Cost Price Management in Candela

Cost Price

Cost price is the price at which a retailer buys goods or services.

The cost price of various goods and services is variable and can change periodically. Depending on the nature of the business, such changes can be occasional or frequent.

As you know, retail price is fixed by taking into account the cost price of a particular product and adding a certain markup to it. Thus it is important to prepare your retail pricing strategy by accommodating cost fluctuations.

Cost Price Management Candela

Candela provides a total cost price management solution. With Candela you can confidently make your retail pricing decisions because the system effectively incorporates any changes in the cost price of products. This helps a retailer in a number of ways:

- Retailers can react to such changes in costs by adjusting their retail prices.
- Can make informed decisions about purchase of materials and utilities.
- Can predict fluctuations in profit margins
- Can predict changes in prices of assembly products by taking into account changing costs of component of an assembly product.

How Cost Price Changes are Incorporated and Managed in the System

Consider an example:

A retail business purchases a product from a wholesaler at 100 per item.

On August 1 it purchases 50 items. Thus the total cost of the stock is: 100*50=5000

It sells 30 items. Now the current stock is 20 items

On September 1, it purchases 60 items at 120 per item

Now the total stock becomes: 20 (old stock)+ 60 (new stock)= 80 items.

Now what do you think will be the cost price of 80 items?

Should it be 120? **NO**.

The system will consider the old and new costs plus old and new stocks and then arrive at an average cost. This cost is called **weighted average cost** and is calculated in the system by this formula:

Weighted average cost:

(old stock*old average cost +new stock*new cost)/ (Old stock + new stock)

Let's apply this formula to our example:

(20 *100 + 60 * 120) / (20 + 60)= (2000 + 7200) / 80 =

9200/80 = 115

Thus the new weighted average cost price will be 115.

Rationale for calculating a weighted average cost: As there is some old stock lying that costs 100 per unit, the system instead of applying the new cost price to the entire stock will calculate a weighted average cost price that can be applied to the entire stock.

Thus whenever there is a price change, the system will make provisions for such changes by calculating weighted average cost prices of products.

Here is an example of a weighted average cost price of a product over a period of 5 months:

Weighted Average Cost price incorporating cost price changes over a period of five months

Date of purchase	New Stock	Cost per unit	Total stock	Weighted Average Cost	*Items sold	Current stock (stock-sold items)
Aug 1	50	100	50	(0*0 +50*100)/ (50) = 100	30	(50-30) = 20
Sept 1	60	120	(20+60) = 80	(20*100+60*120)/ (20+60) = 115	50	(80-50) =30
Oct 1	40	130	(30+40) = 70	(30*115+40*130)/ (30+40) = 123.57	60	(70-60) =10
Nov 1	55	135	(10+55) = 65	(10*123.57+ 55*135)/ (10+55)= 133.24	40	(65-40) =25
Dec 1	80	140	(25+80) =105	(25*133.24+80*140)/ (25+80) 138.39	70	(105-70) =35

Other than sales, stock transfer, purchase return, sale return, entering of GRNs etc., can impact the amount of stock

Now that you have a fairly good idea of why it is important to calculate weighted average cost and how the system calculates it, let's move on to Candela screens and learn how it is done in Candela.

CONFIGURING YOUR SYSTEM FOR CALCULATING WEIGHTED AVERAGE COST

Configuration > System Configuration > Purchase

Entering Cost Price

In Candela, you can enter cost price of your products in the following ways:

1. You can enter cost price on the product definition screen while defining the product. If you have defined a product and saved it, you cannot enter or change its cost price on the product definition screen.

