

stores up to the process plant. However, in practice, it involves minute calculations for including all these expenses and is a big task compared to the benefit derived from it.

There are many methods of pricing material issues. The most important being: FIFO, LIFO, simple and weighed average methods.

1) First in First Out (FIFO)

Under this method material is first issued from the earliest consignment on hand and priced at the cost at which that consignment was placed in the stores. In other words, materials received first are issued first. The units in the opening stock of materials are treated as if they are issued first, the units from the first purchase issued next, and so on until the units left in the closing stock of materials are valued at the latest cost of purchases. This method is most suitable in times of falling prices because the issue price of materials to jobs or work order will be high while the cost of replacement of materials will be low. But in case of rising prices this method is not suitable because the issue price of materials to production will be low while the cost of replacement of materials will be high. The following example will illustrate how issues of materials are valued under this method.

2) Last in Last Out (LILO)

Under this method, issues are priced in the reverse order of purchase i.e., the prices of the latest available consignment is taken. This method is suitable in times of rising prices because material will be issued from the latest consignment at a price which is closely related to the current price levels. Valuing material issues at the price of the latest available consignment will help the management in fixing the comp

3) Simple Average Method

In this method, price is calculated by dividing the total of the prices of the materials in the stock from which the material to be priced could be drawn by the number of the prices used in that total. This method may lead to over-recovery or under-recovery of cost of materials from production because quantity purchased in each lot is ignored.

4) Weighted Average Methods

In this method, price is calculated by dividing the total cost of materials in the stock from which the materials to be priced could be drawn by the total quantity of materials in that stock.

In the above example, the weighted average price is Rs.11.33 per unit calculated as follows:

$$\frac{1000 \times \text{Rs.}10 + 2000 \times \text{Rs.}11 + 3000 \times \text{Rs.}12}{1000 + 2000 + 3000} = \text{Rs.}11.33$$

5. 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.

6. 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.

7. Market Price Method: