

COST ACCOUNTING

The logo of Galgotias University is a stylized, multi-colored swirl or 'G' shape, positioned behind the main title.

GALGOTIAS
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Methods of Valuing Material Issues or Material Costing

A firm purchases materials

- frequently at different prices.
- keeps all the material in the same store, without differentiating the price at which the materials were purchased.
- issues the materials from the store to different jobs, orders, processes etc. as and when required.

METHODS OF PRICING ISSUES OF MATERIALS

- A. Based on Cost Price
- B. Based on Market Price
- C. Standard Price Method

➤ The adopted method will affect the price of the product and recoupment of the price paid for materials through the production process.

A. COST PRICE METHOD

- I. First in first out (FIFO) method
- II. Last in first out method (LIFO) method
- III. Average cost method
- IV. Inflated price method
- V. Specific price method
- VI. Base stock method
- VII. Highest in first out method (HIFO) method

B. MARKET PRICE METHOD

- I. Replacement price method.
- II. Realizable value method.

C. STANDARD PRICE METHOD

- I. Current standard.
- II. Basic standard price method.

➤ Note that the above methods will not necessarily mean that materials are physically issued in the order of pricing, it is only considered pricing of issues.

ESSENTIALS OF A GOOD PRICING METHOD

1. Should recover the price of materials.
2. Should be near the market price so that the effect of current market price is revealed in the cost of issues.
3. Should not lead to significant variations in cost of similar jobs from period to period.
4. Should not necessitate heavy adjustment in the value of stock of materials.
5. Consider the policy of management related to valuation of stock.
6. Should consider the nature of materials.

FIRST IN FIRST OUT METHOD (FIFO) METHOD

- Material is first issued from the earliest consignment on hand and is priced at the cost at which that consignment was placed in the stock.
- Assumed and valued as materials first received are issued first .
- Units in the opening stock are issued first, then the next according to the order of purchases.
- Closing stock contain materials purchased on the last days or recent purchases.
- Suitable when the prices of materials are falling.

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Course Code : BCOM2014

Course Name: Portfolio Management

EXAMPLE:-

The received side of the Stores Ledger Account shows the following particulars.

Jan. 1 - Opening balance 500 units @ Rs. 4

Jan. 5 - Received from vendor 200 @4.25

Jan. 12 - Received from vendor 150 @4.10

Jan. 20 - Received from vendor 300 @ 4.5

Jan. 25 - received from vendor 400 @ 4

Issue of materials were as follows:-

Jan. 4 – 200 units; Jan. 10 – 400 units; Jan. 15 – 100 units; Jan. 19 – 100 units;

Jan. 26 – 200 units; Jan. 30 – 250 units. Issues are to be priced on FIFO method.

Write out Stores Ledger Account for the month of January.

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STORES LEDGER ACCOUNT FOR THE MONTH OF JANUARY - (FIFO) METHOD										
Date	Particulars	Receipt			Issues			Balance		
		Units	Rate	Total cost	Units	Rate	Total cost	Units	Rate	Total cost
Jan 1	Balance b/d	-	-	-	-	-	-	500	4.00	2000
Jan 4	Requisition Slip No....	-	-	-	200	4.00	800	300	4.00	1200
Jan 5	Goods Received Note No....	200	4.25	850	-	-	-	300 200	4.00 4.25	1200 850
Jan 10	Requisition Slip No...	--	--	-	300 100	4.00 4.25	1200 425	100	4.25	425
Jan 12	Goods Received Note No...	150	4.10	615	--	--	-	100 150	4.25 4.10	425 615
Jan 15	Requisition slip No.	--	-	-	100	4.25	425	150	4.10	615
Jan 19	Requisition slip no	-	-	-	100	4.10	410	50	4.10	205
Jan 20	Goods Received Note No...	300	4.50	1350	-	-	-	50 300	4.10 4.50	205 1350