2. You can enter/ change cost price while preparing a GRN.

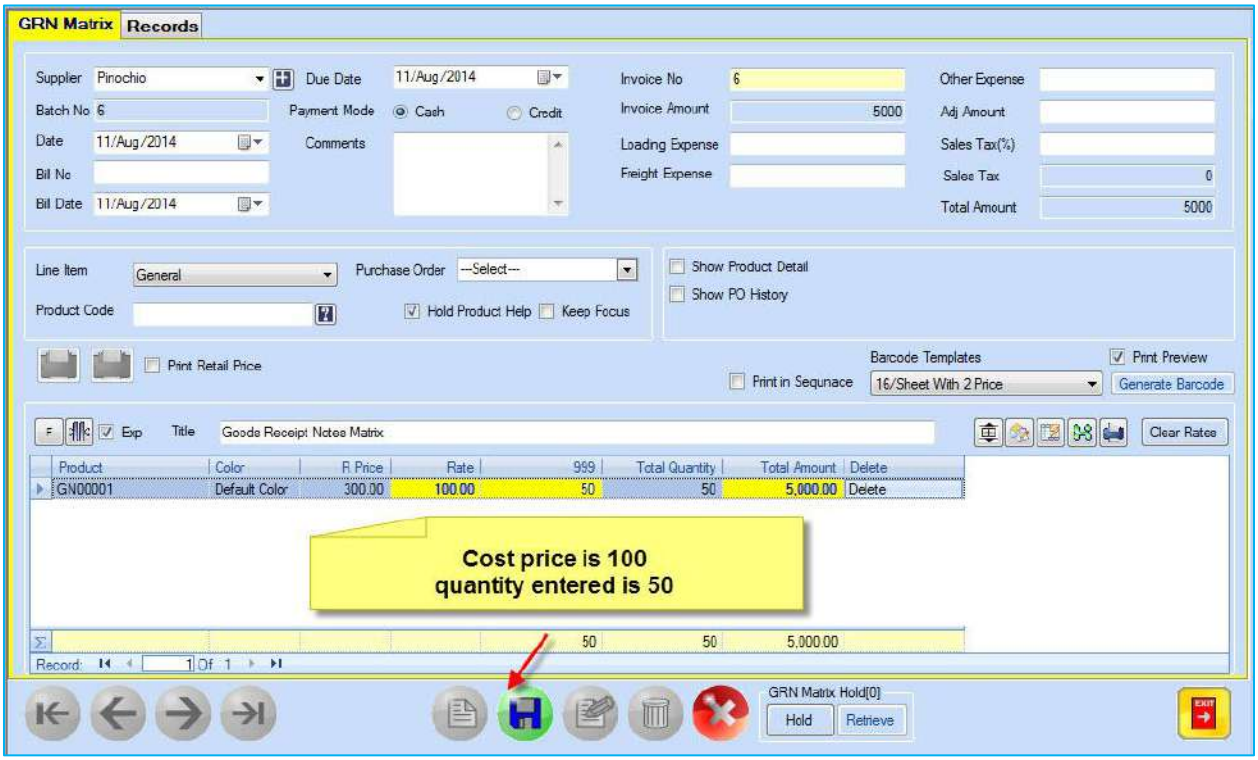
3. You can enter/ change cost price though price utilities tab (Utilities >Price Utilities > change Product Cost price

Weighted Average Cost Price

The flowing two steps are required for the system to calculate weighted average cost price;

