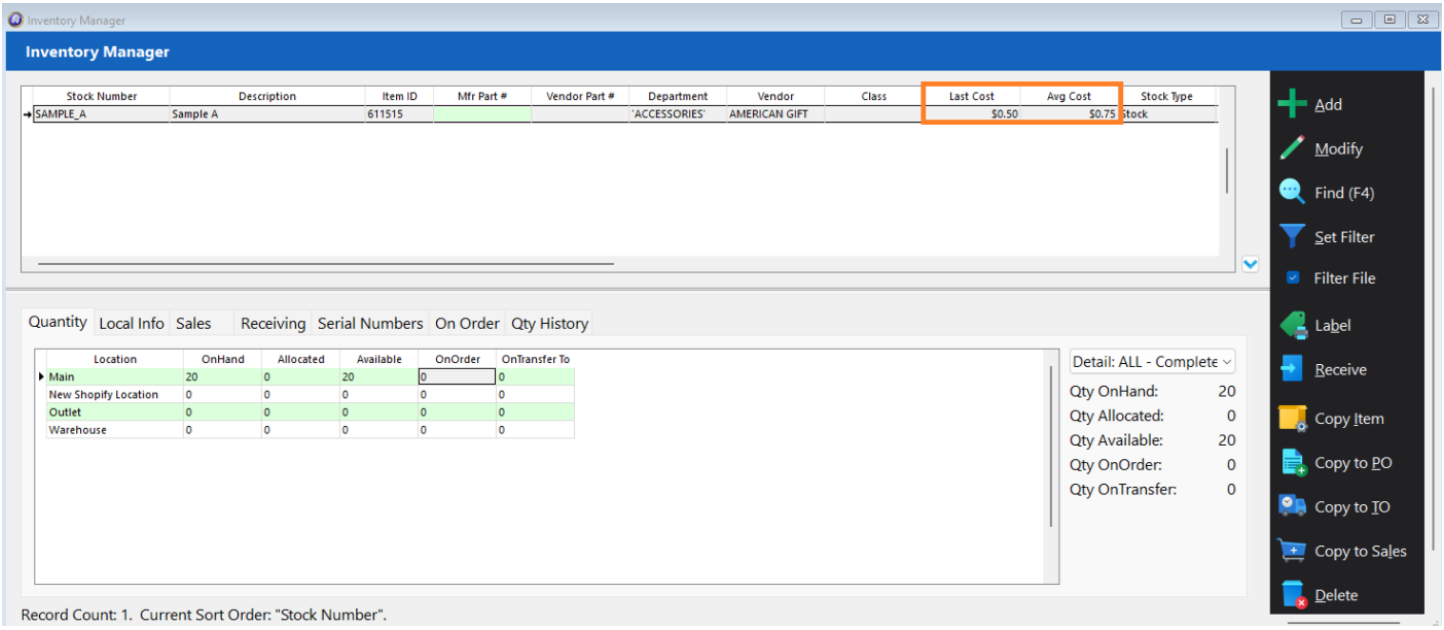
Next lets say the vendor has reached out to me and is offering another 10 of the Item at a Cost of $0.50.

The Last Cost and the Information Panel in the orange box's is still $1.00 because I have yet to receive the new Cost Value of $0.50 in the red box.



Next, I receive the product and **Update** it into my inventory.

Now the **Inventory Manager** looks like this:



The Last Cost is the $0.50 value from the latest PO I received the product and my Average Cost is $0.75 because of the Cost of $1.00 for 10 items on the initial PO and the $0.50 from the latest PO received.

So lets say all 20 units have been sold. Sales Reports RetailEdge will report the Average Cost like so:

RetailEdge: Summary Sales by Item Report (Department) - Grouped By Location 2/4/2025 3:23 PM
Location: Main, Workstation: Register 1 (RegID: 1) Page: 1

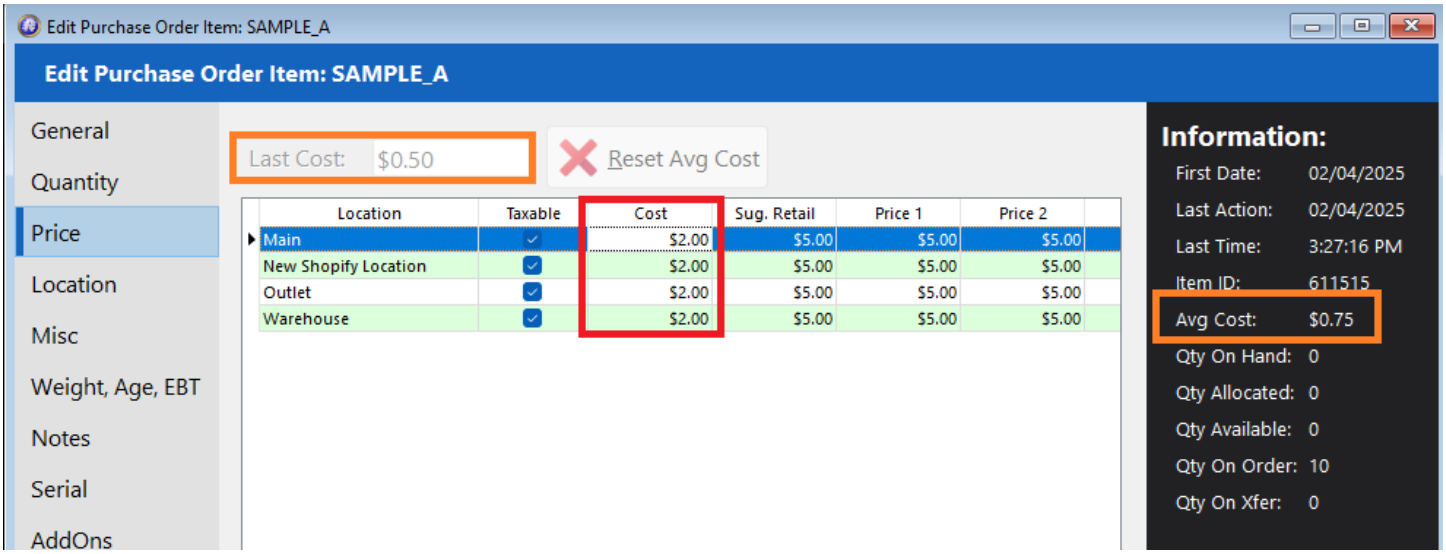
Stock Number	Description	Qty	Cost	Price	Gross Profit	Disc.	Margin	% Sales
Location: Main								
Department: 'ACCESSORIES'								
SAMPLE_A	Sample A	20	$15.00	$100.00	$85.00	0.0%	85.0%	100.0%
Department Total:		20	$15.00	$100.00	$85.00	0.0%	85.0%	100.0%
Location Total:		20	$15.00	$100.00	$85.00	0.0%	85.0%	100.0%
Report Total:		20	$15.00	$100.00	$85.00	0.0%	85.0%	