Name of the Faculty: Bhavna Sharma

Program Name: MBA

School of Finance and Commerce

Course Code : BCOM2014

Course Name: Portfolio Management

STORES LEDGER ACCOUNT FOR THE MONTH OF JANUARY - (FIFO) METHOD (contd.)										
Date	Particulars	Receipt			Issues			Balance		
		Units	Rate	Total cost	Units	Rate	Total cost	Units	Rate	Total cost
Jan 25	Goods Received Note No..	400	4	1600				50 300 400	4.10 4.50 4.00	205 1350 1600
Jan 26	Requisition Slip No....	-	-	-	50 150	4.10 4.50	205 675	150 400	4.50 4.00	675 1600
Jan 30	Requisition slip No...	--	--	--	150 100	4.50 4.00	675 400	300	4.00	1200
<p>Closing stock of materials 300 units @ Rs. 4; Value of Closing Stock Rs. 1200</p>										

ADVANTAGE OF FIFO METHOD

1. Simple to understand and easy to operate.
2. Logical method, it considers the normal procedure of utilizing first of those materials which are received first – materials are issued in order of purchases
3. Issued at purchase prices, recovers the cost of materials and cost of the process, job, orders etc. can be easily and correctly ascertained.
4. Useful when the prices are falling.
5. Closing stock is valued at the market price as closing stock contains materials purchased recently.
6. Useful when number of transactions is limited and prices of materials are steady.

DISADVANTAGES

1. Increases possibility of clerical errors, if consignments are received frequently at varying prices
2. In case of wide fluctuation in prices comparison of cost of different jobs, orders, processes etc. will be difficult
3. For pricing one issue, often more than one price is to be taken.
4. When prices rise, issue price does not reflect market prices. Products are charged at low prices and closing stock contain materials purchased at distant prices and does not represent recent prices.

LAST IN FIRST OUT (LIFO) METHOD

- Materials are priced in the reverse order of purchases.
- Assumed to be issued from the last lot and priced at the latest purchase price.
- Also known as Replacement Cost Method.
- Suitable when the prices are rising; materials will be issued from the last consignment and relate to the current price levels.

ADVANTAGES

1. Simple to understand and easy to operate.
2. Recovers cost of materials from production.
3. Production is charged at current price.
4. Most suitable when the prices rise.

DISADVANTAGES

1. Leads to clerical errors and mistakes.
2. Comparison of jobs become difficult.
3. For pricing one issue, often more than one price need be considered.
4. The value of closing stock does not represent recent prices.

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STORES LEDGER ACCOUNT FOR THE MONTH OF JANUARY - (LIFO) METHOD										
Date	Particulars	Receipt			Issues			Balance		
		Units	Rate	Total cost	Units	Rate	Total cost	Units	Rate	Total cost
Jan 1	Balance b/d	--	--	--	--	--	--	500	4.00	2000
Jan 4	Requisition Slip No....	--	---	---	200	4.00	800	300	4.00	1200
Jan 5	Goods Received Note No....	200	4.25	850	--	--	--	300	4.00	1200
								200	4.25	850
Jan 10	Requisition Slip No...	--	--	--	200	4.25	850			
					200	4.00	800	100	4.00	400
Jan 12	Goods Received Note No...	150	4.10	615	--	--	--	100	4.00	400
								150	4.10	615
Jan 15	Requisition Slip No.	--	--	--	100	4.10	410	50	4.10	205
								100	4.00	400
Jan 19	Requisition slip No.....	--	--	--	50	4.10	205			
					50	4.00	200	50	4.00	200
Jan 20	Goods Received Note No...	300	4.5	1350	--	--	--	50	4.00	200
								300	4.50	1350

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STORES LEDGER ACCOUNT FOR THE MONTH OF JANUARY - (LIFO) METHOD (contd.)										
Date	Particulars	Receipt			Issues			Balance		
		Units	Rate	Total cost	Units	Rate	Total cost	Units	Rate	Total cost
Jan 25	Goods Received Note No..	400	4	1600				50 300 400	4.00 4.50 400	200 1350 1600
Jan 26	Requisition Slip No....	-	-	-	200	4.00	800	50 300 200	4.00 4.50 4.00	200 1350 800
Jan 30	Requisition Slip No...	--	--	--	200 50	4.00 4.50	800 225	50 250	4.00 4.50	200 1125