1. Cost price is entered in the GRN
2. GRN is posted on GRN Posting screen

1. Purchase >GRN Matrix (GRN Matrix because it is a size and colour item)



- Cost in GRN is editable and rights based

Security > Group Rights > Purchase > GRN/ GRN Matrix

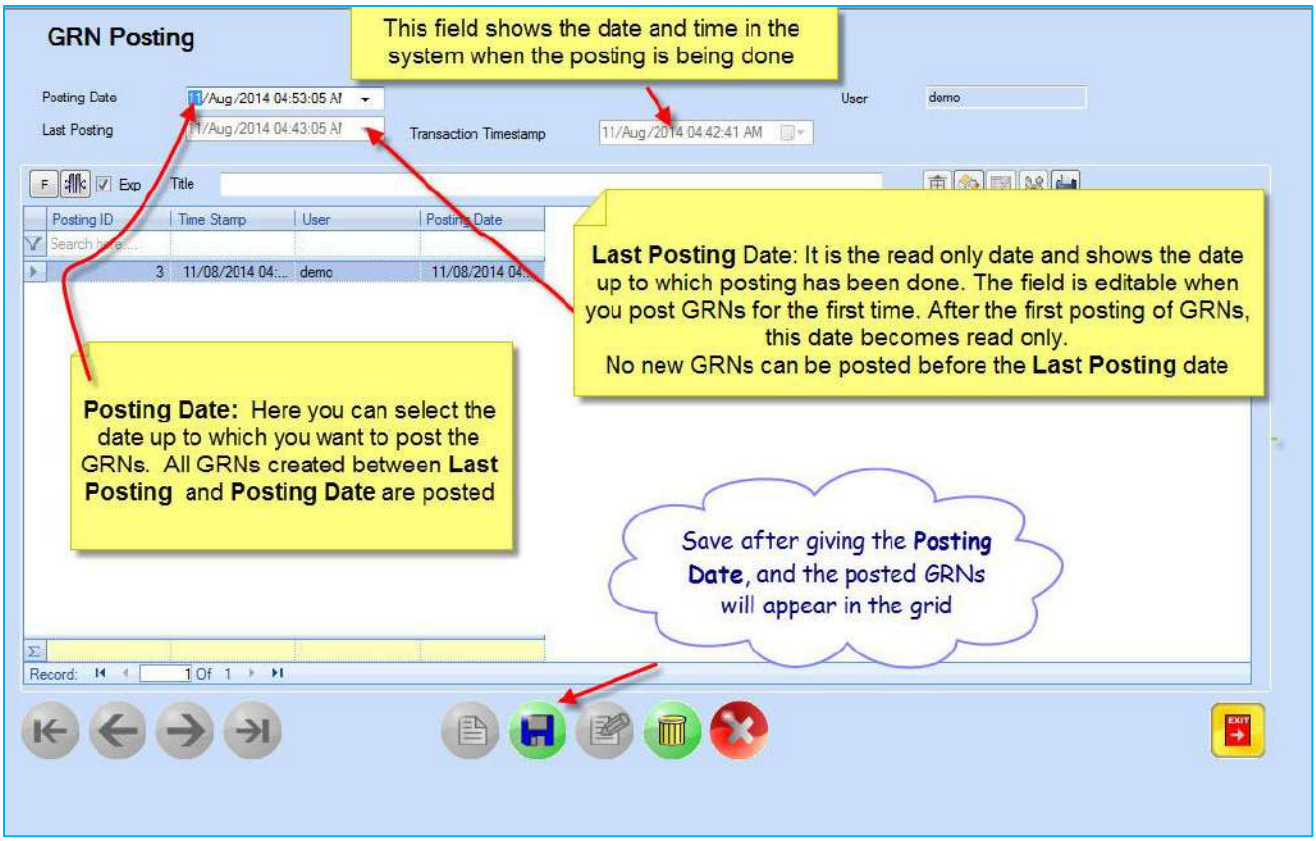
Editable Rate of GRN checkbox should be checked for the user who is given the rights to edit GRN cost.

- Rights to enter GRN and rights to manage cost can be given to two different people.
  For example, one person can enter GRN but s/he may not be able to view cost or update it.
  Security >User

Select the user and uncheck the checkbox **Enable View Cost Price**

- Similarly, another group (cost users) of persons can have the right to manage cost. They will load the prepared GRNs from Records screen, enter cost, and update cost. They may or may not have the right to load products
  Security > Group Rights > purchase>GRN
  If the **Qty to Cost User** checkbox is checked for the cost user, s/he can enter new GRN or update and change it.
  But if the checkbox is unchecked for the cost user, s/he can update a GRN but cannot create a new one.

2. You can now post the GRN (posting can be done one minute after the preparation of the GRN). Purchase > GRN Posting



Old GRNs prepared before the last posting date will be locked, this means they cannot be deleted or updated.

GRNs are posted by Admin users. Once posted, the admin users can delete the posted GRN if s/he has the rights.

During the posting process, new weighted average cost price is created for each GRN. The system will apply weighted average cost formula (explained above) to all products one by one.

Once a weighted average cost price is calculated for a particular product, its cost price on the product definition screen will also change.

It is recommended that you regularly post your GRN. It takes only a minute. If there's a gap between GRN preparation and GRN posting, the sales invoices and STRs created within this gap will be based on the old cost price.

COST PRICE MANAGEMENT UTILITIES

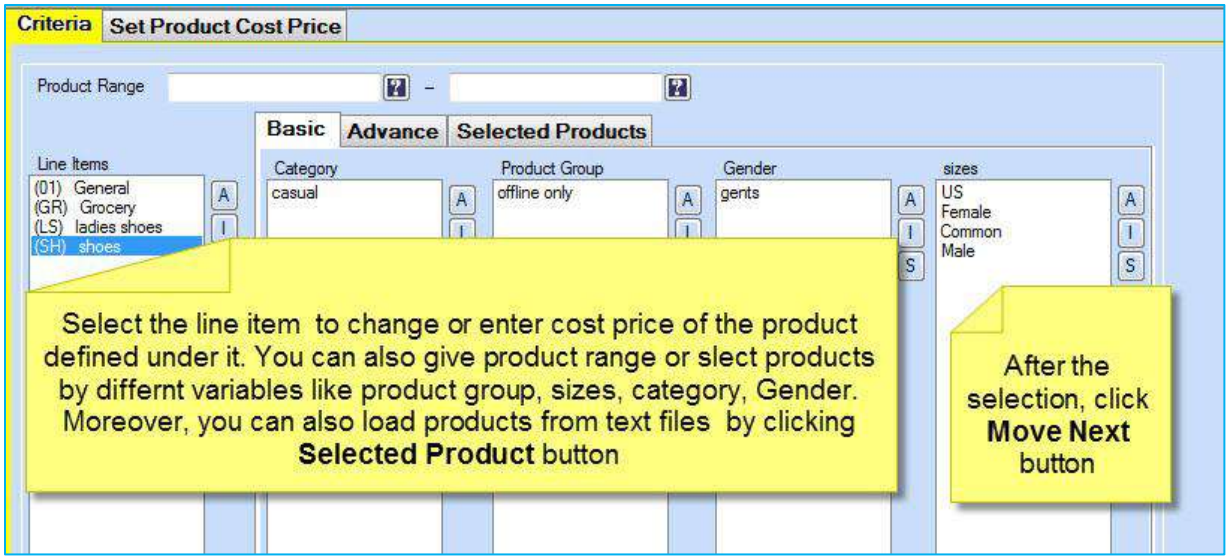
There are certain utilities in CANDELA that help you manage cost in the system. These utilities can also rectify some of the problems which may be created due to work flow issues; however, there are also certain limitations.

