

2ND PERIOD 22/4/21 11:00-12 AM

MB/104 AFA/ MBA SEM-1 / DATE OF CLASS: 22/04/21  
THURSDAY / TIME: 11-12 AM PERIOD - 2ND

VALUATION OF INVENTORY: Cont

### METHODS OF VALUATION:

In the previous class we had discussed the reasons and motives of holding inventory. We know that valuation of inventories is an important aspect of inventory management. After all discussion, we will discuss the various methods of valuation of inventories issued from store to the production.

The following are the important methods of valuation or pricing of materials in inventory is a concern.

#### A. Method Based on Cost Price or Purchase Price.

- |         |        |                      |
|---------|--------|----------------------|
| 1- FIFO | Method | First In First Out   |
| 2. LIFO | "      | Last In first out    |
| 3. HIFO | "      | Highest In first out |
| 4. NIFO | "      | Next in first out    |
| 5. MIFO | "      | Minimum in first out |

6. Base stock Method

7. Average Price Method

(a) Simple price.

(b) Weighted Average

#### B. Valuation Method Based on Price other than Cost Price

I. Market Price method

2. Invoice Price method

3. Inflated Price method

4. Standard Price Method
5. Fixed Price Method
6. Revaluation Method.
7. Sum of digit Method.

Today we will discuss the first METHOD of inventory valuation ... FIFO

FIFO : First In First Out

This method of pricing issued material is based on the theory that material is first issued from the earliest lot on hand and should be priced at the cost at which that lot was placed in stocks. It is assumed that the materials purchased are issued in strict chronological order that is materials are issued from the oldest supply in stock and that units issued are priced at the oldest cost price listed on store ledger account, the material on hand at all ~~times~~ times being the most recent purchases, when a requisition for certain type of material is presented to the store keeper, he uses the cost price of the first lot of material received which is still on hand. If the quantity required is greater than the unit remaining in the first lot, he uses the cost price of the second lot, then of the ~~third~~ third & fourth until enough material is obtained to fill the requisition.

(3)

The undermentioned example will illustrate how issue of materials are priced (valuated) under this method

Example: Purchases of materials

March 4	—	1000 units	@	₹ 2 per unit
" 6		1500 "	@	₹ 3 " "
" 25		2000 "	@	₹ 4 " "
" 30		1000 "	@	₹ 5 " "

Issues for Productive purposes —

March 20		1500 units	@	✓
" 29		2000 units	@	✓
" 31		1500 units	@	✓

The above transaction can be shown by constructing STORE LEDGER ACCOUNT

There are 4 Columns are poled, each column has 3 sub-column. see below

DATE	Purchase of Material			Issue of Material			Balance		
	Q	R	Amount	Q	Rate	Amount	Q	R	Amount

According to the first In-freight principle the issues will be charged at the following price.

# STORE LEDGER

DATE	RECEIPT			ISSUE			BALANCE		
	Q	R	Am't	Q	R	Am't	Qty.	Rate	Am't
March 4	1000	@2	2000	-	-	-	1000	@2	2000
March 16	1500	@3	4500	x	✓		1000 @2 1500 @3	2000 4500	6500
March 20	-	-	-	1000 @2 500 @3	2000 1500		1000 @3	3000	
March 25	2000	@4	8000	x	x		1000 3 2000 4 3000	3000 8000 11000	
March 29	-	-	-	1000 @3 1000 @4	3000 4000		1000 4	4000	
March 30	1000	@5	5000	-	-		1000 4 1000 5 2000	4000 5000 9000	
March 31	-	-	-	1000 4 500 5	4000 2500		500 5	2500	Closebook
				<u>1500</u>	<u>6500</u>				

(5)

## Advantages

The following advantages of this method are as follows.

1. Simple and Easy: This method is easy to understand and simple to operate.
2. Logical: This is a logical method because it takes into consideration the normal practice of utilizing first material which are received. Thus it minimises the deterioration and obsolescence.
3. Price of Material at Market Price:  
The price of the material in hand at the end is almost equal to market price of such material.
4. Useful in case of falling prices: This method is useful when prices are falling. This method is also useful when transactions are limited and price of material are
5. Issue at purchase price: In this method materials are issued at purchase price and thus the method recovers the cost price of the material.

## Disadvantages

The main disadvantages of the method are as follows —

1. Difficult in storage: It is very difficult to separately store the material purchased at different prices and in different dates.

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2. Different prices on same date : The price of the materials issued to different jobs on the same date may be different.

3. Not suitable in price rise : If the prices are increasing in the market, this method is not suitable for the concern.

4. Possibility of Clerical Error :

The prices of material frequently fluctuate; this method is leading to errors in calculations.