

Average Total Cost Formula

Average total cost is referred to as the sum total of all production costs divided by the total quantity of output. In other words, average cost is the combination of total fixed and variable costs, which is divided by the total number of units that are produced by the firm.

It serves an important function in the business, as having an idea of the average total cost will help business in making decisions related to pricing, if the price is below the total average cost, it will result in loss of money for the business.

The total cost of a firm includes the fixed and variable costs. Fixed costs are those which do not change with any corresponding change in the output, while variable costs, as the name suggests, vary or change depending on the change in the output.

The average total cost can be calculated following these simple steps

1. Determine the total quantity
2. Determine the total cost
3. Divide the total cost by total quantity

Mathematically, the average cost formula can be expressed as

$$\mathbf{ATC = TC / Q}$$

Where,

ATC = Average total cost

TC = Total cost (Fixed + Variable Costs)

Q = Total Quantity