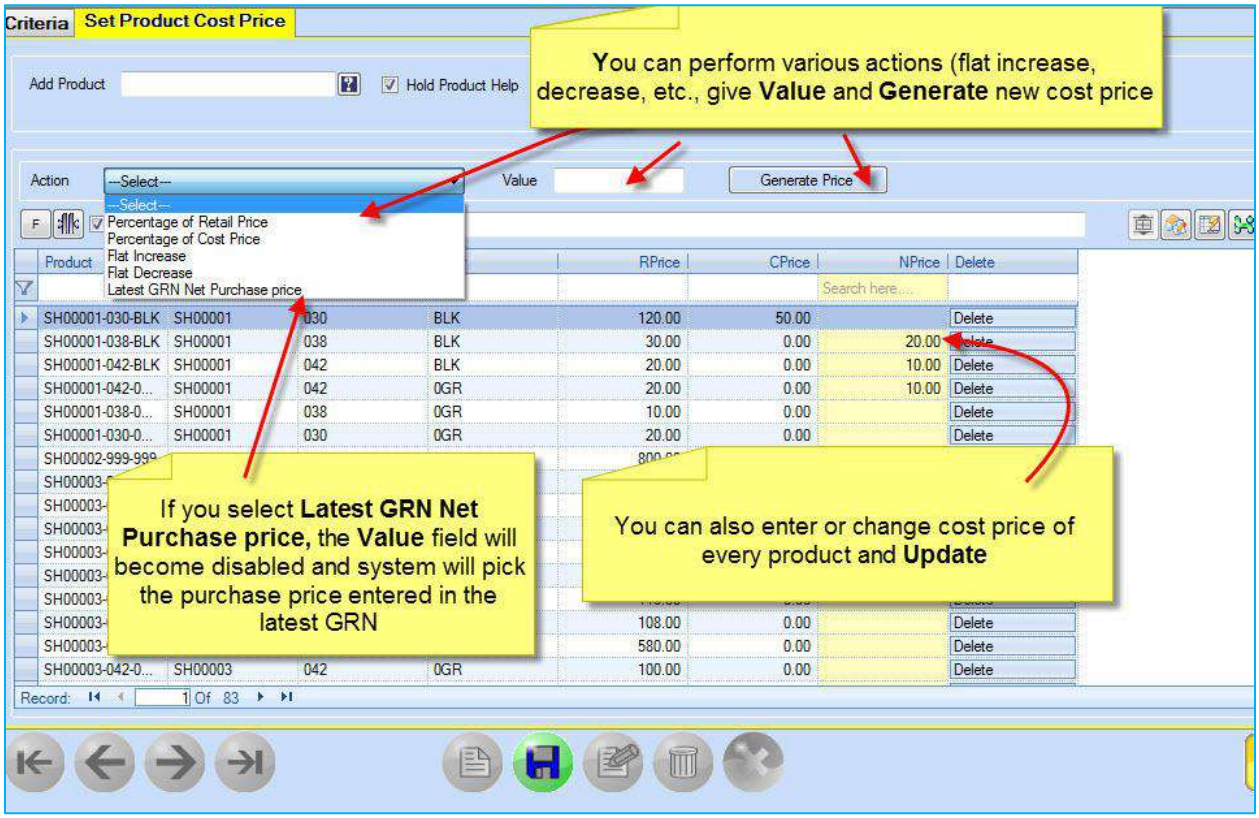
Change Cost Price

On this screen you can enter cost price of a product or change the existing cost price. The changes made in the cost price on this screen will be reflected on the product definition screen.

