



ST. LAWRENCE HIGH SCHOOL

A Jesuit Christian Minority Institution



Study Materials 3

Sub: Costing & Taxation

Class: XII

Chapter: Unit I: Cost of Materials II

F.M.: 15

Topic: Methods of Pricing Materials Issues from Stores

Date: 16/06/2020

Short Answer-Type Questions and Answer:

1. State the difference between bin card and store ledger on the basis of responsibility of maintenance.

Bin Card is maintained by the store-keeper in the store; whereas Store Ledger is maintained in costing department.

2. Mention any one reason relating to maintenance of bin card in presence of stores ledger.

Bin Cards are maintained in the stores department while stores ledgers are maintained in the cost department. Thus, maintenance of two documents act as a cross checks on each other.

3. State any one of the reasons regarding the difference in balance of stores between Bin Card and Stores Ledger.

Non-posting of a voucher either in the Bin Card or in the Stores Ledger can bring difference between Bin Card and Stores Ledger.

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

Pricing of material issues stand 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 stores ledger by the costing department.

5. State one factor to be considered for pricing of materials issues.

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

6. What do you mean by FIFO method?

It is a method of pricing of material issue. In this method material issues are priced at the oldest cost price listed on the stock ledger sheets. Hence, the price of the first lot is charged to all issues till the stock lasts then at the cost of materials purchased next and so on.

7. When can one implement the FIFO Method?

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

8. Why is the liability higher in FIFO method in times of rising prices?

In periods of rising prices, the FIFO method produces higher profit and results in higher tax liability because lower cost is charged to production.

9. Mention the advantage relating reflection of current price of closing stock in FIFO method.

Closing stock of materials will be valued at the current market price as the closing stock under this method would consist of recent purchase of materials.

10. Why is FIFO method ineffective at the time of inflation?

Low charge is made to production which makes the replacement of the same volume of material impossible from the recovery of material cost. Moreover, the profit is overstated which leads to higher payment of dividend and tax, resulting in erosion of capital.