

The consignment will
go first. the issue



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The following methods for pricing materials are generally used: 1. First in first out method (FIFO method) 2. Last in first out method (LIFO method) 3. Average price method. (a) Simple average price method. (b) Weighted average price method. 4.

Base stock method. 5. Standard price method. 6. Market price method.

1.

FIFO Method:

The material which flows in first is to first flow out. Older stocks are to go first. The materials are issued at the first price of earliest goods lying in stock. Such a pricing is suitable in a falling market when the prices are falling continuously.

The method is useful for materials which are subject to obsolescence or deterioration.

2. LIFO Method:

The material which flows in last is the first of flow out. Latest consignment will go first. The issue price is fixed at the price of the latest stock.

LIFO method is suitable during rising prices because goods will be issued from the latest received lots at prices which are closely related to current market prices. The current cost will also be matched to current income. This method is able to show lower profits because of increased change to production and closing stock figure will also be low as they will be valued at earlier prices. This taxable liability will also be low thus enabling the concern to retain more money in the business.

3. Average Cost Method:

In this method of pricing, all materials in stock are so mixed that a price based on all lots is formed.

Average cost may be of two types (a) simple average cost and (b) weighted average cost. (a) Simple Average Cost: In this method, the pricing of all lots in stock are averaged and the materials are issued on the average price. (b) Weighted Average Method: In this method, the total cost of all the materials is divided by the total number of items in stock. The price calculated in this way will be used for issue for materials upto the time a fresh purchase has not been made. After a fresh purchase, the quantity will be added to the earlier cost. A fresh price is calculated by dividing the changed total cost by the number of units in stock after the purchase. A new price is calculated where even a fresh purchase is made.

It is calculated as: $10,000 \times 2 + 15,000 \times 3 + 20,000 \times 4 / 10,000 + 15,000 + 20,000 = \text{Rs. } 3.22$ The weighted average price method recovers the whole cost of materials. This method is suitable when price fluctuations are frequent because it smooth's out fluctuations by taking into account total cost and total quantity of materials.

4. Base Stock Method:

In this method, some quantity of materials is assumed to be necessary for keeping the concern going.

The quantity is not issued unless otherwise there is an emergency. This material which is not issued and is kept in stock is known as base stock. The

earlier materials received are kept as a base and are valued at a price on which they are acquired.

This method is not an independent method. It is used along with some other methods such as FIFO, LIFO, average price method etc. After maintaining a base quantity in stock, the issues are priced at one of the methods mentioned above. The purpose of this method is to issue materials at current prices. This aim will be achieved only when LIFO method of pricing the materials is used.

5. Standard Price Method:

The issue price of materials is predetermined or estimated in this method. The standard price is based on market conditions, usage rate, handling facilities, storage facilities, etc.

The materials are priced at standard price irrespective of prices paid for various purchases. The profit or loss incurred from issue of materials will depend upon whether actual price paid is less or more than the standard price charged.

6. Market Price Method:

In this method, the prices charged to production are not costs incurred on the materials but latest market prices. The market prices may either be replacement Prices or realisable prices. The replacement prices are used for the materials which are kept in stock for use in production and realisable prices are used for the goods kept for resale.

The prices of issue for materials are also replacement prices. The actual prices paid for acquiring the materials are not considered at the time of issue of materials. If the prices paid are more than market price, it shows inefficiency and if actual prices paid are lower than the market prices, it will show efficiency. Market price method is not generally used because of a number of difficulties.

It becomes difficult to select the market price because different prices prevail in different markets. This method brings in human bias in the selection of market price.