However, any change in cost price made on this screen will have no impact on the cost price (whether entered manually or weighted average cost calculated by the system) appearing on already prepared GRN.

Utilities > Price Utilities > Change Cost Price





Set Average Cost Price

This utility only shows those products or items where the manually entered/changed cost price on the product cost price screen (**Item Avg Cost**) is different from the system calculated latest

GRN weighted average (**GRN Avg Cost).** If both the costs are same for all products (which should be the case) then no record is displayed on this screen.

The screen is used to reconcile differences between manually entered/changed cost price and the system calculated weighted average cost price.

This utility can be used in one of the two ways:

1. You can overwrite the manually entered/changed cost by the system calculated weighted average cost.

This option is useful if you have done some change in the cost price on the **Change Product Price** screen and you want to reverse those changes. Before running this utility the **Item Avg Cost** and **GRN Avg Cost** will be different and after running this utility, the GRN Cost price will be overwritten on the Item cost price.

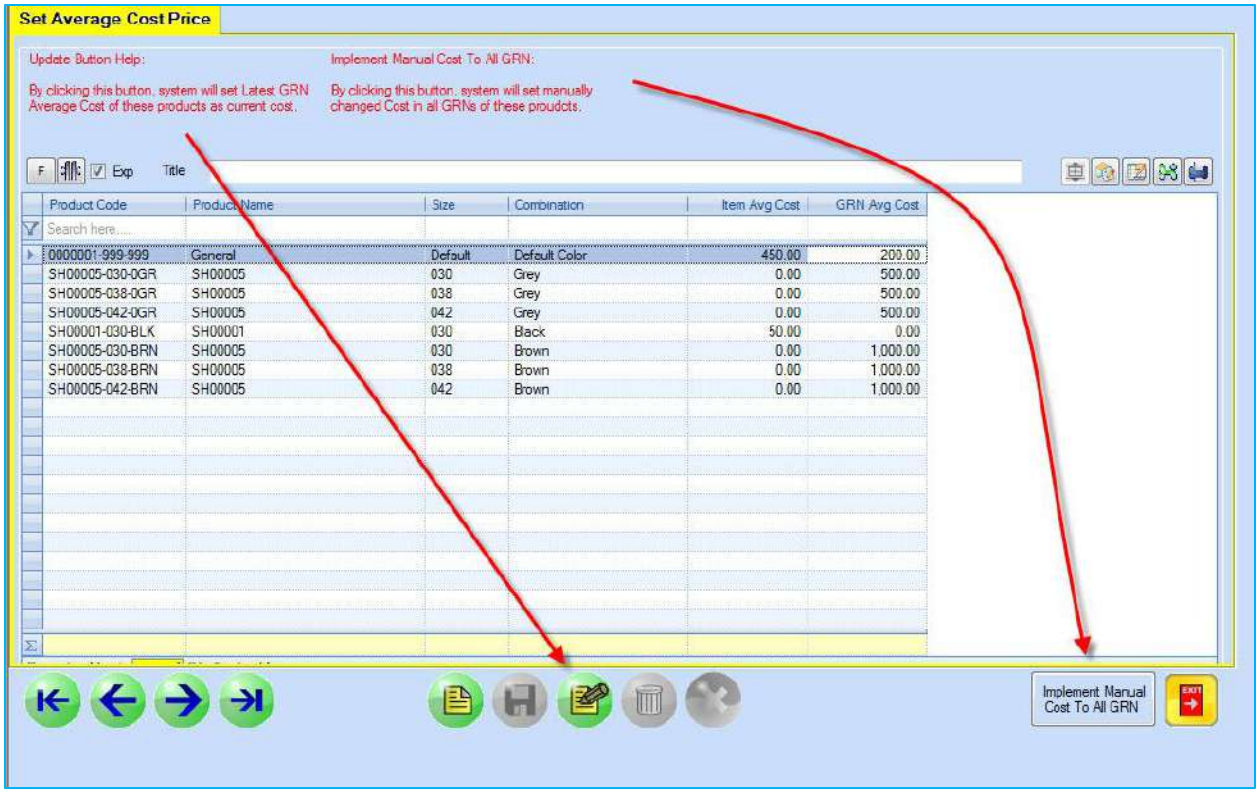
This also means that if you have made some changes to the cost prices on the **Change Product Cost Price** screen and later run this utility, those changes will be lost.

2. You can copy **Item Avg Cost** to all previous GRNs and thus set the current average cost price based on the changes you have made on the **Change Product Cost Price** screen.

