



St. Lawrence High School

A Jesuit Christian Minority Institution



Study Materials 4

Sub: Costing & Taxation

Class: XII

Chapter: Unit I: Cost of Materials II

Topic: Methods of Pricing Materials Issues from Stores

Date: 17/06/2020

Short Answer-Type Questions and Answer:

1. What do you mean by pricing of material issues?

Pricing of material issues stands for charging a definite price by costing department for each item of materials issued from stores by the storekeeper and recorded the same in the store ledger by costing department.

2. State one factor to be considered for pricing of material issues.

The price should be so charged that purchase cost of material can be recovered from customers through sale of finished goods.

3. What do you mean by FIFO method?

It is a method of pricing of materials issue. In this method material issues are priced at the oldest cost price listed on the store ledger. Hence, under FIFO, materials which are received first, issued first to the production department by the store.

4. When can one implement the FIFO method?

If there is a decreasing trend in market price, then FIFO is more useful. Therefore, this method is not suitable in an inflationary market condition.

5. What do you mean by LIFO method?

It is a method of material issue. In this method, material issues are priced at the latest available purchase cost. In other words, for pricing of material issues, price of the last available lot is taken first to issue to the production department by the store.

6. When LIFO method can be implemented?

LIFO is suitable at the time of rising prices. The Accounting Standard 2 does not recognise LIFO method.

7. Write one advantage of FIFO method?

This method is ideal for perishable goods and items.

8. Write one advantage of LIFO method?

The stock in hand is valued at a price which does not reflect the current market price.

9. Write one difference between FIFO and LIFO.

Under FIFO, current market price of materials is not reflected in the cost of production; whereas under LIFO, current market price is reflected in the cost of production.

10. What is simple average method?

It is a method of material issue. The method in which rate of issue of materials is determined by taking the average of available rates or prices without considering the quantity or volume of materials is called Simple Average Method.

11. State the formula of simple average method of pricing of material issues.

$$\text{Simple Average Rate} = \frac{P_1 + P_2 + P_3 + \dots + P_n}{n}$$

12. When would the issue price be changed in simple average method?

Issue price would be changed either if any old lot is exhausted or if new lot is purchased or both.

13. State one advantage of simple average method?

The calculation of issue price is easy and simple as it does not include the quantity or volume of materials.

14. State one disadvantage of simple average method?

Materials are priced not at actual price but at average price which may be more or less than the actual cost.

15. What is weighted average method?

It is a method of material issue. Under this method the issue price is calculated by dividing the value of materials in hand by the number of units in hand.

16. State the formula of weighted average method.

$$\text{Issue rate} = \frac{\text{Total Cost of Materials Held in Store}}{\text{Total Quantities of Materials Held in Store}}$$

17. State one advantage of weighted average method.

This method is more logical because both the price and quantity of materials taken together for calculating the weighted average rate.

18. State one disadvantage of weighted average method.

Actual materials cost is not charged to production, hence notional profit or loss may arise.

19. What is store ledger?

The statement which is prepared to record the inflow and outflow of materials along with these values by the costing department is known as store ledger.

20. What does issue of materials mean?

It means outflow of materials from the store to the production department as per requirement of the production department.