The Cost column on the report uses the Average Cost. This is because when an Item is sold RetailEdge doesn't know if the item was Sold from the first PO or the second PO. To see more on Why RetailEdge Uses Average Cost click here.

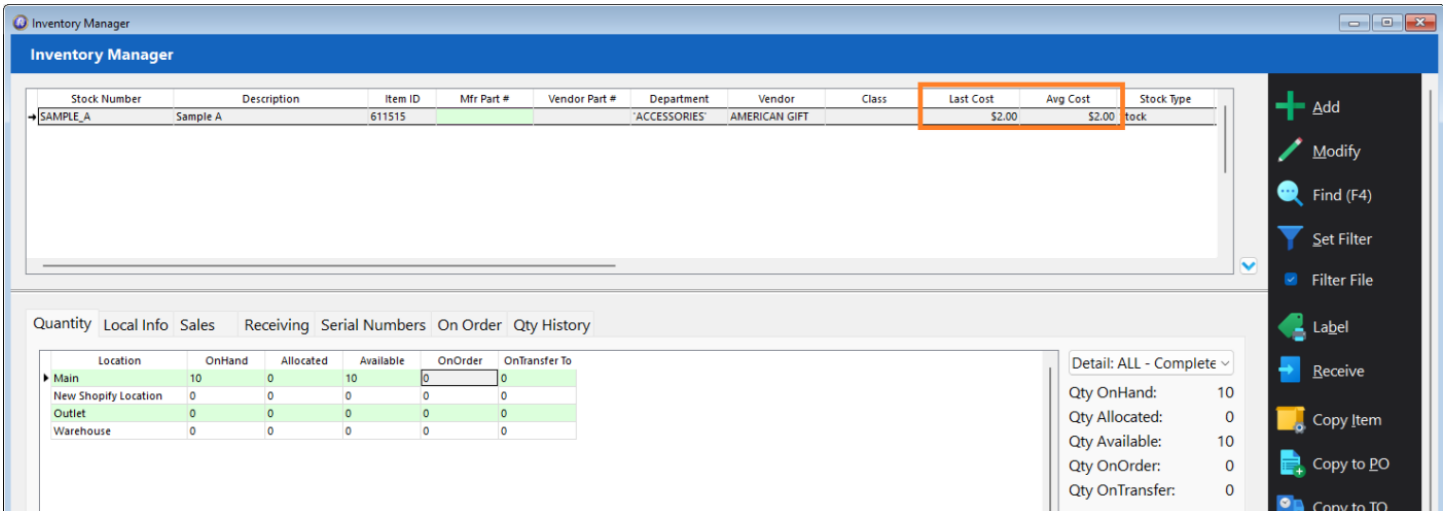
Example 3 - Receiving Again

So what happens when I order the product again from my vendor, but now the Cost of the item is $2.00?

The Last Cost is still $0.50 and the Average cost in the information panel is still $0.75 in the orange box's because this new PO has not been received yet with the Cost of $2.00 In the red box yet.



But now when I receive the new PO and Update it to my Inventory:



The Average and Last Costs are now $2.00. This is because there was zero quantity of the product left with the Average Cost of $0.75 and in that scenario RetailEdge will reset the Average Cost to use the new Cost value which is $2.00.

FAQ

Q: Why Does RetailEdge Use Average Cost instead of Last Cost?

A: We have found that Average Cost provides the best way to represent the data for most business we work with. In the scenario above with the first PO with the cost of $1.00 and the second PO with the cost of $0.50, lets pretend that the last PO with the Last cost of $2.00 did not happen.

Lets say if RetailEdge used just the Last Cost value on the Sales report showing the sale of all 20 Units. The Cost would display as $10.00 under reporting the 10 units which were received at a cost of $1.00.

Likewise lets use the Cost plus Percent Discount Rule set at %10 over cost. If RetailEdge used the Last Cost Value from the Second PO, RetailEdge would sell the Units at $0.55. Resulting in a net loss if all units were sold at that Price.

For this reason, RetailEdge uses the Average Cost of $0.75 the Units would sell for $0.83 (rounded up from $0.825) resulting in a net gain.

Additional Information

See these topics for addition information on RetailEdge's cost calculations

Retail definitions

Cost Information

Last In First Out (LIFO)

Using RetailEdge's Price Calculator for Margin Calculations

Costs and Pricing Mistakes In RetailEdge