   This option is useful if you have made changes on the **Change Product Cost price** screen and want to incorporate those changes to the GRNs. When you run this utility, the cost price on all previous GRNs will be overwritten by the manually changed cost price.

This process is irreversible and should be run with care. A backup should be taken before running this utility.

Utilities > Price Utilities > Set Average Cost Price



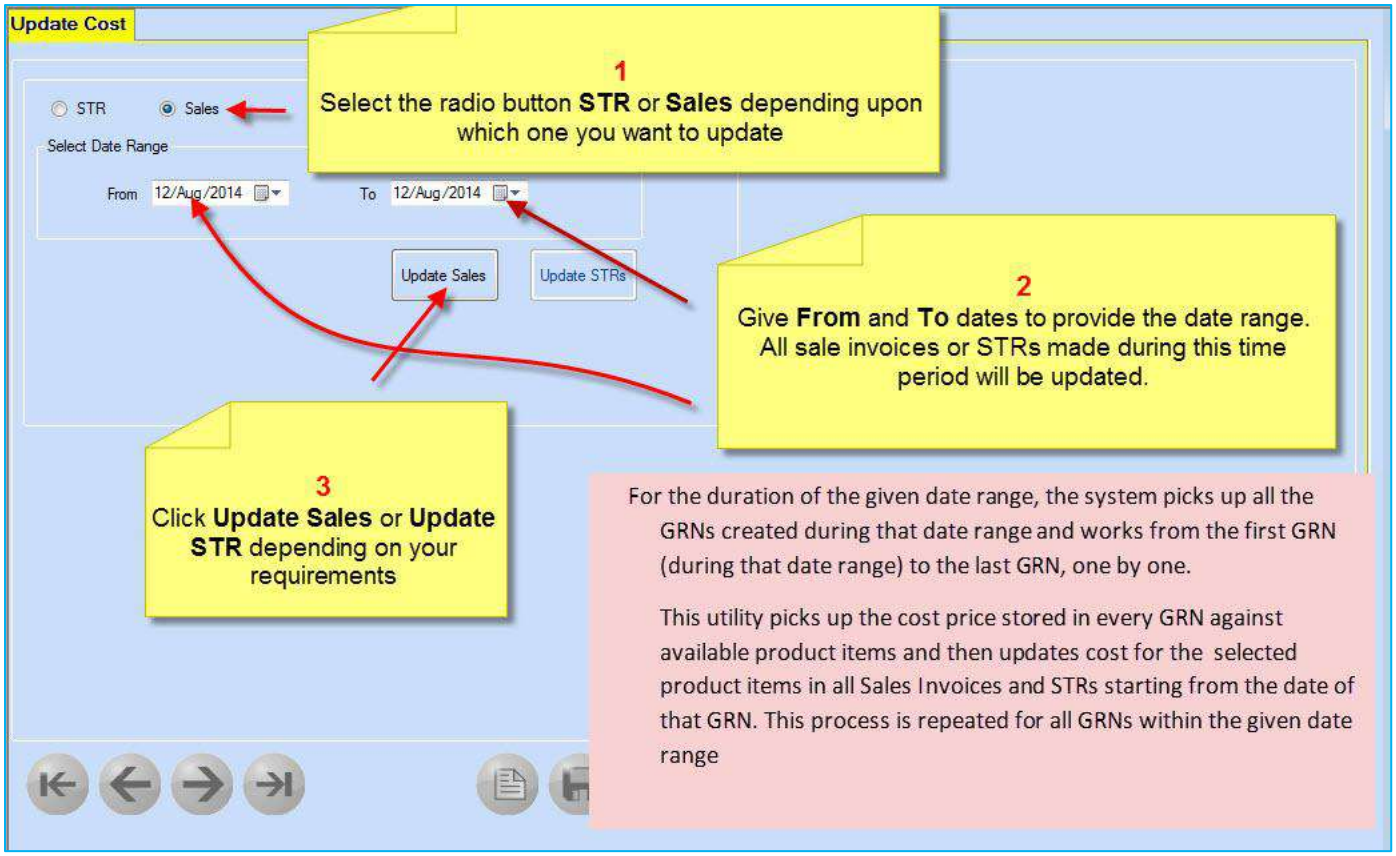
GRN Based Cost Update

This utility is used to enter correct cost in the Sales and STR documents.

As mentioned earlier, if GRN posting is not done in time, the cost price in the Sales Invoices and STRs made during the gap between the creation and posting of GRNs will not change. You can modify cost in these documents on this screen.

