How Cost Works

Your Pomodo software is a perpetual inventory tracking system and handles cost of inventory products by using **Weighted Average cost**. The software keeps track of the cost which is used for COGS (cost of goods sold) and your inventory value.

Weighted Average Cost: The weighted average cost is the average cost per product. This is calculated based on cost when product is received (purchase orders, transfers, package breaks). There is a configuration option to be able to edit this manually as well, but this is only recommended when first starting with the software, but can be done at any time. Each time a product is received this cost will be updated to reflect that. If entered manually, all previous costs are ignored and the manually entered weighted average cost will be used for COGS until additional product is received. When this occurs, a new weighted average cost is calculated using the manually entered amount and the cost from the occurrence.

Vendor Cost: The vendor cost is the cost for a specific item from your Vendor. You can have multiple vendors with multiple different costs. This cost is what will show on your purchase orders. If your vendor cost changes, you can change it on the PO when ordering, and update your vendor cost from there. If you don't update vendor cost from PO, the vendor cost will remain the same.

When you receive your PO whatever cost was on the PO at the time of receiving will update your **Weighted Average cost**.

Example: You're creating a PO and your vendor has an item on sale, if you change the cost on the PO for that item but don't mark it to be update for the vendor the next time you add the product the vendor cost will have not been changed.

Important Notes:

- Vendor Cost is what shows up on a PO. If you do not have a Vendor cost in for a specific item, when creating a PO for that Vendor and adding that item, there will be no associated Cost

- Weighted Average Cost is updated when receiving any product via Purchase Order, Transfer, or Package Breaks.

- COGS: Your COGS is determined by the Weighted Average Cost method whatever that cost is at the time of the sale is the COGS for that sale of that product.

- Last Cost is shown on items as a reference but this is not how cost is calculated. It is there simply so you know what the cost was the last time you received a PO for the item.

Cost Explained:

This method is used for Pomodo software to update the item cost based on an average cost of all units of that item. When you receive new items, Pomodo Software adds the total cost of the unit received to the total cost of the existing units. This total cost is then divided by the total number of units on hand.

Weighted Average

The weighted-average method relies on average unit cost to calculate cost of units sold and ending inventory. Average cost is determined by dividing total cost of goods available for sale by total units available for sale.
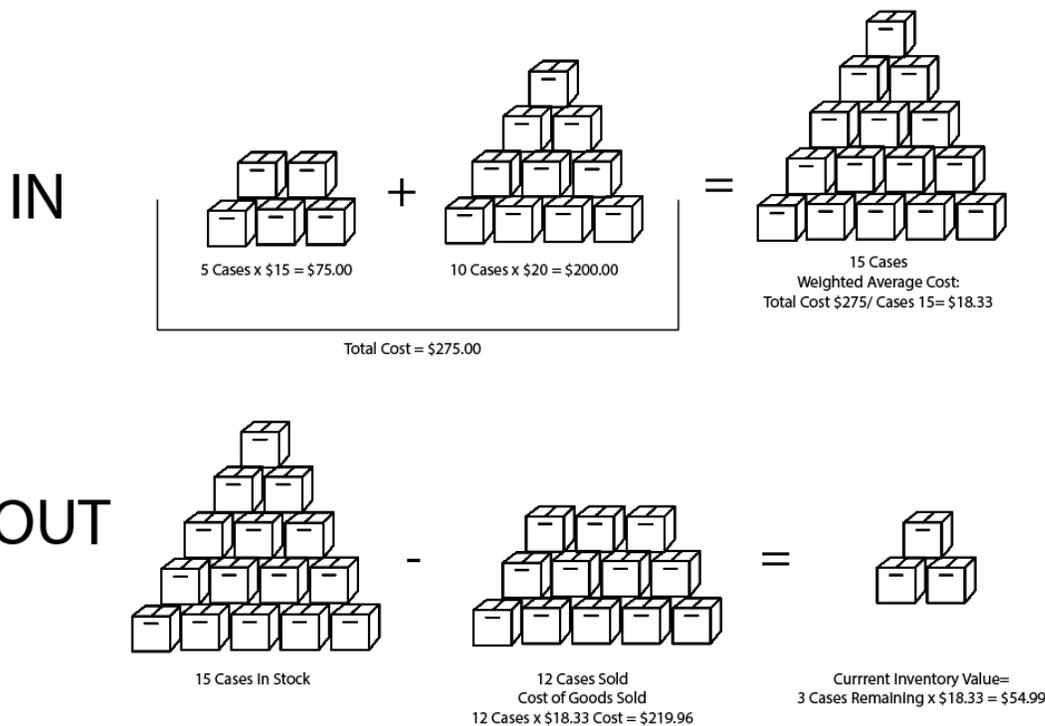
Example:

ABC Beer has 5 cases of beer in stock that cost $15 each. Then ABC Vendor ordered more cases and paid $200 for 10 cases of beer, producing an average cost of $20.00 per case ($200/$10). To determine the weighted average cost, the following calculation is done:

5 Cases @ $15 each + 10 @ $20 each = Total Cost $275.00
Weighted Average Cost= $275 (total cost) /15 (total cases) =$18.33

If the ending inventory consisted of 3 cases, or $54.99 (3 cases X $18.33 average price per case). The cost of goods sold was $219.96 (12 cases X $18.33 average price per case)

It is important to note, that if you ever manually enter a WAC, that will be the new COGS for the inventory in stock. Weighted Average Cost will then be calculated as explained above going forward.

IN

5 Cases x $15 = $75.00   +   10 Cases x $20 = $200.00   =   15 Cases
Weighted Average Cost:
Total Cost $275/ Cases 15= $18.33

Total Cost = $275.00

OUT

15 Cases In Stock   -   12 Cases Sold
Cost of Goods Sold
12 Cases x $18.33 Cost = $219.96   =   Currrent Inventory Value=
3 Cases Remaining x $18.33 = $54.99

What is the Inventory Valuation?

Inventory valuation is the cost associated with an entity's inventory at the end of a reporting period. It forms a key part of the cost of goods sold calculation, and can also be used as collateral for loans. This valuation appears as a current asset on the entity's balance sheet.