The cost changes can only be made in the documents for a particular period *after* GRN posting has been done for that particular period.

Utilities > Price Utilities > GRN Based Cost Update

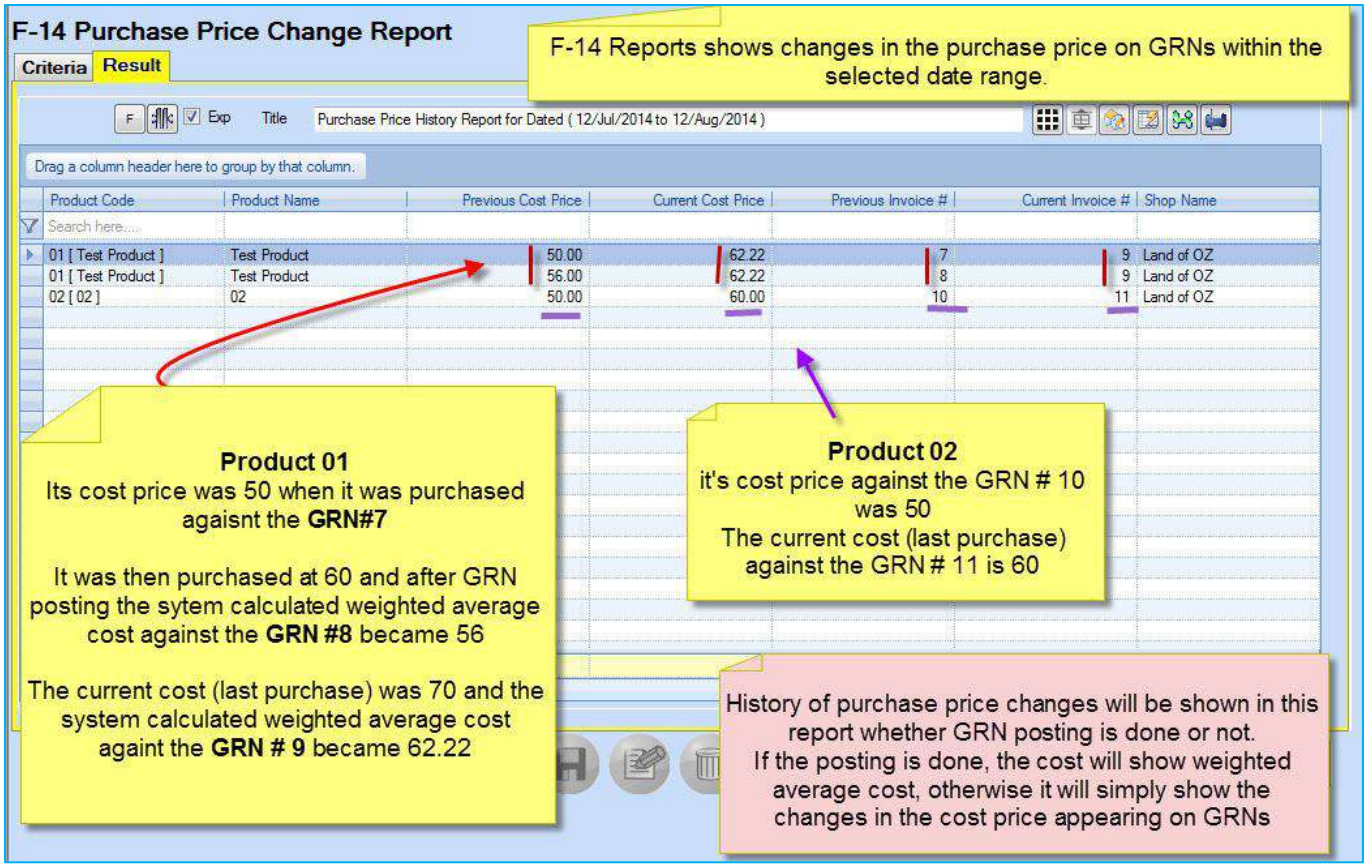


Cost Management Reports

Purchase price change report

Reports> F-Purchase Reports > F-14 Purchase Price Change Report

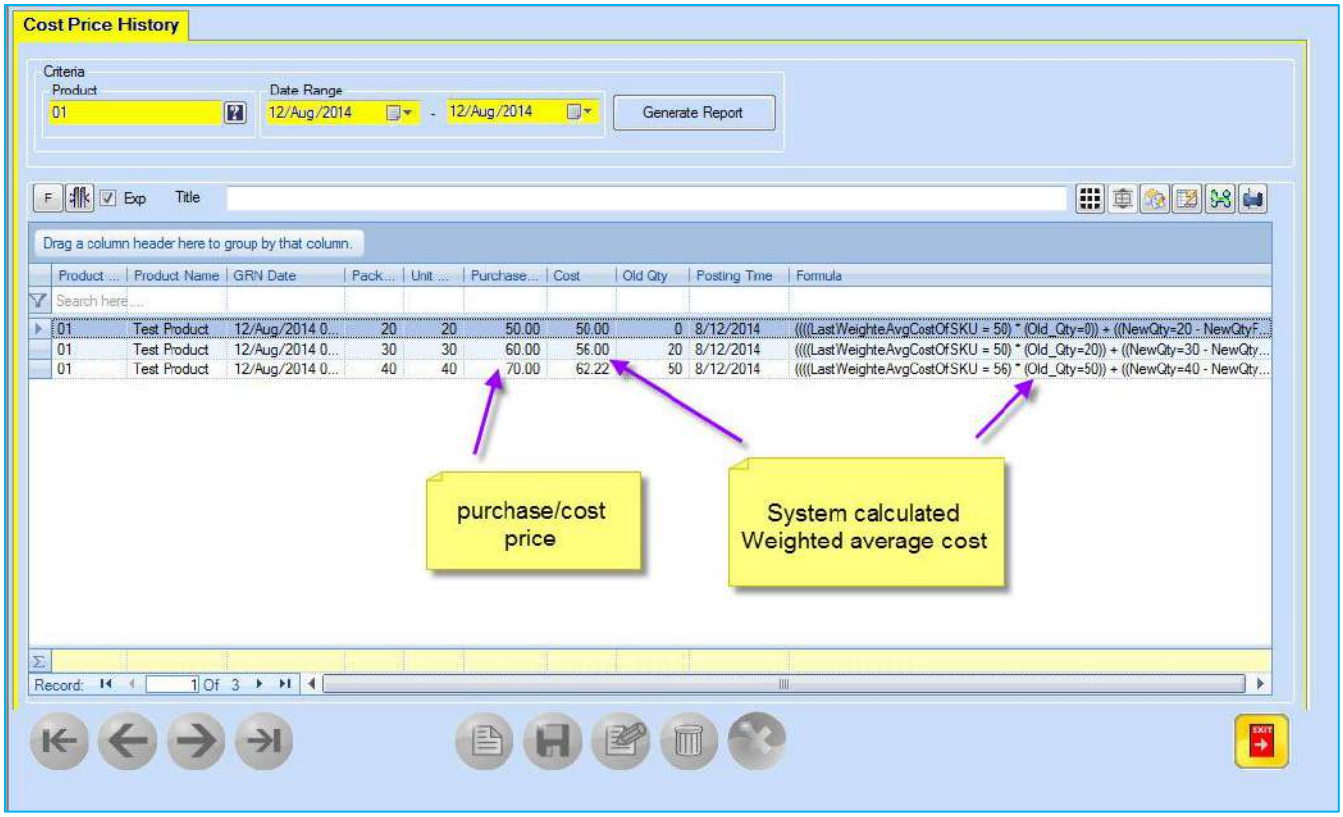
This reports shows comparison of history of the changes in cost price as appearing on GRNs.



Cost price History Report

This report shows changes in price as well as changes in stock. If you have done GRN posting, the report shows the purchase price, weighted average cost as well as the formula used for calculating the weighted average cost.

Reports > G-Product Reports > G-09 Cost Price History


Cost Price History
Criteria
Product
01
Date Range
12/Aug/2014
12/Aug/2014
Generate Report
Exp
Title
Drag a column header here to group by that column.
Product ...
Product Name
GRN Date
Pack...
Unit ...
Purchase...
Cost
Old Qty
Posting Time
Formula
Search here....
01 Test Product 12/Aug/2014 0... 20 20 50.00 50.00 0 8/12/2014 ((((LastWeighteAvgCostOfSKU = 50) * (Old_Qty=0)) + ((NewQty=20 - NewQtyF...
01 Test Product 12/Aug/2014 0... 30 30 60.00 56.00 20 8/12/2014 ((((LastWeighteAvgCostOfSKU = 50) * (Old_Qty=20)) + ((NewQty=30 - NewQty...
01 Test Product 12/Aug/2014 0... 40 40 70.00 62.22 50 8/12/2014 ((((LastWeighteAvgCostOfSKU = 56) * (Old_Qty=50)) + ((NewQty=40 - NewQty...
purchase/cost price
System calculated Weighted average cost
Record: 1 Of 3